

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K

(MARK ONE)

/X/ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934

FOR THE FISCAL YEAR ENDED DECEMBER 31, 2000
OR

/ / TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934

FOR THE TRANSITION PERIOD FROM _____ TO _____

COMMISSION FILE NO. 1-10150

ISTAR FINANCIAL INC.

(Exact name of registrant as specified in its charter)

MARYLAND
(State or other jurisdiction of
incorporation or organization)

95-6881527
(I.R.S. Employer
Identification Number)

1114 AVENUE OF THE AMERICAS, 27TH FLOOR
NEW YORK, NY 10036
(Address of principal executive offices)

10036
(Zip code)

Registrant's telephone number, including area code: (212) 930-9400

Securities registered pursuant to Section 12(b) of the Act:

Title of each class:	Name of Exchange on which registered:
COMMON STOCK, \$0.001 PAR VALUE	NEW YORK STOCK EXCHANGE
9.375% SERIES B CUMULATIVE REDEEMABLE PREFERRED STOCK, \$0.001 PAR VALUE	NEW YORK STOCK EXCHANGE
9.200% SERIES C CUMULATIVE REDEEMABLE PREFERRED STOCK, \$0.001 PAR VALUE	NEW YORK STOCK EXCHANGE
8.000% SERIES D CUMULATIVE REDEEMABLE PREFERRED STOCK, \$0.001 PAR VALUE	NEW YORK STOCK EXCHANGE

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark whether the registrant: (i) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports); and (ii) has been subject to such filing requirements for the past 90 days. Yes /X/ No / /

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. / /

As of March 15, 2001, the aggregate market value of the common stock, \$0.001 par value per share of iStar Financial Inc. ("Common Stock") held by non-affiliates(1) of the registrant was approximately \$2,063.0 million, based upon the closing price of \$24.01 on the New York Stock Exchange composite tape on such date.

As of March 15, 2001, there were 85,924,550 shares of Common Stock outstanding.

(1) For purposes of this Annual Report only, includes all outstanding Common Stock other than Common Stock held directly by the Registrant's directors and executive officers.

DOCUMENTS INCORPORATED BY REFERENCE

1. Portions of the registrant's definitive proxy statement for the registrant's 2001 Annual Meeting, to be filed within 120 days after the close of the registrant's fiscal year, are incorporated by reference into Part III of this Annual Report on Form 10-K.

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ITEM 1. BUSINESS

EXPLANATORY NOTE FOR PURPOSES OF THE "SAFE HARBOR PROVISIONS" OF SECTION 21E OF THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED

This Annual Report on Form 10-K contains forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended, which involve certain risks and uncertainties. Forward-looking statements are included with respect to, among other things, the Company's current business plan, business strategy and portfolio management. The Company's actual results or outcomes may differ materially from those anticipated. Important factors that the Company believes might cause such differences are discussed in the cautionary statements presented under the caption "Factors That May Affect the Company's Business Strategy" in Item 1 of this Form 10-K or otherwise accompany the forward-looking statements contained in this Form 10-K. In assessing all forward-looking statements, readers are urged to read carefully all cautionary statements contained in this Form 10-K.

OVERVIEW

iStar Financial Inc. (the "Company") is the leading publicly traded finance company focused on the commercial real estate industry. The Company provides structured financing to private and corporate owners of real estate nationwide, including senior and junior mortgage debt, corporate mezzanine and subordinated capital, and corporate net lease financing. The Company, which is taxed as a real estate investment trust ("REIT"), seeks to deliver superior risk-adjusted returns on equity to shareholders by providing innovative and value-added financing solutions to its customers.

The Company's primary product lines include:

- STRUCTURED FINANCE. The Company provides senior and subordinated loans from \$20 million to \$100 million to borrowers controlling institutional quality real estate. These loans may be either fixed or floating rate and are structured to meet the specific financing needs of the borrowers, including the acquisition, financing, repositioning or construction of large, high-quality real estate. The Company offers borrowers a wide range of structured finance options, including first mortgages, second mortgages, partnership loans, participating debt and interim/bridge facilities.
- PORTFOLIO FINANCE. The Company provides funding to regional and national borrowers who own multiple properties in a geographically diverse portfolio. Loans are cross-collateralized to give borrowers the benefit of all available collateral and underwritten to recognize inherent portfolio diversification. Property types include multifamily, suburban office, all-suite, extended stay and full service hotels and other property types where individual property values are less than \$20 million on average. Loan terms are structured to meet the specific requirements of the borrower and typically range in size from \$25 million to \$150 million.
- CORPORATE FINANCE. The Company provides senior and subordinated capital to corporations engaged in real estate or real estate-related businesses. Financing may be either secured or unsecured and typically ranges in size from \$20 million to \$150 million.
- LOAN ACQUISITION. The Company acquires whole loans and loan participations which present attractive risk-reward opportunities. Loans are generally acquired at a discount to the principal balance outstanding and may be acquired with financing provided by the seller. Loan acquisitions typically range from \$5 million to \$100 million and are collateralized by all major property types.
- CORPORATE TENANT LEASING. The Company provides capital to corporations, as well as borrowers who control properties leased to single creditworthy tenants. The Company's net leased facilities are generally subject to long-term leases with rated corporate credit tenants, and provide for all

expenses at the property to be paid by the tenant on a triple net lease basis. Corporate tenant transactions typically range in size from \$20 million to \$200 million.

- SERVICING. Through its iStar Asset Services division, the Company provides rated servicing to third-party, institutional loan portfolios, as well as to the Company's own portfolio.

As more fully discussed in Note 4 to the Company's Consolidated Financial Statements, the Company began its business in 1993 through private investment funds formed to capitalize on inefficiencies in the real estate finance market. In March 1998, these funds contributed their approximately \$1.1 billion of assets to the Company's predecessor, Starwood Financial Trust, in exchange for a controlling interest in that company. Since that time, the Company has grown by originating new lending and leasing transactions, as well as through corporate acquisitions.

Specifically, in September 1998, the Company acquired the loan origination and servicing business of a major insurance company, and in December 1998, the Company acquired the mortgage and mezzanine loan portfolio of its largest private competitor. Additionally, in November 1999, the Company acquired TriNet Corporate Realty Trust, Inc., the largest publicly traded company specializing in the net leasing of corporate office and industrial facilities. The acquisition of TriNet was structured as a stock-for-stock merger of TriNet with a subsidiary of the Company. We refer to TriNet throughout this document as the "Leasing Subsidiary."

Concurrent with the acquisition of TriNet, the Company also acquired its external advisor in exchange for shares of Common Stock and converted its organizational form to a Maryland corporation. As part of the conversion to a Maryland corporation, the Company replaced its dual class common share structure with a single class of Common Stock. The Company's Common Stock began trading on the New York Stock Exchange on November 4, 1999. Prior to this date, the Company's common shares were traded on the American Stock Exchange.

INVESTMENT STRATEGY

The Company's investment strategy targets specific sectors of the real estate credit markets in which it believes it can deliver value-added, flexible financial solutions to its customers, thereby differentiating its financial products from those offered by other capital providers.

The Company has implemented its investment strategy by:

- Focusing on the origination of large, highly structured mortgage, corporate and lease financings where customers require flexible financial solutions, and avoiding commodity businesses in which there is significant direct competition from other providers of capital.
- Developing direct relationships with borrowers and corporate tenants as opposed to sourcing transactions through intermediaries.
- Adding value beyond simply providing capital by offering borrowers and corporate tenants specific lending expertise, flexibility, certainty and continuing relationships beyond the closing of a particular financing transaction.
- Taking advantage of market anomalies in the real estate financing markets when the Company believes credit is mispriced by other providers of capital, such as the spread between lease yields and the yields on corporate tenants' underlying credit obligations.

The Company intends to continue to emphasize a mix of portfolio financing transactions to create asset diversification and single-asset financings for properties with strong, long-term competitive market positions. The Company's credit process will continue to focus on:

- Building diversification by asset type, property type, obligor, loan/lease maturity and geography.

- Financing high-quality commercial real estate assets in major metropolitan markets.
- Underwriting assets using conservative assumptions regarding collateral value and future property performance.
- Requiring adequate cash flow coverage on its investments.
- Stress testing potential investments for adverse economic and real estate market conditions.

As of December 31, 2000, based on current gross carrying values, the Company's business consists of the following product lines:

PRODUCT LINE

EDGAR REPRESENTATION OF DATA POINTS USED IN PRINTED GRAPHIC

STRUCTURED FINANCE	24%
Portfolio Finance	9%
Corporate Finance	11%
Corporate Tenant leasing	44%
Loan Acquisition	12%

The Company seeks to maintain an investment portfolio which is diversified by asset type, underlying property type and geography. As of December 31, 2000, based on current gross carrying values, the Company's total investment portfolio has the following characteristics:

ASSET TYPE

EDGAR REPRESENTATION OF DATA POINTS USED IN PRINTED GRAPHIC

FIRST MORTGAGES	31%
Second Mortgages	8%
Corporate/Partnership/Other	18%
Corporate Tenant Lease	43%

PROPERTY TYPE

EDGAR REPRESENTATION OF DATA POINTS USED IN PRINTED GRAPHIC

HOTEL	20%
Mixed Use	4%
Office	49%
Industrial	7%
R&D	3%
Apartment/Residential	7%
Resort/Entertainment	4%
Homebuilder/Land	3%
Retail	3%

GEOGRAPHY

EDGAR REPRESENTATION OF DATA POINTS USED IN PRINTED GRAPHIC

SOUTHEAST	10%
Mid-Atlantic	9%
Northeast	17%
North Central	2%
Central	7%
South	16%
Southwest	3%
West	32%
Northwest	5%

FINANCING STRATEGY

The Company has access to a wide range of debt and equity capital resources to finance its investment and growth strategies. At December 31, 2000, the Company had approximately \$1.8 billion of tangible book equity capital and a total market capitalization of approximately \$4.2 billion. The Company believes that its size, diversification, investor sponsorship and track record are competitive advantages in obtaining attractive financing for its businesses.

The Company seeks to maximize risk-adjusted returns on equity and financial flexibility by opportunistically accessing a variety of public and private debt and equity capital sources, including:

- iStar Asset Receivables ("STARs"), the Company's proprietary match-funded, securitized debt program.
- A combined \$1.7 billion available under its unsecured and secured revolving credit facilities at year end (increased to \$2.4 billion subsequent to year end).
- Long-term, unsecured corporate debt.

The Company's business model is premised on significantly lower leverage than many other commercial finance companies. In this regard, the Company seeks to:

- Target a maximum consolidated debt/book equity ratio of 1.5x to 2.0x.
- Maintain a large tangible equity base and conservative credit statistics.
- Match fund assets and liabilities.

A more detailed discussion of the Company's current capital resources is provided in Item 7--"Management's Discussion and Analysis of Financial Condition and Results of Operations--Liquidity and Capital Resources."

BUSINESS

REAL ESTATE LENDING:

The Company provides structured financing to private and corporate owners of real estate nationwide, including senior and junior mortgage debt, as well as corporate mezzanine and subordinated capital.

Set forth below is information regarding the Company's primary real estate lending product lines as of December 31, 2000:

	CURRENT CARRYING VALUE	PERCENTAGE OF TOTAL
	-----	-----
	(IN THOUSANDS)	
Structured finance.....	\$ 967,613	43.2%
Portfolio finance.....	371,168	16.6%
Corporate finance.....	420,837	18.8%
Loan acquisition.....	479,565	21.4%
	-----	-----
Gross carrying value.....	2,239,183	100.0%
		=====
Provision for possible credit losses.....	(14,000)	

Total carrying value, net.....	\$2,225,183	
	=====	

As more fully discussed in Note 3 to the Company's Consolidated Financial Statements, the Company continually monitors borrower performance and completes a detailed, loan-by-loan formal credit review on

a quarterly basis. After having originated or acquired over \$4 billion of investment transactions, neither the Company nor its private investment fund predecessors have experienced any actual losses on their investments. Further, based on current reviews of its portfolio, management is not aware of any factors relating to specific loans which indicate that such losses may be experienced in the foreseeable future.

