SETTLEMENT AGREEMENT

This Settlement Agreement ("Agreement") is entered into between the State of New York, by Eric T. Schneiderman, Attorney General of the State of New York (the "NYAG") and Morgan Stanley, as well as its current and former subsidiaries and affiliates including but not limited to Morgan Stanley & Co. LLC, f/k/a "Morgan Stanley & Co. Incorporated," Morgan Stanley Mortgage Capital Holdings LLC, Morgan Stanley Mortgage Capital Inc., and Morgan Stanley ABS Capital I Inc. (hereinafter collectively referred to as "Morgan Stanley"). The NYAG and Morgan Stanley are collectively referred to herein as "the Parties."

WHEREAS, the NYAG conducted an investigation pursuant to Article 23-A of the General Business Law of the State of New York (the "Martin Act") and Section 63(12) of the Executive Law of the State of New York ("Executive Law § 63(12)") into the creation, packaging, marketing, underwriting, sale, structuring, arrangement, and issuance of residential mortgage-backed securities ("RMBS") by Morgan Stanley in 2006 and 2007; and

WHEREAS, the NYAG, based on its investigation, believes that there is an evidentiary basis for potential legal claims by the NYAG against Morgan Stanley for violation of the Martin Act and Executive Law § 63(12) in connection with the same conduct; and

WHEREAS, this Agreement is being entered into in conjunction with an agreement entered into by the United States and Morgan Stanley in connection with the packaging, marketing, underwriting, sale, structuring, arrangement, and issuance by Morgan Stanley of RMBS; and

WHEREAS, as a term of this Agreement, Morgan Stanley acknowledges the facts set out in the Statement of Facts as set forth in Appendix A and hereby incorporated in this Agreement;

and

NOW THEREFORE, in consideration of the mutual promises and obligations of this Agreement, the Parties stipulate and agree as follows:

1. **Payment.** Morgan Stanley shall pay the sum of $150,000,000 in consideration for the settlement of potential legal claims by the NYAG as compensation for harms to the State of New York allegedly resulting from Morgan Stanley's creation, packaging, marketing, underwriting, sale, structuring, arrangement, and issuance of RMBS in 2006 and 2007. No portion of the funds in this paragraph will be designated or otherwise classified by the State of New York as a civil penalty or fine. Payment shall be made by electronic funds transfer within 15 business days of receiving written payment processing instructions from the NYAG.

2. **Consumer Relief.** Morgan Stanley shall also provide $400,000,000 worth of consumer relief as set forth in Appendix B, attached and hereby incorporated in this Agreement, to remediate harms allegedly resulting from the conduct of Morgan Stanley. The value of consumer relief provided shall be calculated and enforced pursuant to the terms of Appendix B. An independent monitor will be appointed to determine whether Morgan Stanley has satisfied the obligations contained in this Paragraph (such monitor to be Eric Green, hereinafter the "Monitor") and any costs associated with said Monitor shall be borne by Morgan Stanley. Morgan Stanley will refrain from retaining the Monitor to represent Morgan Stanley in any capacity from the present until two years after the date on which Morgan Stanley satisfies the Consumer Relief obligations set forth in Appendix B. Morgan Stanley will also refrain from engaging the Monitor as a mediator in any further matter to which Morgan Stanley is a party until Morgan Stanley satisfies the Consumer Relief obligations set forth in Appendix B.

3. **Covered Conduct.** "Covered Conduct" as used herein is defined as the creation, packaging, marketing, underwriting, sale, structuring, arrangement or issuance, prior to January 1, 2009, by Morgan Stanley of the RMBS, identified in Appendix C, attached and hereby incorporated in this Agreement. Covered Conduct includes representations, disclosures, or non-disclosures to RMBS investors made about or in connection with the activities set forth above, where the representation or non-disclosure involves information about or obtained during the process of originating, acquiring, securitizing, underwriting or servicing residential mortgage loans included in the RMBS identified in Appendix C. Covered Conduct does not include: (i) conduct relating to the origination of residential mortgages, except representations or non-disclosures to investors in the RMBS listed in Appendix C about origination of, or about information obtained in the course of originating, such loans; (ii) origination conduct unrelated to securitization, such as soliciting, aiding or abetting borrower fraud; (iii) representations or non-disclosures made in connection with collateralized debt obligations, other derivative securities, or secondary trading by Morgan Stanley of RMBS, except to the extent that the representations or non-disclosures are in the offering materials for the underlying RMBS listed in Appendix C; and (iv) the servicing of residential mortgage loans, except representations or non-disclosures to investors in the RMBS listed in Appendix C about servicing, or information obtained in the course of servicing, such loans.

4. **Releases by the NYAG.** Subject to the exceptions in paragraph 5 below, and conditioned upon compliance with the provisions of paragraph 1 above, the NYAG fully and finally releases and discharges Morgan Stanley from any and all claims that the NYAG has authority to bring relating to or concerning the Covered Conduct, including but not limited to any

such claims under: the Martin Act, Executive Law § 63(12), common law theories of negligence, payment by mistake, unjust enrichment, money had and received, breach of fiduciary duty, breach of contract, misrepresentation, deceit, fraud, and aiding and abetting any of the foregoing.

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 to the State of New York (or its departments or agencies) for any conduct other than the Covered Conduct; and (c) any liability for the claims alleged in the following *qui tam* actions, and no setoff related to amounts paid under this Agreement shall be applied to any recovery in connection with any of these actions: (i) *United States ex rel. [Sealed] v. [Sealed]*, as disclosed to Morgan Stanley, and (ii) *United States ex rel. [Sealed] v. [Sealed]*, as disclosed to Morgan Stanley. In addition, nothing in this Agreement shall be construed to bar any agency or department of the State that is a member of any plaintiff class or a plaintiff in any action related to the Covered Conduct from making a claim as a putative class member or otherwise participating in any private or class action.

6. **Releases by Morgan Stanley.** Morgan Stanley fully and finally releases the NYAG, its political subdivisions, departments, agencies, and all their officers, employees, servants and agents from any claims, including attorney's fees, costs, and expenses of every kind and however denominated, that Morgan Stanley has asserted, could have asserted, or may assert in the future against them related to the Covered Conduct and the investigation to date thereof.

7. This Agreement is intended to be for the benefit of the Parties only. Nothing contained herein shall be construed so as to create any third party rights or private rights of

action nor deprive any third party individual or entity 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. Morgan Stanley represents and warrants, through the signatures below, that the terms and conditions of this Agreement are duly approved, and execution of this Agreement is duly authorized. This Agreement is not intended for use by any third party in any other proceeding and is not intended, and should not be construed, as an admission of liability by Morgan Stanley.

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

12. This Agreement shall be binding on and inure to the benefit of the Parties and their respective successors and assigns, provided that no party, other than the NYAG, may assign, delegate, or otherwise transfer any of its rights or obligations under this Agreement (other than by merger) without the prior written consent of the NYAG.

13. Morgan Stanley shall, upon request by the NYAG or the Monitor, provide all non-privileged documentation and information necessary for the NYAG or the Monitor to verify compliance with paragraph 2 of this Agreement.

14. 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 Morgan Stanley, to:

Scott Tucker, Esq.
Managing Director, Legal and Compliance
Morgan Stanley
1221 Avenue of the Americas, 35th Floor
New York, New York 10020
(212) 762-7321

If to the NYAG, to:

Steven J. Glassman, Esq.
Senior Enforcement Counsel
Economic Justice Division
Office of the Attorney General
State of New York
120 Broadway, 23rd Floor
New York, New York 10271
(212) 416-6542

15. This Agreement shall be governed by the laws of the State of New York without regard to any conflict of laws principles.

16. This Agreement, including the Appendices hereto, 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.

17. 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.