While no specific losses are currently indicated, the Company has considered it prudent to establish a policy of providing reserves for potential losses inherent in the current portfolio which may occur in the future. Accordingly, since its first full quarter as a public company (the quarter ended June 30, 1998), management has reflected quarterly provisions for possible credit losses in its operating results.

SUMMARY OF INTEREST CHARACTERISTICS

As more fully discussed in Item 7--"Management's Discussion and Analysis of Financial Condition and Results of Operations--Liquidity and Capital Resources" as well as in Item 7a.--"Quantitative and Qualitative Disclosures about Market Risk," the Company utilizes certain interest rate risk management techniques, including both asset/liability matching and certain other hedging techniques, in order to mitigate the Company's exposure to interest rate risks.

As of December 31, 2000, the Company's Lending Business portfolio has the following interest rate characteristics:

	CURRENT CARRYING VALUE	PERCENTAGE OF TOTAL
	-----	-----
	(IN THOUSANDS)	
Fixed rate loans.....	\$1,242,552	55.5%
Variable rate loans.....	996,631	44.5%
	-----	-----
Gross carrying value.....	\$2,239,183	100.0%
	=====	=====

SUMMARY OF PREPAYMENT TERMS

The Company is exposed to risks of prepayment on its loan assets, and generally seeks to protect itself from such risk by structuring its loans with prepayment restrictions and/or penalties.

As of December 31, 2000, the Company's Lending Business portfolio has the following call protection characteristics:

	CURRENT CARRYING VALUE	PERCENTAGE OF TOTAL
	-----	-----
	(IN THOUSANDS)	
Substantial lock-out for original term.....	\$ 611,838	27.3%
Fixed prepayment penalties.....	553,188	24.7%
Yield maintenance.....	299,666	13.4%
No significant prepayment protection.....	774,491	34.6%
	-----	-----
Gross carrying value.....	\$2,239,183	100.0%
	=====	=====

SUMMARY OF LENDING BUSINESS MATURITIES

As of December 31, 2000, the Company's Lending Business portfolio has the following maturity characteristics:

YEAR OF MATURITY	NUMBER OF TRANSACTIONS MATURING	CURRENT CARRYING VALUE	PERCENTAGE OF TOTAL
(IN THOUSANDS)			
2001.....	7	\$ 302,552	13.5%
2002.....	13	351,158	15.7%
2003.....	7	425,863	19.0%
2004.....	10	453,850	20.3%
2005.....	7	278,450	12.4%
2006.....	1	35,583	1.6%
2007.....	5	179,230	8.0%
2008.....	5	60,605	2.7%
2009.....	--	--	0.0%
2010.....	--	--	0.0%
2011 and thereafter.....	3	151,892	6.8%
Gross carrying value.....		\$ 2,239,183	100.0%
Weighted average maturity.....		3.7 years	

STRUCTURED FINANCE

The Company provides custom-tailored senior and subordinated loans from \$20 million to \$100 million to borrowers controlling institutional quality real estate. These loans may be either fixed or floating rate and are structured to meet the specific financing needs of the borrowers, including financing related to the acquisition, refinancing, repositioning or construction of large, high-quality real estate. The Company offers borrowers a wide range of structured finance options, including first mortgages, second mortgages, partnership loans, participating debt and interim/bridge facilities.

As of December 31, 2000, the Company's structured finance investments have the following characteristics:

INVESTMENT CLASS	COLLATERAL TYPES	# OF LOANS IN CLASS	INITIAL CARRYING VALUE	CURRENT CARRYING VALUE (1)	CURRENT PRINCIPAL BALANCE OUTSTANDING	WEIGHTED AVERAGE STATED PAY RATE
First Mortgages:						
Fixed.....	Residential/ Resort/Mixed Use/Office	6	\$222,320	\$ 223,749	\$ 225,618	9.54%
Floating.....	Office/Hotel	4	270,251	285,399	284,151	LIBOR+2.91%
Second Mortgages:						
Fixed.....	Office/Mixed Use/Hotel	8	184,491	195,207	211,280	10.89%
Floating.....	--	--	--	--	--	--
Corporate/Partnership/Other	Loans:					
Fixed.....	Office/Hotel/ Retail	10	184,568	133,519	132,081	10.12%
Floating.....	Office	2	130,000	129,739	130,000	LIBOR+5.19%
Total.....		30		\$ 967,613	\$ 983,130	

EXPLANATORY NOTES:

INVESTMENT CLASS	WEIGHTED AVERAGE STATED ACCRUAL RATE	WEIGHTED AVERAGE ESTIMATED ACCOUNTING YIELD (2)	WEIGHTED AVERAGE FIRST DOLLAR CURRENT LOAN-TO- VALUE (3)	WEIGHTED AVERAGE LAST DOLLAR CURRENT LOAN-TO- VALUE (4)
First Mortgages:				
Fixed.....	9.74%	10.81%	0%	61%
Floating.....	LIBOR+2.91%	10.42%	0%	73%
Second Mortgages:				
Fixed.....	12.48%	12.35%	38%	71%
Floating.....	--	--	--	--
Corporate/Partnership/Oth				
Fixed.....	12.25%	14.71%	62%	75%
Floating.....	LIBOR+5.19%	10.86%	63%	80%
Total.....				

EXPLANATORY NOTES:

-
- (1) Where Current Carrying Value is less than Initial Carrying Value, difference represents contractual amortization, partial prepayment of loan principal, or amortization of acquired premiums, discounts or deferred loan fees.
 - (2) Estimated accounting yield represents the stated rate on the loan as adjusted for the amortization of loan fee revenue and any direct loan costs or acquisition premiums or discounts using the effective interest method over the term of the loan. Such estimate is not adjusted for the effects of expected early repayments of loans subject to prepayment penalties or the effects of possible additional contingent interest on loan participation features included under certain of the Company's loan investments.
 - (3) Weighted average ratio of first dollar current loan carrying value to underlying collateral value using third-party appraisal (where applicable) or the Company's internal valuation (where no appraisal available).
 - (4) Weighted average ratio of last dollar current loan carrying value to underlying collateral value using third-party appraisal (where applicable) or the Company's internal valuation (where no appraisal available).

PORTFOLIO FINANCE

The Company provides funding to regional and national borrowers who own multiple properties in a geographically diverse portfolio. Loans are cross-collateralized to give borrowers the benefit of all available collateral and underwritten to recognize inherent diversification. Property types include multifamily, suburban office, all-suite, extended stay and limited service hotels and other property types where individual property values are less than \$20 million on average. Loan terms are structured to meet the specific requirements of the borrower and typically range in size from \$25 million to \$150 million.

As of December 31, 2000, the Company's portfolio finance investments have the following characteristics:

INVESTMENT CLASS	COLLATERAL TYPES	# OF LOANS IN CLASS	INITIAL CARRYING VALUE	CURRENT CARRYING VALUE (1)	CURRENT PRINCIPAL BALANCE OUTSTANDING	WEIGHTED AVERAGE STATED PAY RATE
First Mortgages:						
Fixed.....	Residential	5	\$84,665	\$ 60,961	\$ 61,091	18.40%
Floating.....	Residential/Office	2	88,861	87,460	87,500	LIBOR + 1.79%
Second Mortgages:						
Fixed.....	Office/Hotel	3	90,725	90,519	88,808	11.27%
Floating.....	Hotel	1	29,689	39,832	40,000	LIBOR + 5.80%
Corporate/Partnership/Other Loans:						
Fixed.....	Office	1	23,100	14,745	14,745	10.00%
Floating.....	Hotel	1	69,856	77,651	78,000	LIBOR + 5.37%
Total.....		13		\$ 371,168	\$ 370,144	

EXPLANATORY NOTES:

INVESTMENT CLASS	WEIGHTED AVERAGE ACCRUAL RATE	WEIGHTED AVERAGE ESTIMATED ACCOUNTING YIELD (2)	WEIGHTED AVERAGE FIRST DOLLAR CURRENT LOAN-TO-VALUE (3)	WEIGHTED AVERAGE LAST DOLLAR CURRENT LOAN-TO-VALUE (4)
First Mortgages:				
Fixed.....	20.07%	21.41%	0%	35%
Floating.....	LIBOR + 1.79%	8.29%	0%	68%
Second Mortgages:				
Fixed.....	12.70%	13.38%	36%	72%
Floating.....	LIBOR + 5.80%	12.42%	64%	88%
Corporate/Partnership/Ot				
Fixed.....	15.00%	15.00%	63%	71%
Floating.....	LIBOR + 5.37%	11.58%	56%	88%
Total.....				

EXPLANATORY NOTES:

- (1) Where Current Carrying Value is less than Initial Carrying Value, difference represents contractual amortization, partial prepayment of loan principal, or amortization of acquired premiums, discounts or deferred loan fees.
- (2) Estimated accounting yield represents the stated rate on the loan as adjusted for the amortization of loan fee revenue and any direct loan costs or acquisition premiums or discounts using the effective interest method over the term of the loan. Such estimate is not adjusted for the effects of expected early repayments of loans subject to prepayment penalties or the effects of possible additional contingent interest on loan participation features included under certain of the Company's loan investments.
- (3) Weighted average ratio of first dollar current loan carrying value to underlying collateral value using third-party appraisal (where applicable) or the Company's internal collateral valuation (where no appraisal available).
- (4) Weighted average ratio of last dollar current loan carrying value in underlying collateral value using third-party appraisal (where applicable) or the Company's internal valuation (where no appraisal available).

CORPORATE FINANCE

The Company provides senior and subordinated capital to corporations engaged in real estate or real estate-related businesses. Financing may be either secured or unsecured and typically ranges in size from \$20 million to \$150 million. Corporate financing may be either cash flow-oriented or asset-based.

As of December 31, 2000, the Company's corporate finance investments have the following characteristics:

INVESTMENT CLASS	COLLATERAL TYPES	# OF LOANS IN CLASS	INITIAL CARRYING VALUE	CURRENT CARRYING VALUE (1)	CURRENT PRINCIPAL BALANCE OUTSTANDING	WEIGHTED AVERAGE STATED PAY RATE
First Mortgages:						
Fixed.....	Hotel	1	\$19,397	\$ 19,422	\$ 23,148	7.32%
Floating.....	Homebuilder	1	72,495	72,495	72,495	LIBOR + 6.00%
Corporate/Partnership/Other Loans:						
Fixed.....	Resort	4	223,441	226,674	253,150	10.50%
	Entertainment/ Homebulider/ Residential Residential/ Hotel	3	112,873	102,246	104,529	LIBOR + 3.92%
Floating.....						
Total.....		9		\$ 420,837	\$ 453,322	

EXPLANATORY NOTES:

INVESTMENT CLASS	WEIGHTED AVERAGE STATED ACCRUAL RATE	WEIGHTED AVERAGE ESTIMATED ACCOUNTING YIELD (2)	WEIGHTED AVERAGE FIRST DOLLAR CURRENT LOAN-TO-VALUE (3)	WEIGHTED AVERAGE LAST DOLLAR CURRENT LOAN-TO-VALUE (4)
First Mortgages:				
Fixed.....	7.32%	9.36%	0%	93% (5)
Floating.....	LIBOR + 6.00%	11.65%	2%	31%
Corporate/Partnership/Other				
Fixed.....	10.67%	13.91%	65%	73%
Floating.....	LIBOR + 3.92%	10.59%	60%	70%
Total.....				

EXPLANATORY NOTES:

- Where Current Carrying Value is less than Initial Carrying Value, difference represents contractual amortization, partial prepayment of loan principal, or amortization of acquired premiums, discounts or deferred loan fees.
- Estimated accounting yield represents the stated rate on the loan as adjusted for the amortization of loan fee revenue and any direct loan costs or acquisition premiums or discounts using the effective interest method over the term of the loan. Such estimate is not adjusted for the effects of expected early repayments of loans subject to prepayment penalties or the effects of possible additional contingent interest on loan participation features included under certain of the Company's loan investments.
- Weighted average ratio of first dollar current loan carrying value to underlying collateral value using third-party appraisal (where applicable) or the Company's internal collateral valuation (where no appraisal available).
- Weighted average ratio of last dollar current loan carrying value to underlying collateral value using third-party appraisal (where applicable) or the Company's internal valuation (where no appraisal available).
- Collateral secured by long-term lease to investment grade tenant.

LOAN ACQUISITION

The Company acquires whole loans and loan participations which may be performing or sub-performing and which the Company believes represent attractive risk-reward opportunities. Loans are generally acquired at a discount to the principal balance outstanding and may be acquired with financing provided by the seller. The Company restructures many of these loans to performing status on terms favorable to the Company. In other cases, the Company negotiates a payoff at a price above the Company's basis in the loan. Loan acquisitions typically range from \$5 million to \$100 million and are collateralized by all major property types.

For accounting purposes, these loans are initially reflected at the Company's acquisition cost which represents the outstanding balance net of the acquisition discount or premium. The Company amortizes such discounts or premiums as an adjustment to increase or decrease the yield, respectively, realized on these loans using the effective interest method. As such, differences between carrying value and principal balances outstanding do not represent embedded losses or gains as the Company generally plans to hold such loans to maturity or negotiate a favorable restructuring of a discount loan.

As of December 31, 2000, the Company's loan acquisition investments have the following characteristics:

INVESTMENT CLASS	COLLATERAL TYPES	# OF LOANS IN CLASS	INITIAL CARRYING VALUE	CURRENT CARRYING VALUE (1)	CURRENT PRINCIPAL BALANCE OUTSTANDING	WEIGHTED AVERAGE STATED PAY RATE
First Mortgages:						
Fixed.....	Office/Retail/Hotel	3	\$ 256,655	\$ 259,697	\$ 274,775	9.00%
Floating.....	Office/Hotel	2	200,811	201,809	203,529	LIBOR + 1.75%
Corporate/Partnership/Other Loans:						
Fixed.....	Mixed Use	1	34,277	18,059	25,905	6.75%
Floating.....	--	--	--	--	--	--
Total.....		6		\$ 479,565	\$ 504,209	

EXPLANATORY NOTES:

INVESTMENT CLASS	WEIGHTED AVERAGE STATED ACCRUAL RATE	WEIGHTED AVERAGE ESTIMATED ACCOUNTING YIELD (2)	WEIGHTED AVERAGE FIRST DOLLAR CURRENT LOAN-TO-VALUE (3)	WEIGHTED AVERAGE LAST DOLLAR CURRENT LOAN-TO-VALUE (4)
First Mortgages:				
Fixed.....	9.57%	10.56%	0%	83%
Floating.....	LIBOR + 1.75%	8.21%	30%	85%
Corporate/Partnership/Othe				
Fixed.....	6.75%	11.00%	64%	69%
Floating.....	--	--	--	--
Total.....				

EXPLANATORY NOTES:

- (1) Where Current Carrying Value is less than Initial Carrying Value, difference represents contractual amortization, partial prepayment of loan principal, or amortization of acquired premiums, discounts or deferred loan fees.
- (2) Estimated accounting yield represents the stated rate on the loan as adjusted for the amortization of loan fee revenue and any direct loan costs or acquisition premiums or discounts using the effective interest method over the term of the loan. Such estimate is not adjusted for the effects of expected early repayments of loans subject to prepayment penalties or the effects of possible additional contingent interest on loan participation features included under certain of the Company's loan investments.
- (3) Weighted average ratio of first dollar current loan carrying value to underlying collateral value using third-party appraisal (where applicable) or the Company's internal valuation (where no appraisal available).
- (4) Weighted average ratio of last dollar current loan carrying value to underlying collateral value using third-party appraisal (where applicable) or the Company's internal valuation (where no appraisal available).

LOAN SERVICING

In September 1998, a subsidiary of the Company acquired the loan origination and servicing business of Phoenix Realty Services, Inc., a subsidiary of Phoenix Home Life Insurance Company. The acquisition of this servicing business, which was renamed iStar Asset Services, expanded the Company's ability to service its own loans and provided the Company with additional relationships with potential borrowers.

Through its iStar Asset Services division, the Company provides loan servicing to third-party institutional owners of loan portfolios, as well as to the Company's own asset base. iStar Asset Services is currently rated "above average" by Standard & Poor's and "CMS3" (approved) by Fitch Inc. as a master servicer. The Company's servicing business focuses on maximizing risk-adjusted investment returns through active, ongoing asset management with particular focus on risk management, asset financing strategies and opportunistic responsiveness to changing borrower/tenant needs.

CORPORATE TENANT LEASING:

The Company, directly and through its Leasing Subsidiary, provides capital to corporate owners of office and industrial facilities. Net leased facilities are generally subject to long-term leases to rated corporate credit tenants, and typically provide for all expenses at the property to be paid by the tenant on a triple net lease basis. Corporate tenant lease ("CTL") transactions typically range in size from \$20 million to \$200 million.

The Company pursues the origination of corporate tenant lease transactions by structuring purchase/ leasebacks and by acquiring facilities subject to existing long-term net leases. In a typical purchase/ leaseback transaction, the Company purchases a corporation's facility and leases it back to that corporation subject to a long-term net lease. This structure allows the corporate customer to reinvest the proceeds from the sale of its facilities into its core business, while the Company capitalizes on its structured financing expertise.

The Company generally intends to hold its net leased assets for long-term investment. However, subject to certain tax restrictions, the Company may dispose of an asset if it deems the disposition to be in the best interest of stockholders and may either reinvest the disposition proceeds, use the proceeds to reduce debt, or distribute the proceeds to stockholders.

The Company's CTL investments primarily represent a diversified portfolio of strategic office and industrial facilities subject to net lease agreements with creditworthy corporate tenants. The Company generally seeks high-quality, general-purpose real estate with residual values that represent a discount to current market values and replacement costs. Under a typical net lease agreement, the corporate customer agrees to pay a base monthly operating lease payment and all facility operating expenses (including taxes, maintenance and insurance).

The Company generally seeks corporate tenants with the following characteristics:

- Established companies with stable core businesses or market leaders in growing industries.
- Investment-grade credit strength or appropriate credit enhancements if corporate credit strength is not sufficient.
- Commitment to the facility as an important asset to their on-going businesses.

As of December 31, 2000, the Company had more than 160 corporate customers operating in more than ten major industry sectors, including aerospace, energy, finance, healthcare, hospitality, technology and telecommunications. These customers represent well-recognized national and international companies, such as Avaya, Federal Express, Hilton, IBM, Microsoft, Nike, Nokia and Verizon.

As of December 31, 2000, the Company's CTL portfolio has the following tenant credit characteristics:

	ANNUALIZED OPERATING LEASE PAYMENTS (3)	PERCENTAGE OF TOTAL
	-----	-----
	(IN THOUSANDS)	
Investment grade(1).....	\$ 99,725	47.9%
Implied investment grade (2).....	19,719	9.5%
Non-investment grade.....	34,702	16.7%
Unrated.....	53,818	25.9%
	-----	-----
	\$207,964	100.0%
	=====	=====

EXPLANATORY NOTES:

- -----

- (1) A tenant's credit rating is considered "Investment Grade" if it has a published senior unsecured credit rating of Baa3/BBB- or above by one or more of the three national rating agencies.
- (2) A tenant's credit rating is considered "Implied Investment Grade" if it has no published ratings, but has credit characteristics that the Company believes warrant an investment grade senior unsecured credit rating. Examples at December 31, 2000 include Cisco Systems, Inc., and Electronic Data Systems.
- (3) Reflects actual annualized monthly base lease rates in effect at December 31, 2000 (without giving affect to straight-line adjustments under GAAP).

PORTFOLIO AND ASSET MANAGEMENT STRATEGY. The Company believes that diligent management of the CTL portfolio is an essential component of its long-term strategy. There are several ways to optimize the performance and maximize the value of net leases. The Company monitors its portfolio for changes that could affect the performance of the markets, credits and industries in which it has invested. As part of this monitoring, the Company's asset management group reviews market, customer and industry data and frequently inspects its facilities. In addition, the Company attempts to develop strong relationships with its large corporate customers, which provide a source of information concerning the customers' facilities needs. These relationships allow the Company to be proactive in obtaining early lease renewals and in conducting early marketing of assets where the customer has decided not to renew. The Company will seek to find a new tenant prior to the expiration of the existing lease.

As of December 31, 2000, the Company owned 142 office and industrial facilities principally subject to net leases to more than 160 customers, comprising 18.5 million square feet in 26 states. The Company also has a portfolio of 17 hotels under a long-term master lease with a single customer. Information regarding the Company's CTL assets as of December 31, 2000 is set forth below:

INDUSTRY	# OF FACILITES	% SQUARE FEET	% ANNUALIZED OPERATING LEASE PAYMENTS (1)	SIGNIFICANT CUSTOMERS
Technology.....	51	34.4%	37.0%	IBM, Cisco, Mitsubishi Electronics, Hewlett-Packard, Unisys, Lexmark, Microsoft
Telecommunications.....	16	9.1%	18.6%	Nokia, Verizon, Avaya, Alcatel Network, Nortel Networks, AT&T Wireless, ICG Holdings, Equinix
Other Industry Sectors.....	13	7.8%	4.7%	The Mitre Corp., Andersen Consulting, Allright Parking
Manufacturing.....	3	7.8%	3.2%	Nike, Adidas America, Inc., Mast Industries
Food and Related Services.....	20	7.6%	6.2%	Caterair, Ralphs Grocery Co., Unified Western Grocers, Welch Foods, Inc.
Energy and Utilities.....	8	4.7%	6.3%	Entergy Services, Exxon-Mobil, Bay State Gas
Automotive, Aerospace and Defense.....	9	6.4%	4.3%	Volkswagen of America, Unison Industries, Honeywell, TRW Space Communications
Hospitality.....	17	6.1%	7.2%	Hilton Hotels Corp.
Financial Services.....	9	5.7%	5.9%	Wellpoint Health Networks, Arbella Capital Corp., Blue Cross & Blue Shield, Wells Fargo
Consumer Goods.....	3	7.1%	2.3%	Sears Logistics, Rex Stores Corp., Dunham's Athleisure, Lever Brothers
Healthcare.....	5	1.4%	1.4%	Fresenius USA, Haemonetics Corp., Avitar
Transportation Services.....	4	1.3%	2.2%	Federal Express, State of California Dept. of Transportation
Government Services.....	1	0.6%	0.7%	Massachusetts Lottery
Total.....	159	100.0%	100.0%	

EXPLANATORY NOTE:

(1) Reflects actual annualized monthly base lease rates in effect at December 31, 2000 (without giving affect to straight-line adjustments under GAAP).

As of December 31, 2000, lease expirations on the Company's CTL assets, including facilities owned by the Company's joint ventures, are as follows:

YEAR OF LEASE EXPIRATION	NUMBER OF LEASES EXPIRING	ANNUALIZED OPERATING LEASE PAYMENTS (1)	PERCENT OF TOTAL
			ANNUAL OPERATING LEASE PAYMENTS REPRESENTED BY EXPIRING LEASES
(IN THOUSANDS)			
2001.....	22	\$ 11,018	5.3%
2002.....	27	12,139	5.9%
2003.....	19	19,622	9.4%
2004.....	28	25,797	12.4%
2005.....	15	13,551	6.5%
2006.....	22	26,350	12.7%
2007.....	14	17,740	8.5%
2008.....	8	8,565	4.1%
2009.....	10	12,740	6.1%
2010.....	6	9,259	4.5%
2011 and thereafter.....	25	51,183	24.6%
Total.....	196	\$207,964	100.0%

EXPLANATORY NOTE:

(1) Reflects actual annualized monthly base lease rates in effect at December 31, 2000 (without giving affect to straight-line adjustments under GAAP).

POLICIES WITH RESPECT TO OTHER ACTIVITIES

At all times, the Company intends to make investments in a manner consistent with the requirements of the Code for the Company to qualify as a REIT.

INVESTMENT RESTRICTIONS OR LIMITATIONS

The Company does not have any prescribed allocation among investments or product lines. Instead, the Company focuses on corporate and real estate credit underwriting to develop an in-depth analysis of the risk/reward ratios in determining the pricing and advisability of each particular transaction.