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

Dated: February 11, 2016
New York, New York

MORGAN STANLEY

By:
Eric F. Grossman
Chief Legal Officer

ERIC T. SCHNEIDERMAN
Attorney General of the State of New York
120 Broadway
New York, NY 10271

APPENDIX B

Consumer Relief

Eligibility: The Consumer Relief eligibility criteria shall reflect only the terms set forth below and the following principles and conditions: (1) Consumer Relief will be related to borrowers or properties located in New York State; (2) Consumer Relief will not be implemented through any policy that violates the Fair Housing Act or the Equal Credit Opportunity Act; (3) Consumer Relief will not be conditioned on a waiver or release by a borrower, provided that waivers and releases shall be permitted in the case of a contested claim where the borrower would not otherwise have received as favorable terms or consideration; and (4) Eligible modifications may be made under the Making Home Affordable Program (including the Home Affordable Modification Program ("HAMP") and the Housing Finance Agency Hardest Hit Fund) and any proprietary or other modification program.

Menu[1]

Menu Item[2]	Credit Towards Settlement	Minimum
1. **Modification – Forgiveness/Forbearance**[3]		
A. First Lien – Principal Forgiveness	$1.00 Forgiveness = $1.00 Credit[4] 115% Early Incentive Credit[5] 115% Credit for incremental LTV reduction below 100% $1.00 Forgiveness on loans serviced by Morgan Stanley but owned by other investors = $0.50 Credit $1.00 Investor incentive payments (when paid) consistent with those paid in HAMP (if applicable) = $1.00 Credit Credit limited to principal forgiveness that reduces LTVs to equal to or less than 100%	

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1 Start date of crediting is 02/01/2015 (based on first payment date for completed modifications and other actions under this Menu). Consumer Relief to be completed no later than 09/30/2019. No Credit will be provided for a modification if payments are required unless the borrower makes the first three scheduled payments under the modification (including trial period payments). With respect to earned forgiveness principal reduction modifications, credit can be immediate, provided the borrower makes the required payments (to include any trial payments) and the earned forgiveness period is a maximum of 3 years. If a borrower receives more than one form of consumer relief, Credit shall be provided for each form of relief, provided that the forms of relief must be segregated for purposes of determining Credit.

2 Credit will be provided for any consumer relief completed by any servicer or subservicer pursuant to this Appendix B and for loans sold to other servicers (including sales of servicing rights) where a modification is completed by the deadline set forth in footnote 1 for Morgan Stanley ("MS") to complete its Consumer Relief obligations, and provided that the agreement providing for such sale of servicing allows for the tracking and reporting of such subsequent Consumer Relief. With respect to loans held in securitizations, Consumer Relief shall be credited in accordance with this Appendix B from 02/01/2015 for all eligible modifications described in this "Menu," provided that all principal forgiveness modifications performed on loans in securitizations shall be eligible only where: (1) the modification is permitted under the operative documents for the securitization; or (2) MS has permission from the relevant investors and/or trustees to provide the principal reduction under the operative documents for the securitization or another agreement with trustees/investors.

3 For Menu Items 1.A and 1.E, eligibility is limited to non-performing loans, loans in imminent default, high LTV loans, loans with rates substantially above Freddie Mac's Primary Mortgage Market Survey (PMMS) and loans with troubled loan history. High LTV Loans are defined as loans at or above 100% LTV. Loans with troubled loan history are defined as loans where the borrower has missed two or more payments during the term of the loan. With respect to all other categories, eligibility is available to all borrowers unless otherwise limited under the Menu.

4 First liens purchased after the start date of crediting will only be eligible for Credit under Menu Item 1 if Morgan Stanley reasonably believes the properties subject to the first liens are owner occupied when the consumer relief is provided.

5 Early Incentive Credit applies to all consumer relief activity offered or completed within 1 year of the execution of this Settlement Agreement. Early Incentive Credit and other credits are cumulative (*e.g.*, $1.00 of principal forgiveness in an amount below 100% LTV completed within 1 year of the execution of this Settlement Agreement would receive $1.3225 Credit).