The Company believes that it is not, and intends to conduct its operations so as not to become, regulated as an investment company under the Investment Company Act. The Investment Company Act generally exempts entities that are "primarily engaged in purchasing or otherwise acquiring mortgages and other liens on and interests in real estate" (collectively, "Qualifying Interests"). The Company intends to rely on current interpretations by the staff of the Securities and Exchange Commission in an effort to qualify for this exemption. Based on these interpretations, the Company, among other things, must maintain at least 55% of its assets in Qualifying Interests and at least 25% of its assets in real estate-related assets (subject to reduction to the extent the Company invests more than 55% of its assets in Qualifying Interests). Generally, the Company's senior mortgages and certain of its subordinated mortgages constitute Qualifying Interests.

The Company is restricted from making certain types of investments which may limit its flexibility in implementing its investment policy. Specifically, without the amendment, termination or waiver of provisions of certain non-competition agreements between Starwood Capital Group, L.L.C. and Starwood Hotels & Resorts Worldwide, Inc., the Company is prohibited from: (1) making investments in loans collateralized by hotel assets where it is anticipated that the underlying equity will be acquired by the debtholder within one year from the acquisition of such debt; (2) acquiring equity interests in hotels (other than acquisitions of warrants, equity participations or similar rights incidental to a debt investment by the Company or that are acquired as a result of the exercise of remedies in respect to a loan in which the Company has an interest); or (3) selling, contributing to or acquiring any interests in Starwood Hotels &

Resorts Worldwide, Inc., including debt positions or equity interests obtained by the Company under, pursuant to or by reason of the Company's ownership of debt positions.

Subject to the limitations on ownership of certain types of assets and the gross income tests imposed by the Code, the Company also may invest in the securities of other REITs, other entities engaged in real estate activities or other issuers, including for the purpose of exercising control over such entities.

COMPETITION

The Company is engaged in a competitive business. In originating and acquiring assets, the Company competes with public and private companies, including other finance companies, mortgage banks, pension funds, savings and loan associations, insurance companies, institutional investors, investment banking firms and other lenders and industry participants, as well as individual investors. Existing industry participants and potential new entrants compete with the Company for the available supply of investments suitable for origination or acquisition, as well as for debt and equity capital. Certain of the Company's competitors are larger than the Company, have longer operating histories, may have access to greater capital and other resources, may have management personnel with more experience than the officers of the Company, and may have other advantages over the Company in conducting certain businesses and providing certain services.

REGULATION

The operations of the Company are subject, in certain instances, to supervision and regulation by state and federal governmental authorities and may be subject to various laws and judicial and administrative decisions imposing various requirements and restrictions, which, among other things: (1) regulate credit granting activities; (2) establish maximum interest rates, finance charges and other charges; (3) require disclosures to customers; (4) govern secured transactions; and (5) set collection, foreclosure, repossession and claims-handling procedures and other trade practices. Although most states do not regulate commercial finance, certain states impose limitations on interest rates and other charges and on certain collection practices and creditor remedies and require licensing of lenders and financiers and adequate disclosure of certain contract terms. The Company is also required to comply with certain provisions of the Equal Credit Opportunity Act that are applicable to commercial loans.

In the judgment of management, existing statutes and regulations have not had a material adverse effect on the business conducted by the Company. However, it is not possible to forecast the nature of future legislation, regulations, judicial decisions, orders or interpretations, nor their impact upon the future business, financial condition or results of operations or prospects of the Company.

The Company has elected and expects to continue to make an election to be taxed as a REIT under Section 856 through 860 of the Code. As a REIT, the Company generally will not be subject to federal income tax if it distributes at least 95% of its taxable income for each year to its shareholders. The distribution rate was modified to 90% by the REIT Modernization Act beginning in fiscal 2001. REITs are also subject to a number of organizational and operational requirements in order to elect and maintain REIT status. These requirements include specific share ownership tests and assets and gross income composition tests. If the Company fails to qualify as a REIT in any taxable year, the Company will be subject to federal income tax (including any applicable alternative minimum tax) on its taxable income at regular corporate tax rates. Even if the Company qualifies for taxation as a REIT, the Company may be subject to state and local income taxes and to federal income tax and excise tax on its undistributed income.

Although the Company did not qualify as a REIT for its fiscal years 1993 through 1997, it received a written agreement from the IRS confirming that the Company was eligible to make an election under Section 856(c)(1) of the Code to be taxed as a REIT for its taxable years beginning January 1, 1998, and the Company has made such elections.

FACTORS THAT MAY AFFECT THE COMPANY'S BUSINESS STRATEGY

The implementation of the Company's business strategy and investment policies are subject to certain risks, including the effect of economic and other conditions on underlying property values, the less liquid nature of some of its investments, the risks of borrower and corporate tenant defaults, risks resulting from delays in enforcing remedies or in gaining control over real estate collateral following a default, risks that the properties collateralizing debt instruments held by the Company or net lease assets owned by the Company will not generate revenues sufficient to meet operating expenses and to pay scheduled debt service, the risk that prepayment restrictions may be insufficient to deter prepayments, the existence of junior mortgages that may affect the Company's rights, liability associated with uninsurable losses and unknown environmental liabilities.

ENVIRONMENTAL MATTERS

Under various federal, state and local environmental laws, ordinances and regulations, a current or previous owner of real estate (including, in certain circumstances, a secured lender that succeeds to ownership or control of a property) may become liable for the costs of removal or remediation of certain hazardous or toxic substances at, on, under or in its property. Those laws typically impose cleanup responsibility and liability without regard to whether the owner or control party knew of or was responsible for the release or presence of such hazardous or toxic substances. The costs of investigation, remediation or removal of those substances may be substantial. The owner or control party of a site may be subject to common law claims by third parties based on damages and costs resulting from environmental contamination emanating from a site. Certain environmental laws also impose liability in connection with the handling of or exposure to asbestos-containing materials, pursuant to which third parties may seek recovery from owners of real properties for personal injuries associated with asbestos-containing materials. Absent succeeding to ownership or control of real property, a secured lender is not likely to be subject to any of these forms of environmental liability. The Company is not currently aware of any environmental issues which could materially affect the Company.

EMPLOYEES

As of March 15, 2001, the Company had 126 employees and believes its relationships with its employees to be good. The Company's employees are not represented by a collective bargaining agreement.

ITEM 2. PROPERTIES

The Company's principal executive and administrative offices are located at 1114 Avenue of the Americas New York, NY 10036, 27th floor. Its telephone number, general facsimile number and e-mail address are (212) 930-9400, (212) 930-9494 and istarfinancial.com, respectively. The lease for the Company's primary corporate office space expires in February 2010. The Company believes that this office space is suitable for its operations for the foreseeable future. The Company also maintains super-regional offices in San Francisco, California; Hartford, Connecticut; and Atlanta, Georgia, as well as regional offices in Boston, Massachusetts; Dallas, Texas; and Denver, Colorado.

See Item 1--"Corporate Tenant Leasing" for a discussion of real estate facilities held by the Company and its Leasing Subsidiary for investment purposes and Item 8--"Schedule III--Real Estate and Accumulated Depreciation" for a detailed listing of such facilities.

ITEM 3. LEGAL PROCEEDINGS

The Company is not a party to any material litigation or legal proceedings, or to the best of its knowledge, any threatened litigation or legal proceedings which, in the opinion of management, individually or in the aggregate, would have a material adverse effect on its results of operations or financial condition.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

There were no matters submitted to a vote of security holders during the fourth quarter of 2000.

PART II

ITEM 5. MARKET FOR REGISTRANT'S EQUITY AND RELATED SHARE MATTERS

In November 1999, the Company eliminated its dual class share structure by exchanging its outstanding class A and class B shares for shares of a single class of Common Stock. The Company's Common Stock began trading on the New York Stock Exchange ("NYSE") under the symbol "SFI" on November 4, 1999. Prior to November 4, 1999, the class A shares were traded on the American Stock Exchange under the symbol "APT," and there was no established trading market for the class B shares.

The high and low sales prices per share of Common Stock (or class A shares for periods prior to November 4, 1999) are set forth below for the periods indicated.

QUARTER ENDED -----	HIGH -----	LOW -----
1999		
March 31, 1999.....	\$63	\$42 1/2
June 30, 1999.....	\$66 1/2	\$31 5/8
September 30, 1999.....	\$76	\$27 7/8
December 31, 1999.....	\$27 5/8	\$16 11/16
2000		
March 31, 2000.....	\$18 3/4	\$16 5/8
June 30, 2000.....	\$20 15/16	\$17 3/8
September 30, 2000.....	\$22 7/16	\$20 1/4
December 31, 2000.....	\$21 5/8	\$19 1/16

On March 15, 2001, the closing sale price of the Common Stock as reported by the NYSE was \$24.01. The Company had approximately 1,267 holders of record of Common Stock as of March 15, 2001.

On June 12, 1998, the Frank Russell Company announced that the Company would be included in the Russell 1000 and Russell 3000 equity indices. From the time of the Company's inclusion in the Russell indices through the time of the announcement that the Company had agreed to acquire TriNet, the reported stock price of the Company was highly volatile, and its trading volume was relatively low due to the very limited number of shares available for trading at that time. Specifically, the Company believes that index funds that were required to mirror the Russell indices' performance purchased a large number of shares of the Company's Common Stock available in the public float. Those purchases, combined with the limited availability of the shares at that time, resulted in a dramatic increase in the "market" price for the common stock shortly after the June 12 announcement.

At December 31, 2000, the Company had four series of preferred stock outstanding: Series A Preferred Stock (which currently pays dividends at the rate of 9.50% per annum), 9.375% Series B Preferred Stock, 9.20% Series C Preferred Stock and 8.00% Series D Preferred Stock. Each of the Series B, C and D preferred stock was issued in connection with the acquisition of TriNet and is publicly traded.

The Board of Directors approved, and the Company has implemented, a stock repurchase program under which the Company is authorized to repurchase up to 5.0 million shares of its Common Stock from time to time, primarily using proceeds from the disposition of assets and excess cash flow from operations, but also using borrowings under its credit facilities if the Company determines that it is advantageous to do so. As of December 31, 2000, the Company had repurchased approximately 2.3 million shares at an aggregate cost of approximately \$40.7 million.

DIVIDENDS

The Company's management expects that any taxable income remaining after the distribution of preferred dividends and the regular quarterly or other dividends on its Common Stock will be distributed

annually to the holders of the Common Stock on or prior to the date of the first regular quarterly dividend payment date of the following taxable year. The dividend policy with respect to the Common Stock is subject to revision by the Board of Directors. All distributions in excess of dividends on preferred stock or those required for the Company to maintain its REIT status will be made by the Company at the sole discretion of the Board of Directors and will depend on the taxable earnings of the Company, the financial condition of the Company, and such other factors as the Board of Directors deems relevant. The Board of Directors has not established any minimum distribution level. In order to maintain its qualifications as a REIT, the Company intends to make regular quarterly dividends to its shareholders that, on an annual basis, will represent at least 90% of its taxable income (which may not necessarily equal net income as calculated in accordance with generally accepted accounting principles), determined without regard to the deduction for dividends paid and excluding any net capital gains.

Holders of Common Stock will be entitled to receive distributions if, as and when the Board of Directors authorizes and declares distributions. However, rights to distributions may be subordinated to the rights of holders of preferred stock, when preferred stock is issued and outstanding. In any liquidation, dissolution or winding up of the Company, each outstanding share of Common Stock will entitle its holder to a proportionate share of the assets that remain after the Company pays its liabilities and any preferential distributions owed to preferred shareholders.

The following table sets forth the dividends paid or declared by the Company on its Common Stock (or class A shares for periods prior to November 4, 1999):

QUARTERLY PERIOD ENDED -----	STOCKHOLDER RECORD DATE -----	DIVIDEND/ SHARE -----
1999		
March 31, 1999.....	April 15, 1999	\$0.42
June 30, 1999.....	July 15, 1999	\$0.43
September 30, 1999.....	October 15, 1999	\$0.44
December 31, 1999.....	December 31, 1999	\$0.57(1)
2000		
March 31, 2000.....	April 14, 2000	\$0.60
June 30, 2000.....	July 17, 2000	\$0.60
September 30, 2000.....	October 16, 2000	\$0.60
December 31, 2000.....	December 29, 2000	\$0.60(2)

EXPLANATORY NOTES:

- (1) A portion of this quarterly dividend (approximately \$0.47 per share) was treated as income to shareholders of record in 1999, and the remainder was treated as 2000 income.
- (2) A portion of this quarterly dividend (approximately \$0.5976 per share) was treated as income to stockholders of record in 2000, and the remainder will be treated as 2001 income.