Menu Item[2]		Credit Towards Settlement	Minimum
B	Principal Forgiveness of Forbearance	$1.00 Forgiveness = $1.00 Credit 115% Early incentive Credit 115% Credit for incremental LTV reduction below 100% $1.00 Forgiveness on loans serviced by MS but owned by other investors = $0.50 Credit $1.00 Investor incentive payments (when paid) consistent with those paid in HAMP for principal reduction of first liens (if applicable) = $1.00 Credit Credit limited to principal reduction that reduces LTVs to equal to or less than 100%	
C.	First Lien – Forbearance (Payment Forgiveness)	$Forgiveness = Pre Mod Rate x Forborne UPB x Avg Life[6] 115% Early Incentive Credit $1.00 Forgiveness on loans serviced by MS but owned by other investors = $0.50 Credit $1.00 Investor incentive payments (when paid) consistent with those paid in HAMP (if applicable) = $1.00 Credit Credit limited to principal reduction that reduces LTVs to equal to or less than 100%	
D.	Second Lien – Principal Forgiveness (including extinguishments)	$1.00 Forgiveness = $1.00 Credit[7] 115% Early Incentive Credit $1.00 Forgiveness on loans serviced by MS but owned by other investors = $0.50 Credit $1.00 Investor incentive payments (when paid) consistent with those paid in HAMP (if applicable) = $1.00 Credit	
E.	Balance Forgiveness-First Lien[8]	$1.00 Forgiveness = $1.00 Credit 115% Early incentive Credit	

6 Based on an average life of 12 years.

7 Second liens purchased after the start date of crediting will not be eligible for Credit under Menu Item 1.

Menu Item[2]	Credit Towards Settlement	Minimum
	115% Credit for incremental LTV reduction below 100%	
	$1.00 Forgiveness on loans serviced by MS but owned by other investors = $0.50 Credit	
	$1.00 Investor incentive payments (when paid) consistent with those paid in HAMP (if applicable) = $1.00 Credit	
	Credit limited to balance forgiveness that reduces LTVs to equal to or less than 100%	
F. Balance Forgiveness-Second Liens (including extinguishments)	$1.00 Forgiveness = $1.00 Credit	
	115% Early incentive Credit	
	$1.00 Forgiveness on loans serviced by MS but owned by other investors = $0.50 Credit	
	$1.00 Investor incentive payments (when paid) consistent with those paid in HAMP (if applicable) = $1.00 Credit	
G. Assistance for Borrowers to Refinance Outside Morgan Stanley	$1.00 Forgiveness/Extinguishments otherwise eligible under Menu Items 1 or 2A = $1.00 Credit	
	$1.00 Closing Costs Paid on behalf of Borrowers to a third-party originator = $1.00 Credit	
	$1.00 Other Costs Paid on behalf of Borrowers such as to lienholders other than MS to facilitate refinancing = $1.00 Credit	
	$1.00 of cost of HUD approved counseling MS is not otherwise obligated to provide = $1.00 Credit	
	115% Early incentive Credit	
		Menu Item 1A-G Credit Minimum = $70 million.
H. Financing to Units of Local Government or other Eligible Entities for the Acquisition and	$1.00 of financing to support non- profit acquisition of non-performing loans for purposes of principal reduction and other qualified consumer relief strategies = $2.00	

8 Balance Forgiveness including short sales and deed in lieu.

Menu Item[2]	Credit Towards Settlement	Minimum
Remediation of Non-Performing Loans	Credit[9] 115% Early incentive Credit	

9 In order to be eligible to receive Credit, financing in the form of a secured loan must be provided at an interest rate of less than 1% and for a term of at least four years or the disposition of the collateral securing the loan, whichever is sooner. If financing is provided in the form of a grant, each $1.00 grant will equal $2.50 of Credit. When financing is provided in the form of a grant, Early Incentive Credit and Final Credit will be earned when the units of local government or other eligible entity receive the grant.