In November 1999, the Company declared and paid a dividend of a total of one million shares of Common Stock pro rata to all holders of record of Common Stock as of the close of business on November 3, 1999. The Company also declared dividends aggregating \$20.9 million for the Series A preferred stock, which was outstanding for the entire year ended December 31, 1999. In addition, the Company declared dividends of \$1.2 million, \$0.7 million and \$2.0 million on its Series B, C and D preferred stock, respectively, for the year ended December 31, 1999. The amounts for the Series B, C and D preferred stock for 1999 represent only dividends for the fourth quarter of that year which were payable by the Company as a result of its acquisition of TriNet. Further, it declared and paid dividends aggregating \$0.2 million per quarter to the holders of class B shares in connection with the March 31, 1999, June 30, 1999 and September 30, 1999 quarterly dividends to the holders of the class A shares. As previously described, the former class A and class B shares were converted into a single class of shares of Common Stock on November 4, 1999.

The Company declared dividends aggregating \$20.9 million, \$4.7 million, \$3.0 million and \$8.0 million, respectively, on its Series A, B, C and D preferred stock, respectively, for the year ended December 31, 2000. There are no dividend arrearages on any of the preferred shares currently outstanding.

Distributions to shareholders will generally be taxable as ordinary income, although a portion of such dividends may be designated by the Company as capital gain or may constitute a tax-free return of capital. The Company annually furnishes to each of its shareholders a statement setting forth the distributions paid during the preceding year and their characterization as ordinary income, capital gain or return of capital.

The Company intends to continue to declare quarterly distributions on its Common Stock. No assurance, however, can be given as to the amounts or timing of future distributions, as such distributions are subject to the Company's earnings, financial condition, capital requirements and such other factors as the Company's Board of Directors deems relevant.

ITEM 6. SELECTED FINANCIAL DATA

The following table sets forth selected financial data on a consolidated historical basis for the Company. However, prior to the recapitalization of the Company in March 1998, discussed more fully in Note 4 to the Company's Consolidated Financial Statements (the "Recapitalization Transactions"), the Company did not have substantial capital resources or operations. Prior to the Recapitalization Transactions, the Company's structured finance operations were conducted by two investment partnerships affiliated with Starwood Capital Group, L.L.C., which contributed substantially all their structured finance assets to the Company in the Recapitalization Transactions in exchange for cash and shares of the Company.

Further, on November 4, 1999, as more fully discussed in Note 4 to the Company's Consolidated Financial Statements, the Company acquired TriNet, which increased the size of the Company's operations, and also acquired its external advisor. Operating results for the year ended December 31, 1999 reflect only the effects of these transactions subsequent to their consummation.

Accordingly, the historical balance sheet information as of and prior to December 31, 1998, as well as the results of operations for the Company for all periods prior to and including the year ended December 31, 1999, do not reflect the current operations of the Company as a well capitalized, internally-managed finance company operating in the commercial real estate industry. For these reasons, the Company believes that the information contained in the following tables relating to the 1996 and 1997 periods is not indicative of the Company's current business and should be read in conjunction with the discussions set forth in Item 7--"Management's Discussion and Analysis of Financial Condition and Results of Operations."

YEARS ENDED DECEMBER 31,

	2000	1999	1998	1997	1996
(IN THOUSANDS, EXCEPT PER SHARE DATA)					
OPERATING DATA:					
Interest income.....	\$ 268,011	\$ 209,848	\$ 112,914	\$ 896	\$ 478
Operating lease income.....	185,956	42,186	12,378	--	--
Other income.....	17,855	12,763	2,804	991	10
Total revenue.....	471,822	264,797	128,096	1,887	488
Interest expense.....	173,891	91,184	44,697	--	272
Operating costs-corporate tenant lease assets.....	12,809	2,246	--	--	--
Depreciation and amortization.....	34,514	10,340	4,287	--	--
General and administrative.....	25,706	6,269	2,583	461	639
Provision for possible credit losses.....	6,500	4,750	2,750	--	--
Stock option compensation expense(1).....	2,864	412	5,985	--	--
Advisory fees.....	--	16,193	7,837	--	--
Costs incurred in acquiring external advisor(2).....	--	94,476	--	--	--
Total expenses.....	256,284	225,870	68,139	461	911
Income (loss) before minority interest.....	215,538	38,927	59,957	1,426	(423)
Minority interest in consolidated entities(3).....	(195)	(41)	(54)	(1,415)	(154)
Gain on sale of corporate tenant lease assets.....	2,948	--	--	--	--
Extraordinary loss on early extinguishment of debt.....	(705)	--	--	--	--
Net income (loss).....	\$ 217,586	\$ 38,886	\$ 59,903	\$ 11	\$ (577)
Preferred dividend requirements.....	(36,908)	(23,843)	(944)	--	--
Net income allocable to common shareholders.....	\$ 180,678	\$ 15,043	\$ 58,959	\$ 11	\$ (577)
Basic earnings (loss) per common share(4).....	\$ 2.11	\$ 0.25	\$ 1.40	\$ 0.01	\$ (1.36)
Diluted earnings (loss) per common share.....	\$ 2.10	\$ 0.25	\$ 1.36	\$ 0.00	\$ (1.36)
Dividends declared per common share(9).....	\$ 2.40	\$ 1.86	\$ 1.14	\$ 0.00	\$ 0.00
SUPPLEMENTAL DATA:					
Dividends declared on preferred shares.....	\$ 36,576	\$ 24,819	\$ 929	\$ --	\$ --
Dividends declared on common shares.....	205,477	116,813	60,343	--	--
Adjusted earnings allocable to common shareholders(5)....	230,688	127,798	66,615	11	(577)
Adjusted earnings per common share--basic.....	2.69	2.19	1.59	0.01	(1.36)
Adjusted earnings per common share--diluted.....	2.67	2.07	1.53	0.00	(1.36)
Cash flows from:					
Operating activities.....	192,469	122,549	54,915	1,271	(227)
Investing activities.....	(176,652)	(143,911)	(1,271,309)	(6,013)	(522)
Financing activities.....	(27,473)	45,660	1,226,208	4,924	--
EBITDA.....	423,943	251,120	116,778	--	--
Ratio of EBITDA to interest expense(6).....	2.44x	1.54x	2.44x	--	--
Ratio of EBITDA to combined fixed charges(7).....	2.01x	1.22x	2.39x	--	--
Weighted average common shares outstanding--basic(8)....	85,441	57,749	41,607	1,258	425
Weighted average common shares outstanding--diluted(8).....	86,151	60,393	43,460	2,562	425
BALANCE SHEET DATA:					
Loans and other lending investments, net.....	\$ 2,225,183	\$ 2,003,506	\$ 1,823,761	\$ --	\$ --
Real estate subject to operating leases, net.....	1,670,169	1,714,284	189,942	--	--
Total assets.....	4,034,775	3,813,552	2,059,616	13,441	5,674
Debt obligations.....	2,131,967	1,901,204	1,055,719	--	--
Minority interest in consolidated entities(3).....	6,224	2,565	--	5,175	3,917
Shareholders' equity.....	1,787,885	1,801,343	970,728	6,351	1,578
SUPPLEMENTAL DATA:					
Total debt to shareholders' equity.....	1.2x	1.1x	1.1x	--	--

EXPLANATORY NOTES:

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- (1) Historical stock option expense represents the option value of approximately 2.5 million fully-vested options to acquire class A shares which were issued to the Company's external advisor upon consummation of the March 18, 1998 recapitalization of the Company. A portion of those options were then regranted to employees of the advisor subject to vesting periods which were typically three years from the date of grant. The remainder of those options were regranted on a fully-vested basis to an affiliate of Starwood Capital Group L.L.C., which then further regranted those options to certain of its employees subject to vesting restrictions.
 - (2) As more fully discussed in Note 4 to the Company's Consolidated Financial Statements, this amount represents a non-recurring, non-cash charge of approximately \$94.5 million relating to the acquisition of the Company's external advisor.
 - (3) Historical minority interest for the Company for fiscal 1998, 1997 and 1996 represents a minority interest in APMT Limited Partnership which was converted into class A shares on March 18, 1998, the date the partnership was liquidated and terminated. Minority interests in fiscal 1999 reflects minority interests in certain of the Leasing Subsidiary's consolidated ventures. Minority interests in fiscal 2000 also reflects minority interests in certain of the Leasing Subsidiary's and the Parent's consolidated ventures.
 - (4) Earnings per common share excludes 1% of net income allocable to the Company's class B shares prior to November 4, 1999. The class B shares were exchanged for Common Stock in connection with the acquisition of TriNet and other related transactions on November 4, 1999. As a result, the Company now has a single class of Common Stock outstanding.
 - (5) Adjusted earnings represent GAAP net income before depreciation and amortization and, for the year ended December 31, 1999, exclude the non-recurring, non-cash cost incurred in acquiring the Company's external advisor (see Note 4 to the Company's Consolidated Financial Statements).
 - (6) The 1999 and 1998 EBITDA to interest expense ratios on a pro forma basis would have been 2.83x and 2.84x, respectively (see Note 4).
 - (7) Combined fixed charges are comprised of interest expense, capitalized interest, amortization of loan costs and preferred stock dividend requirements. The 1999 and 1998 EBITDA to combined fixed charges ratios on a pro forma basis would have been 2.23x and 2.44x, respectively.
 - (8) As adjusted for one-for-six reverse stock split effected by the Company on June 19, 1998.
 - (9) The Company generally declares common and preferred dividends in the month subsequent to the end of the quarter.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

GENERAL

As more fully discussed in Note 4 to the Company's Consolidated Financial Statements, on March 18, 1998, the Company completed the Recapitalization Transactions which, among other things, substantially recapitalized the Company and modified its investment policy. Effective June 18, 1998, the Company (which was organized under California law) changed its domicile to Maryland by merging with a newly-formed subsidiary organized under Maryland law, and issued new shares of the subsidiary to the Company's shareholders in exchange for their shares in the Company. Concurrently, the Company consummated a one-for-six reverse stock split.

Immediately prior to the consummation of the Recapitalization Transactions, the Company's assets primarily consisted of approximately \$11.0 million in short-term, liquid real estate investments, cash and cash equivalents.

On December 15, 1998, the Company sold \$220.0 million of preferred shares and warrants to purchase class A shares to a group of investors affiliated with Lazard Freres. Concurrent with the sale of the preferred shares and warrants, the Company purchased \$280.3 million in real estate loans and participation interests from a group of investors also affiliated with Lazard Freres. These transactions are referred to collectively as the "Lazard Transaction."

As more fully discussed in Note 4 to the Company's Consolidated Financial Statements, on November 3, 1999, the Company's shareholders approved a series of transactions including: (1) the acquisition of TriNet; (2) the acquisition of the Company's external advisor; and (3) the reorganization of the Company from a trust to a corporation and the exchange of the class A and class B shares for Common Stock. Pursuant to the TriNet acquisition, TriNet merged with and into a subsidiary of the Company, with TriNet surviving as a wholly-owned subsidiary of the Company. In the acquisition, each share of common stock of TriNet was converted into 1.15 shares of Common Stock. Each share of TriNet Series A, Series B and Series C Cumulative Redeemable Preferred Stock was converted into a share of Series B, Series C or Series D (respectively) Cumulative Redeemable Preferred Stock of the Company. The Company's preferred stock issued to the former TriNet preferred shareholders has substantially the same terms as the TriNet preferred stock, except that the new Series B, C and D preferred shares have additional voting rights not associated with the TriNet preferred stock. The Company's Series A Preferred Stock remained outstanding with the same rights and preferences as existed prior to the TriNet acquisition. As a consequence of the acquisition of its external advisor, the Company is now internally-managed and no longer pays external advisory fees.

The transactions described above and other related transactions have materially impacted the historical operations of the Company. Accordingly, the reported historical financial information for periods prior to these transactions is not believed to be fully indicative of the Company's future operating results or financial condition.

RESULTS OF OPERATIONS

YEAR ENDED DECEMBER 31, 2000 COMPARED TO YEAR ENDED DECEMBER 31, 1999

INTEREST INCOME--Interest income increased to approximately \$268.0 million for the year ended December 31, 2000 from approximately \$209.8 million for the same period in 1999. This increase is a result of the interest generated by \$721.2 million of newly-originated loan investments during fiscal 2000 and an additional \$56.0 million funded under existing loan commitments. The increase was partially offset by a reduction in interest earned as a result of principal repayments of approximately \$584.5 million made to the Company on its loan investments during the year ended December 31, 2000. In addition, the increase was in part due to higher average interest rates on the Company's variable-rate loans and other lending investments.

OPERATING LEASE INCOME--Operating lease income increased to approximately \$186.0 million for the year ended December 31, 2000 from approximately \$42.2 million for the same period in 1999.

Approximately \$134.2 million of this increase is attributable to operating lease income generated from corporate tenant lease assets acquired in the acquisition of TriNet, which were included in operations for the entire year in fiscal 2000 as compared to only approximately two months in fiscal 1999. In addition, approximately \$5.4 million resulted from income generated by \$128.4 million of new corporate tenant lease investments.

OTHER INCOME--Included in other income for fiscal year 2000 are prepayment fees of approximately \$7.9 million resulting from the full or partial repayments of several loans, recognition of \$2.1 million in connection with loan defeasances, a forbearance fee of \$1.1 million resulting from the purchase of a sub-performing loan and subsequent restructuring of such loan to fully performing status, a prepayment penalty of approximately \$1.2 million resulting from the refinancing of a senior mortgage and corporate loan, and approximately \$1.4 million resulting from the repayment of a senior loan held at a discount upon the conversion of such loan to a corporate tenant lease holding pursuant to a purchase option granted to the Company in connection with its original investment in the asset.

INTEREST EXPENSE--The Company's interest expense increased by \$82.7 million for the year ended December 31, 2000 over the same period in the prior year. Approximately \$44.1 million of this increase is attributable to interest expense incurred by the Leasing Subsidiary subsequent to its acquisition, which was included in operations for the entire year in fiscal 2000 as compared to only approximately two months in 1999. In addition, the increase was in part due to higher average aggregate borrowings by the Company on its credit facilities, other term loans and secured notes, the proceeds of which were used to fund additional investments. The increase was also attributable to higher average interest rates on the Company's variable-rate debt obligations.

OPERATING COSTS-CORPORATE TENANT LEASE ASSETS--For the year ended December 31, 2000, operating costs associated with corporate tenant lease assets increased by approximately \$10.6 million to approximately \$12.8 million, net of recoveries from tenants. Such operating costs represent unreimbursed operating expenses associated with corporate tenant lease assets. This increase is primarily attributable to operating costs generated from corporate tenant lease assets acquired in the acquisition of TriNet, which were included in operations for the entire year in fiscal 2000 as compared to only approximately two months in 1999.

DEPRECIATION AND AMORTIZATION--Depreciation and amortization increased by approximately \$24.2 million to \$34.5 million for the year ended December 31, 2000 over the same period in the prior year. Approximately \$24.0 million of this increase is attributable to depreciation and amortization relating to the corporate tenant lease assets acquired in the acquisition of TriNet, which were included in operations for the entire year in fiscal 2000 as compared to only approximately two months in 1999.

GENERAL AND ADMINISTRATIVE--The Company's general and administrative expenses during the year ended December 31, 2000 increased by approximately \$19.4 million to \$25.7 million compared to the same period in 1999. These increases were generally the result of the increased scope of the Company's operations associated with the acquisition of TriNet and the direct overhead costs associated with the Company's former external advisor, which impacted operations for the entire year in fiscal 2000 as compared to only approximately two months in 1999.

PROVISION FOR POSSIBLE CREDIT LOSSES--The Company's charge for provision for possible credit losses increased to \$6.5 million from \$4.8 million as a result of expanded lending operations as well as additional seasoning of the Company's existing lending portfolio. As more fully discussed in Note 5 to the Company's Consolidated Financial Statements, the Company has not realized any actual losses on any of its loan investments to date. However, the Company has considered it prudent to establish a policy of providing reserves for potential losses in the current portfolio which may occur in the future. Accordingly, since its first full quarter as a public company (the quarter ended June 30, 1998), management has reflected quarterly provisions for possible credit losses in its operating results. The Company will continue to recognize quarterly provisions until a stabilized reserve level is attained.

STOCK OPTION COMPENSATION EXPENSE--Stock compensation expense increased by approximately \$2.5 million as a result of charges relating to grants of stock options to the Company's employees, including amortization of the deferred charge related to options granted to employees of the Company's former external advisor subsequent to such personnel becoming direct employees of the Company as of November 4, 1999.

ADVISORY FEES--There were no advisory fees during the year ended December 31, 2000 because, subsequent to the acquisition of the Company's external advisor, the Company is now internally-managed. No further advisory fees will be incurred.

COSTS INCURRED IN ACQUIRING EXTERNAL ADVISOR--As more fully discussed in Note 4 to the Company's Consolidated Financial Statements, included in fiscal 1999 costs and expenses is a non-recurring, non-cash charge of approximately \$94.5 million relating to the acquisition of the Company's external advisor.

GAIN ON SALE OF CORPORATE TENANT LEASE ASSETS--During the year ended 2000, the Company disposed of 14 corporate tenant lease assets, including six assets held in joint venture partnerships, for a total of \$256.7 million in proceeds, and recognized total gains of \$2.9 million.

EXTRAORDINARY LOSS ON EARLY EXTINGUISHMENT OF DEBT--Certain of the proceeds from an asset disposition were used to partially repay \$8.1 million of a mortgage loan. In connection with this partial paydown, the Company incurred prepayment penalties, which resulted in an extraordinary loss of \$317,000 during the first quarter of 2000. Additionally, proceeds from a joint venture asset disposition were used to repay the third-party debt of the joint venture of \$16.4 million. In connection with this paydown, the venture incurred certain prepayment penalties, which resulted in an extraordinary loss to the Company of \$388,000 during the third quarter of 2000. There were no comparable early extinguishments of debt during the year ended December 31, 1999, including by the Leasing Subsidiary after its acquisition on November 4, 1999.

YEAR ENDED DECEMBER 31, 1999 COMPARED TO YEAR ENDED DECEMBER 31, 1998

INTEREST INCOME--During fiscal year 1999, interest income increased by approximately \$96.9 million over interest income for fiscal year 1998. This increase is a result of the interest generated by the loans and other investments contributed in the Recapitalization Transactions, as well as approximately \$663.4 million of loans and other lending investments newly-originated or acquired by the Company during 1999 and an additional \$46.4 million funded under existing commitments. The increase was partially offset by principal repayments of approximately \$561.9 million made to the Company during fiscal year 1999.

OPERATING LEASE INCOME--Operating lease income increased by \$29.8 million from fiscal year 1998 to fiscal year 1999 due to approximately \$26.8 million in operating lease income generated from corporate tenant lease assets acquired in the acquisition of TriNet.

OTHER INCOME--Included in other income for fiscal year 1999 is a fee associated with the repayment of a construction loan of approximately \$1.9 million, yield maintenance payments of approximately \$8.1 million resulting from the repayment of three loans, and approximately \$1.0 million in additional revenue from certain cash flow participation features on five of the Company's loan investments.

INTEREST EXPENSE--The Company's interest expense increased by \$46.5 million as a result of higher average borrowings by the Company on its credit facilities and other term loans, the proceeds of which were used to fund additional loan origination and acquisition activities. The increase was also attributable to higher average interest rates on the Company's variable-rate debt obligations. Further, interest expense includes interest incurred by the Leasing Subsidiary subsequent to its acquisition.

OPERATING COSTS-CORPORATE TENANT LEASE ASSETS--Such operating costs represent unreimbursed operating expenses incurred by the Leasing Subsidiary subsequent to its acquisition.

DEPRECIATION AND AMORTIZATION--Depreciation and amortization increased as a result of a full year's depreciation on the Company's pre-existing corporate tenant leasing portfolio, as well as depreciation on the Leasing Subsidiary's net leased assets subsequent to its acquisition.

GENERAL AND ADMINISTRATIVE--General and administrative costs increased by approximately \$3.7 million as a result of additional costs incurred subsequent to the acquisition of the Company's external advisor, as well as additional administrative expenses associated with the Leasing Subsidiary subsequent to its acquisition.

PROVISION FOR POSSIBLE CREDIT LOSSES--The Company's charge for provision for possible credit losses increased by approximately \$2.0 million as a result of expanded lending operations as well as additional seasoning of the Company's existing lending portfolio. As more fully discussed in Note 5 to the Company's Consolidated Financial Statements, the Company has not realized any actual losses on any of its loan investments to date. However, the Company has considered it prudent to establish a policy of providing reserves for potential losses in the current portfolio which may occur in the future. Accordingly, since its first full quarter as a public company (the quarter ended June 30, 1998), management has reflected quarterly provisions for possible credit losses in its operating results. The Company will continue to recognize quarterly provisions until a stabilized reserve level is attained.

STOCK OPTION COMPENSATION EXPENSE--Stock option compensation expense declined by approximately \$5.6 million as a result of the non-recurring charge relating to the original grant of stock options to the Company's external advisor in fiscal 1998 concurrently with the consummation of the Recapitalization Transactions.

ADVISORY FEES--Base advisory fees increased by approximately \$5.3 million as a result of fees being incurred from June 16, 1999 through year end in the prior year and through November 4, 1999 in fiscal 1999. Further, as a result of the Company's expanded operations, incentive fees paid under the prior advisory contract increased from \$2.3 million in 1998 to \$5.4 million in 1999. Subsequent to the acquisition of the Company's external advisor, the Company is now internally-managed and no further advisory fees will be incurred.

COSTS INCURRED IN ACQUIRING EXTERNAL ADVISOR--Finally, as more fully discussed in Note 4 to the Company's Consolidated Financial Statements, included in fiscal 1999 costs and expenses is a non-recurring, non-cash charge of approximately \$94.5 million relating to the acquisition of the Company's external advisor.

LIQUIDITY AND CAPITAL RESOURCES

The Company requires capital to fund its investment activities and operating expenses. The Company has significant access to capital resources to fund its existing business plan, which includes the expansion of its real estate lending and corporate tenant leasing businesses. The Company's capital sources include cash flow from operations, borrowings under lines of credit, additional term borrowings, long-term financing secured by the Company's assets, unsecured financing and the issuance of common, convertible and /or preferred equity securities. Further, the Company may acquire other businesses or assets using its capital stock, cash or a combination thereof.

The distribution requirements under the REIT provisions of the Code limit the Company's ability to retain earnings and thereby replenish capital committed to its operations. However, the Company believes that its significant capital resources and access to financing will provide it with financial flexibility and market responsiveness at levels sufficient to meet current and anticipated capital requirements, including expected new lending and leasing transactions.

The Company's ability to meet its long-term (i.e., beyond one year) liquidity requirements is subject to the renewal of its credit lines and /or obtaining other sources of financing, including issuing additional debt or equity from time to time. Any decision by the Company's lenders and investors to enter into such transactions with the Company will depend upon a number of factors, such as compliance with the terms of its existing credit arrangements, the Company's financial performance, industry or market trends, the general availability of and rates applicable to financing transactions, such lenders' and investors' resources and policies concerning the terms under which they make such capital commitments and the relative attractiveness of alternative investment or lending opportunities.

Based on its monthly interest and other expenses, monthly cash receipts, existing investment commitments and funding plans, the Company believes that its existing sources of funds will be adequate for purposes of meeting its short- and long-term liquidity needs. Material increases in monthly interest expense or material decreases in monthly cash receipts would negatively impact the Company's liquidity. On the other hand, material decreases in monthly interest expense would positively affect the Company's liquidity.

As more fully discussed in Note 7 to the Company's Consolidated Financial Statements, at December 31, 2000, the Company had existing fixed-rate borrowings of approximately \$150.7 million secured by real estate under operating leases which mature in 2009, an aggregate of approximately \$162.1 million in LIBOR-based, variable-rate loans secured by various senior and subordinate mortgage investments and real estate under operating leases which mature between fiscal 2001 and 2003, fixed-rate corporate debt obligations aggregating approximately \$356.5 million which mature between 2001 and 2017, and other variable- and fixed-rate secured debt obligations aggregating approximately \$108.6 million which mature at various dates through 2010.