2. **Rate Reduction/Refinancing[10]**

A. Rate Reduction[11]	For rate reductions >200 bps and <400 bps: $Credit = Rate Reduction x Avg. Life[12] x $UPB (post mod interest bearing UPB if applicable) For rate reductions equal to or greater than 400 bps: $Credit = Rate Reduction x Avg. Life[13] x $UPB (post mod interest bearing UPB if applicable) x 1.25 $1.00 Other Costs Paid on behalf of Borrowers such as to lienholders other than MS to facilitate refinancing = $1.00 Credit $1.00 Closing Costs Paid on behalf of Borrowers to a third-party originator = $1.00 Credit 115% Early incentive Credit 115% Credit for LTV reduction below 100% Eligibility for credit to include rate reductions facilitated by MS for borrowers refinancing through third parties $1.00 Principal Forgiveness or Balance Forgiveness to facilitate a refinancing = $1.00 Credit
B. Cross-Servicer HARP	$Credit=Rate Reduction x Avg. Life[14] x $UPB 115% Early incentive Credit

10 All rate reduction and refinancing under any Menu Item must be provided at no cost to the borrower, excluding any tax consequences which shall be the responsibility of the borrower.

11 With respect to Menu Item 2.A, principal reduction and balance reduction is available to all borrowers regardless of loan performance status.

12 Based on an average life of 12 years.

13 Based on an average life of 12 years.

14 Based on an average life of 5 years.

3. **Community Reinvestment and Neighborhood Stabilization**

A. Grants to Municipalities or Counties to capitalize or support certified Land Banks subject to state or local regulation	$1.00 grant = $2.00 Credit[15]	**Menu Item 3A Credit Minimum = $30 Million**
B. Grants to Municipalities or their housing or finance agencies to support housing quality improvement and enforcement programs	$1.00 grant = $2.00 Credit[15]	**Menu Item 3B Credit Minimum= $30 Million**
	115% Early Incentive Credit for Menu Items 3.A-B	
		Menu Item 1H + 3A + 3B Credit Minimum = $125 million

[15] If Morgan Stanley elects to do so, it may use one or more non-profits to evaluate potential projects and to generate and administer financing or grants to municipalities or counties pursuant to this menu item. Credits for Menu Items 3A and 3B are eligible for Early Incentive Credit on the date funds/grants are received by such non-profits. Final Credit for Menu Item 3A and 3B will be earned when a formal letter of commitment is provided by such non-profits to the recipients.

4. **Affordable Rental Housing**

Financing and/or Grants to Municipalities or Counties (including housing or finance agencies) to fund Critical Need Housing Developments[16] and/or Support Services or programs for Such Developments	\$1.00 Loss[17]/grant = \$3.75 Credit 115% Early incentive Credit

Menu Item 4 Credit Minimum = \$150 million

[16] "Critical Need Housing" is defined as new or existing multifamily affordable rental housing developments that have been selected by a municipality, county or the state, or any of their housing or finance agencies and are subject to a regulatory agreement comparable to LIHTC affordability restrictions that meet one of the following criteria: (i) developed through LIHTC or are equivalent to multifamily affordable rental housing developed through LIHTC; (ii) provide multifamily affordable rental housing for senior citizens; (iii) provide multifamily affordable rental housing located near public transit hubs; or (iv) provide multifamily affordable rental housing located near (or that otherwise provides access to) health care professionals. Morgan Stanley will have the ability to choose and underwrite the projects financed pursuant to this menu item. If Morgan Stanley elects to do so, it may use one or more non-profits to evaluate potential projects and to generate and administer financing or grants to municipalities or counties pursuant to this menu item. A cumulative 115% Credit will be provided for projects located in municipalities or counties where Morgan Stanley has not funded a Critical Need Housing project during the past four years (*see* footnote 5, above).

[17] For loans or investments, Loss is measured by the net settlement amount, and is equal to the difference between par value (*i.e.*, the amount paid by MS) and the fair value (*i.e.*, market value) on the origination date of the loan or investment made to facilitate the construction, rehabilitation or preservation of multifamily affordable rental housing, less administrative fees. Origination date is defined as the date of the closing of the loan or investment at par value and disbursement by MS to fund the Loss. Credit will only be given up to \$100,000 of Loss per affordable housing unit. Origination date is also the determinative date for determining whether the Loss is eligible for the Early Incentive Credit. If a Loss is eligible for the Early Incentive Credit, but some or all of the financing generated by the Loss has not yet been committed to a particular project or municipality or county, MS will not receive final credit for the Loss (including the Early Incentive Credit) until after a formal letter of commitment is issued to the project or municipality or county receiving the Financing. If MS's Loss is substantially reversed due to circumstances such as cancellation of the project during the term of this Appendix B, MS's credit shall be calculated on the actual Loss incurred. The Loss will be validated by the non-profit tax credit syndicator. For grants of assets to fund developments or support services, the value of the grant will be measured based on the fair value of the asset at the time of the grant. The financing provided under this section will be in a form (e.g., as a grant or a forgivable loan) acceptable to the municipality or county receiving the financing.

Reporting Requirements, Liquidated Damages, Credit Minimums, and Tax Consequences

MS shall endeavor to satisfy the Consumer Relief obligations set forth in this Appendix B by September 30, 2018, but shall have until September 30, 2019 to complete all Consumer Relief obligations set forth in this Appendix B. An independent Monitor acceptable to the parties and paid for by MS shall be appointed to publicly: 1) report progress towards completion of Consumer Relief, including reporting on overall progress on a quarterly basis commencing no later than 180 days after the date of this Agreement; 2) report on Credits earned as promptly as practicable following the date the Monitor has confirmed the methodology for validation of Credits under this Menu (including a description of the distribution of Credits at the census block level for Menu items 1 and 2); and 3) ultimately determine and certify MS's compliance with the terms of this Appendix B. If the Monitor determines that a shortfall in that obligation remains as of September 30, 2019, MS shall make a compensatory payment in cash to the State of New York, in accordance with written payment processing instructions from the New York Attorney General, in an amount equal to the shortfall (the "Liquidated Damages"). The payment of Liquidated Damages shall be the sole remedy for any failure to complete the Consumer Relief. The calculations regarding the Credit Minimums shall be performed by the Monitor and the Monitor shall determine at the end of the period whether there are Liquidated Damages and, if so, the amount due.

In the event that MS is unable to satisfy the Credit Minimums set forth in this Menu despite using its best efforts (as confirmed by the Monitor) for the applicable consumer relief program, MS may apply any Credits earned in excess of any of the Credit Minimums or any Credit earned in any Menu Item as to which neither a Credit Minimum nor a Credit Cap applies to offset any deficiency in respect of any of the other Menu Items to which a Credit Minimum applies.

The Monitor shall provide MS with flexibility on the evidencing requirements for loans not serviced by MS where the standard evidence is unavailable and MS is able to provide alternative evidence that enables the Monitor to satisfactorily carry out his duties under this Appendix B. For example, the Monitor may (but is not required to) determine that balance forgiveness may be evidenced by transaction screenshots, before and after statements and/or Internal Revenue Service ("IRS") Form 1099C statements.

For Menu Items 1 and 2, MS is required to report data to the Monitor at the census block level. For Menu Items 1 and 2, MS is required to provide the Monitor with a copy of the IRS Form 1099C issued to each individual for each item of relief provided.

Credit will not be given for any item of relief provided pursuant to this Menu where the Monitor determines that MS has failed to satisfactorily report data (including census block level data) for that relief as required in this Appendix B.

MS shall not be responsible for any tax consequences to borrowers of the Consumer Relief described in the Menu, but for Menu Items 1 and 2 MS is required to clearly disclose to borrowers the potential tax consequences of any relief offered or provided, and recommend that borrowers seek appropriate counsel as needed.