In addition, the Company has entered into LIBOR-based secured revolving credit facilities of \$700.0 and \$500.0 million which expire in fiscal 2005 and 2002, respectively. As of December 31, 2000, the Company had drawn approximately \$284.4 million and \$308.0 million under these facilities, respectively. Availability under these facilities is based on collateral provided under a borrowing base calculation. The Company also has two unsecured credit facilities totaling \$450.0 million. The \$100.0 million facility had no outstanding balance as of December 31, 2000, matures in January 2002 and bears interest at LIBOR plus 2.25%. In addition, the Leasing Subsidiary's \$350.0 million unsecured credit facility had a balance of \$173.5 million as of December 31, 2000, matures on May 31, 2001 with a one-year extension period at the Company's option and bears interest at LIBOR plus 1.55%. Under the terms of the this facility, the Leasing Subsidiary is generally permitted to make cash distributions to the Company in an amount equal to 85% of cash flow from operations in any rolling four-quarter period. Subsequent to year end, the Company extended the term of this facility to May 2002.

The Company has entered into LIBOR interest rate caps struck at 9.00%, 7.50% and 7.50% in notional amounts of \$300.0 million, \$40.4 million and \$38.3 million, respectively, which expire in March 2001, January 2001 and June 2001, respectively. In addition, in connection with the acquisition of TriNet, the Company acquired LIBOR interest rate caps currently struck at 7.75%, 7.75% and 7.50% in notional amounts of \$75.0 million, \$35.0 million and \$75.0 million, respectively, which expire in December 2004, December 2004 and June 2001, respectively. In connection with the closing of STARS, Series 2000-1 in May 2000, the Company entered into a LIBOR interest rate cap struck at 10.00% in the notional amount of \$312.0 million, and simultaneously sold a LIBOR interest rate cap with the same terms. Since these instruments do not reduce the Company's net interest rate risk exposure, they do not qualify as hedges and changes in their respective values are charged to earnings. As the significant terms of these arrangements are substantially the same, the effects of a revaluation of these two instruments are expected to substantially offset one another. At December 31, 2000, the net fair value of the Company's interest rate caps was approximately \$0.4 million.

The Company has entered into LIBOR interest rate swaps struck at 5.714%, 7.055% and 7.058% in notional amounts of \$92.0 million, \$125.0 million and \$125.0 million, respectively which expire in March 2001, June 2003 and June 2003, respectively. These swaps effectively fix the interest rate on a portion of the Company's floating-rate term loan obligations. In connection with the acquisition of TriNet, the Company acquired an interest rate swap which, together with certain existing interest rate cap agreements, effectively fix the interest rate on \$75.0 million of the Leasing Subsidiary's LIBOR-based borrowings at 5.58% plus the applicable margin through December 1, 2004. Management expects that it will have aggregate LIBOR-based borrowings at the Leasing Subsidiary in excess of the notional amount for the duration of the swap. The actual borrowing cost to the Company with respect to indebtedness covered by the swap will depend upon the applicable margin over LIBOR for such indebtedness, which will be determined by the terms of the relevant debt instruments. In June 2000, an interest rate swap with a

notional amount of approximately \$112.0 million matured. At December 31, 2000, the fair value (liability) of the Company's interest rate swaps was (\$7.7) million.

During the year ended December 31, 1999, the Company settled an aggregate notional amount of approximately \$63.0 million that was outstanding under certain hedging agreements which the Company had entered into in order to hedge the potential effects of interest rate movements on anticipated fixed-rate borrowings. The settlement of such agreements resulted in the receipt of approximately \$0.6 million which had been deferred pending completion of the planned fixed-rate financing transaction. Subsequently, the transaction was modified and consummated as a variable-rate financing transaction. As a result, the previously deferred receipt no longer qualified for hedge accounting treatment and the \$0.6 million was recognized as a gain and included in other income in the consolidated statement of operations for the year ended December 31, 2000.

During the year ended December 31, 1999, the Company refinanced its \$125.0 million term loan maturing March 15, 1999 with a \$155.4 million term loan maturing March 5, 2009. The new term loan bears interest at 7.44% per annum, payable monthly, and amortizes over an approximately 22-year schedule. The new term loan represented forecasted transactions for which the Company had previously entered into U.S. Treasury-based hedging transactions. The net \$3.4 million cost of the settlement of such hedges has been deferred and is being amortized as an increase to the effective financing costs of the new term loan over its effective ten-year term.

On May 17, 2000, the Company closed the inaugural offering under its proprietary matched funding program, STARS, Series 2000-1. In the initial transaction, a wholly-owned subsidiary of the Company issued \$896.5 million of investment grade bonds secured by the subsidiary's assets, which had an aggregate outstanding principal balance of approximately \$1.2 billion at inception. Principal payments received on the assets will be utilized to repay the most senior class of the bonds then outstanding. The maturity of the bonds match funds the maturity of the underlying assets financed under the program. The Company initially purchased the class F bonds at a par value of \$38.2 million, which the Company financed with a \$27.8 million repurchase agreement maturing in May 2001, which has a balance of \$24.2 million at December 31, 2000. On July 17, 2000, the Company sold, at par, \$5.0 million of the class F bonds to an institutional investor. For accounting purposes, these transactions were treated as secured financings.

On December 28, 2000, the Company expanded its existing \$675.0 million secured warehouse facility to \$700.0 million. The Company extended the original March 2001 maturity date to March 2005, including a one-year "term out" extension option to the facility's maturity during which the interest rate spread will increase 25 basis points, no additional draws under the facility will be permitted, and the outstanding principal must amortize 25% per quarter. In connection with the extension, the Company and the facility lender also increased the range of collateral eligible for inclusion in the facility. Also in connection with the extension, the Company agreed to increase the facility's interest rate from LIBOR plus 1.50% to a revised rate of LIBOR plus 1.75% to 2.25%, depending upon certain conditions.

On January 11, 2001, the Company closed a new \$700.0 million secured revolving credit facility which is led by a major commercial bank. The new facility has a three-year primary term and one-year "term out" extension option, and bears interest at LIBOR plus 1.40% to 2.15%, depending upon the collateral contributed to the borrowing base. The new facility accepts a broad range of structured finance assets and has a final maturity of January 2005.

STOCK REPURCHASE PROGRAM: The Board of Directors approved, and the Company has implemented, a stock repurchase program under which the Company is authorized to repurchase up to 5.0 million shares of its Common Stock from time to time, primarily using proceeds from the disposition of assets and excess cash flow from operations, but also using borrowings under its credit facilities if the Company determines that it is advantageous to do so. As of December 31, 2000, the Company had repurchased approximately 2.3 million shares at an aggregate cost of approximately \$40.7 million.

ADJUSTED EARNINGS

Adjusted earnings represents net income computed in accordance with GAAP, before gains (losses) on sales of corporate tenant lease assets, extraordinary items and cumulative effect, plus depreciation and amortization, less preferred stock dividends, and after adjustments for unconsolidated partnerships and joint ventures. Adjustments for unconsolidated partnerships and joint ventures are calculated to reflect adjusted earnings on the same basis.

The Company believes that to facilitate a clear understanding of the historical operating results of the Company, adjusted earnings should be examined in conjunction with net income as shown in the Consolidated Statements of Operations. Adjusted earnings should not be considered as an alternative to net income (determined in accordance with GAAP) as an indicator of the Company's performance, or to cash flows from operating activities (determined in accordance with GAAP) as a measure of the Company's liquidity, nor is it indicative of funds available to fund the Company's cash needs.

	FOR THE YEAR ENDED DECEMBER 31,	
	2000	1999
	(IN THOUSANDS, EXCEPT PER SHARE DATA) (UNAUDITED)	
Adjusted earnings:		
Net income.....	\$217,586	\$ 38,886
Add: Depreciation.....	34,514	11,016
Add: Joint venture depreciation.....	3,662	365
Add: Amortization.....	13,140	6,121
Add: Costs incurred in acquiring external advisor.....	--	94,476
Less: Preferred dividends.....	(36,908)	(23,843)
Less: Net income allocable to class B shares(1).....	--	(826)
Less: Gain on sale of corporate tenant lease assets.....	(2,948)	--
Add: Extraordinary loss--early extinguishment of debt.....	705	--
	-----	-----
Adjusted earnings allocable to common shareholders:		
Basic.....	\$229,751	\$126,195
	=====	=====
Diluted.....	\$230,688	\$127,798
	=====	=====
Adjusted earnings per common share:		
Basic.....	\$ 2.69	\$ 2.19
	=====	=====
Diluted.....	\$ 2.67	\$ 2.07
	=====	=====

EXPLANATORY NOTE:

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(1) For the year ended December 31, 1999, net income allocable to class B shares represents 1% of net income allocable to the Company's class B shares. On November 4, 1999, the class B shares were exchanged for common shares in connection with the Company's acquisition of TriNet and related transactions. As a result, the Company now has a single class of common shares outstanding.

NEW ACCOUNTING STANDARDS

In June 1998, the FASB issued Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities" ("SFAS No. 133"). On June 23, 1999, the FASB voted to defer the effectiveness of SFAS No. 133 for one year. SFAS No. 133 is now effective for fiscal years beginning after June 15, 2000, but earlier application is permitted as of the beginning of any fiscal quarter subsequent to June 15, 1998. SFAS No. 133 establishes accounting and reporting standards for derivative financial instruments and hedging activities. It requires that an entity recognize all derivatives as either assets or liabilities in the statement of financial position and measure those instruments at fair value. If certain conditions are met, a derivative may be specifically designated as: (1) a hedge of the exposure to changes in the fair value of a recognized asset or liability or an unrecognized firm commitment; (2) a hedge of the exposure to variable cash flows of a forecasted transaction; or (3) in certain circumstances a hedge of a foreign currency exposure. The Company adopted this pronouncement, as amended by Statement of Financial Accounting Standards No. 137 "Accounting for Derivative Instruments and Hedging Activities-deferral of the Effective Date of FASB Statement No. 133" and Statement of Financial Accounting Standards No. 138 "Accounting for Certain Hedging Activities-an Amendment of FASB No. 133," January 1, 2001. Because the Company has primarily used derivatives as cash flow hedges of interest rate risk only, the adoption of SFAS No. 133 did not have a material financial impact on the financial position and results of operations of the Company. However, should the Company change its current use of such derivatives (see Note 9), the adoption of SFAS No. 133 could have a more significant effect on the Company prospectively.

In December 1999, the Securities and Exchange Commission issued Staff Accounting Bulletin No. 101 ("SAB 101"), Revenue Recognition in Financial Statements." In June 2000, the SEC staff amended SAB 101 to provide registrants with additional time to implement SAB 101. The Company adopted SAB 101, as required, in the fourth quarter of fiscal 2000. The adoption of SAB 101 did not have a material financial impact on the financial position or results of operations of the Company.

In March 2000, the FASB issued FASB Interpretation No. 44 ("FIN 44"), "Accounting for Certain Transactions Involving Stock Compensation." The Company was required to adopt FIN 44 effective July 1, 2000 with respect to certain provisions applicable to new awards, exchanges of awards in a business combination, modifications to outstanding awards, and changes in grantee status that occur on or after that date. FIN 44 addresses practice issues related to the application of Accounting Practice Bulletin Opinion No. 25, "Accounting for Stock Issued to Employees." The initial adoption of FIN 44 by the Company did not have a material impact on its consolidated financial position or results of operations.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

MARKET RISKS

Market risk is the exposure to loss resulting from changes in interest rates, foreign currency exchange rates, commodity prices and equity prices. In pursuing its business plan, the primary market risk to which the Company is exposed is interest rate risk. Consistent with its liability management objectives, the Company has implemented an interest rate risk management policy based on match funding, with the objective that floating-rate assets be primarily financed by floating-rate liabilities and fixed-rate assets be primarily financed by fixed-rate liabilities.

The Company's operating results will depend in part on the difference between the interest and related income earned on its assets and the interest expense incurred in connection with its interest-bearing liabilities. Competition from other providers of real estate financing may lead to a decrease in the interest rate earned on the Company's interest-bearing assets, which the Company may not be able to offset by obtaining lower interest costs on its borrowings. Changes in the general level of interest rates prevailing in the financial markets may affect the spread between the Company's interest-earning assets and interest-bearing liabilities. Any significant compression of the spreads between interest-earning assets

and interest-bearing liabilities could have a material adverse effect on the Company. In addition, an increase in interest rates could, among other things, reduce the value of the Company's interest-bearing assets and its ability to realize gains from the sale of such assets, and a decrease in interest rates could reduce the average life of the Company's interest-earning assets.

A substantial portion of the Company's loan investments are subject to significant prepayment protection in the form of lock-outs, yield maintenance provisions or other prepayment premiums which provide substantial yield protection to the Company. Those assets generally not subject to prepayment penalties include: (1) variable-rate loans based on LIBOR, originated or acquired at par, which would not result in any gain or loss upon repayment; and (2) discount loans and loan participations acquired at discounts to face values, which would result in gains upon repayment. Further, while the Company generally seeks to enter into loan investments which provide for substantial prepayment protection, in the event of declining interest rates, the Company could receive such prepayments and may not be able to reinvest such proceeds at favorable returns. Such prepayments could have an adverse effect on the spreads between interest-earning assets and interest-bearing liabilities.

While the Company has not experienced any significant credit losses, in the event of a significant rising interest rate environment and/or economic downturn, defaults could increase and result in credit losses to the Company which adversely affect its liquidity and operating results. Further, such delinquencies or defaults could have an adverse effect on the spreads between interest-earning assets and interest-bearing liabilities.

Interest rates are highly sensitive to many factors, including governmental monetary and tax policies, domestic and international economic and political conditions, and other factors beyond the control of the Company. As more fully discussed in Note 9 to the Company's Consolidated Financial Statements, the Company employs match funding-based hedging strategies to limit the effects of changes in interest rates on its operations, including engaging in interest rate caps, floors, swaps, futures and other interest rate-related derivative contracts. These strategies are specifically designed to reduce the Company's exposure, on specific transactions or on a portfolio basis, to changes in cash flows as a result of interest rate movements in the market. The Company does not enter into derivative contracts for speculative purposes nor as a hedge against changes in credit risk of its borrowers or of the Company itself.

Each interest rate cap or floor agreement is a legal contract between the Company and a third party (the "counterparty"). When the Company purchases a cap or floor contract, the Company makes an up-front payment to the counterparty and the counterparty agrees to make payments to the Company in the future should the reference rate (typically one- or three-month LIBOR) rise above (cap agreements) or fall below (floor agreements) the "strike" rate specified in the contract. Each contract has a notional face amount. Should the reference rate rise above the contractual strike rate in a cap, the Company will earn cap income. Should the reference rate fall below the contractual strike rate in a floor, the Company will earn floor income. Payments on an annualized basis will equal the contractual notional face amount multiplied by the difference between the actual reference rate and the contracted strike rate. The cost of the up-front payment is amortized over the term of the contract.

Interest rate swaps are agreements in which a series of interest rate flows are exchanged over a prescribed period. The notional amount on which swaps are based is not exchanged. In general, the Company's swaps are "pay fixed" swaps involving the exchange of floating-rate interest payments from the counterparty for fixed interest payments from the Company.

Interest rate futures are contracts, generally settled in cash, in which the seller agrees to deliver on a specified future date the cash equivalent of the difference between the specified price or yield indicated in the contract and the value of that of the specified instrument (e.g., U.S. Treasury securities) upon settlement. The Company generally uses such instruments to hedge forecasted fixed-rate borrowings. Under these agreements, the Company will generally receive additional cash flow at settlement if interest rates rise and pay cash if interest rates fall. The effects of such receipts or payments will be deferred and

amortized over the term of the specific related fixed-rate borrowings. In the event that, in the opinion of management, it is no longer probable that a forecasted transaction will occur under terms substantially equivalent to those projected, the Company will cease recognizing such transactions as hedges and immediately recognize related gains or losses based on actual settlement or estimated settlement value.

While a REIT may freely utilize the types of derivative instruments discussed above to hedge interest rate risk on its liabilities, the use of derivatives for other purposes, including hedging asset-related risks such as credit, prepayment or interest rate exposure on the Company's loan assets, could generate income which is not qualified income for purposes of maintaining REIT status. As a consequence, the Company may only engage in such instruments to hedge such risks on a limited basis.

There can be no assurance that the Company's profitability will not be adversely affected during any period as a result of changing interest rates. In addition, hedging transactions using derivative instruments involve certain additional risks such as counterparty credit risk, legal enforceability of hedging contracts and the risk that unanticipated and significant changes in interest rates will cause a significant loss of basis in the contract. With regard to loss of basis in a hedging contract, indices upon which contracts are based may be more or less variable than the indices upon which the hedged assets or liabilities are based, thereby making the hedge less effective. The counterparties to these contractual arrangements are major financial institutions with which the Company and its affiliates may also have other financial relationships. The Company is potentially exposed to credit loss in the event of nonperformance by these counterparties. However, because of their high credit ratings, the Company does not anticipate that any of the counterparties will fail to meet their obligations. There can be no assurance that the Company will be able to adequately protect against the foregoing risks and that the Company will ultimately realize an economic benefit from any hedging contract it enters into which exceeds the related costs incurred in connection with engaging in such hedges.

The following table quantifies the potential changes in net investment income and net fair value of financial instruments should interest rates increase or decrease 200 basis points, assuming no change in the shape of the yield curve (i.e., relative interest rates). Net investment income is calculated as revenue from loans and other lending investments and operating leases (as of December 31, 2000), less related interest expense and operating costs on corporate tenant lease assets, for the year ended December 31, 2000. Net fair value of financial instruments is calculated as the sum of the value of off-balance sheet instruments and the present value of cash in-flows generated from interest-earning assets, less cash out-flows in respect of interest-bearing liabilities as of December 31, 2000. The cash flows associated with the Company's assets are calculated based on management's best estimate of expected payments for each loan based on loan characteristics such as loan-to-value ratio, interest rate, credit history, prepayment penalty, term and collateral type. Most of the Company's loans are protected from prepayment as a result of prepayment penalties and contractual terms which prohibit prepayments during specified periods. However, for those loans where prepayments are not currently precluded by contract, declines in interest rates may increase prepayment speeds. The base interest rate scenario assumes interest rates as of December 31, 2000. Actual results could differ significantly from those estimated in the table.

ESTIMATED PERCENTAGE CHANGE IN

CHANGE IN INTEREST RATES	NET INVESTMENT INCOME	NET FAIR VALUE OF FINANCIAL INSTRUMENTS (1)
-200 Basis Points.....	1.40%	40.62%
-100 Basis Points.....	0.70%	19.64%
Base Interest Rate.....	0.00%	0.00%
+100 Basis Points.....	(0.66)%	(18.34)%
+200 Basis Points.....	(0.45)%	(35.20)%

EXPLANATORY NOTE:

(1) Amounts exclude fair values of non-financial investments, primarily assets under long-term operating leases and certain forms of corporate finance investments.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTAL DATA

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All other schedules are omitted because they are not applicable or the required information is shown in the financial statements or notes thereto.

Financial statements of seven owned companies or joint ventures accounted for under the equity method have been omitted because the Company's proportionate share of the income from continuing operations before income taxes is less than 20% of the respective consolidated amount and the investments in and advances to each company are less than 20% of consolidated total assets.

REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Directors and Shareholders
of iStar Financial Inc.

In our opinion, the consolidated financial statements listed in the accompanying index present fairly, in all material respects, the financial position of iStar Financial Inc. and its subsidiaries at December 31, 2000 and 1999, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2000 in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedules listed in the accompanying index present fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. These financial statements and financial statement schedules are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements and financial statement schedules based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

PricewaterhouseCoopers LLP
New York, NY
March 2, 2001

ISTAR FINANCIAL INC.

CONSOLIDATED BALANCE SHEETS

(IN THOUSANDS, EXCEPT PER SHARE DATA)

	AS OF DECEMBER 31,	
	2000	1999*
	-----	-----
ASSETS		
Loans and other lending investments, net.....	\$2,225,183	\$2,003,506
Real estate subject to operating leases, net.....	1,670,169	1,714,284
Cash and cash equivalents.....	22,752	34,408
Restricted cash.....	20,441	10,195
Marketable securities.....	41	4,344
Accrued interest and operating lease income receivable.....	20,167	16,211
Deferred operating lease income receivable.....	10,236	1,147
Deferred expenses and other assets.....	62,224	29,074
Investment in iStar Operating, Inc.....	3,562	383
	-----	-----
Total assets.....	\$4,034,775	\$3,813,552
	=====	=====
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities:		
Accounts payable, accrued expenses and other liabilities....	\$ 52,038	\$ 54,773
Dividends payable.....	56,661	53,667
Debt obligations.....	2,131,967	1,901,204
	-----	-----
Total liabilities.....	2,240,666	2,009,644
	-----	-----
Commitments and contingencies.....	--	--
Minority interests in consolidated entities.....	6,224	2,565
Shareholders' equity:		
Series A Preferred Stock, \$0.001 par value, liquidation preference \$220,000, 4,400 shares issued and outstanding at December 31, 2000 and December 31, 1999.....	4	4
Series B Preferred Stock, \$0.001 par value, liquidation preference \$50,000, 2,000 shares issued and outstanding at December 31, 2000 and December 31, 1999.....	2	2
Series C Preferred Stock, \$0.001 par value, liquidation preference \$32,500, 1,300 shares issued and outstanding at December 31, 2000 and December 31, 1999.....	1	1
Series D Preferred Stock, \$0.001 par value, liquidation preference \$100,000, 4,000 shares issued and outstanding at December 31, 2000 and December 31, 1999.....	4	4
Common Stock, \$0.001 par value, 200,000 shares authorized, 85,726 and 84,985 shares issued and outstanding at December 31, 2000 and December 31, 1999, respectively....	85	85
Warrants and options.....	16,943	17,935
Additional paid in capital.....	1,966,396	1,953,972
Retained earnings (deficit).....	(154,789)	(129,992)
Accumulated other comprehensive income (losses).....	(20)	(229)
Treasury stock (at cost).....	(40,741)	(40,439)
	-----	-----
Total shareholders' equity.....	1,787,885	1,801,343
	-----	-----
Total liabilities and shareholders' equity.....	\$4,034,775	\$3,813,552
	=====	=====

* RECLASSIFIED TO CONFORM TO 2000 PRESENTATION.

The accompanying notes are an integral part of the financial statements.

ISTAR FINANCIAL INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

(IN THOUSANDS, EXCEPT PER SHARE DATA)

	FOR THE YEAR ENDED DECEMBER 31,		
	2000	1999*	1998*
REVENUE:			
Interest income.....	\$268,011	\$209,848	\$112,914
Operating lease income.....	185,956	42,186	12,378
Other income.....	17,855	12,763	2,804
Total revenue.....	471,822	264,797	128,096
COSTS AND EXPENSES:			
Interest expense.....	173,891	91,184	44,697
Operating costs-corporate tenant lease assets.....	12,809	2,246	--
Depreciation and amortization.....	34,514	10,340	4,287
General and administrative.....	25,706	6,269	2,583
Provision for possible credit losses.....	6,500	4,750	2,750
Stock option compensation expense.....	2,864	412	5,985
Advisory fees.....	--	16,193	7,837
Costs incurred in acquiring external advisor.....	--	94,476	--
Total costs and expenses.....	256,284	225,870	68,139
Net income before minority interest, gain on sale of corporate tenant lease assets and extraordinary loss.....	215,538	38,927	59,957
Minority interest in consolidated entities.....	(195)	(41)	(54)
Gain on sale of corporate tenant lease assets.....	2,948	--	--
Net income before extraordinary loss.....	218,291	38,886	59,903
Extraordinary loss on early extinguishments of debt.....	(705)	--	--
Net income.....	\$217,586	\$ 38,886	\$ 59,903
Preferred dividend requirements.....	(36,908)	(23,843)	(944)
Net income allocable to common shareholders.....	\$180,678	\$ 15,043	\$ 58,959
Basic earnings per common share(1).....	\$ 2.11	\$ 0.25	\$ 1.40
Diluted earnings per common share(1).....	\$ 2.10	\$ 0.25	\$ 1.36

EXPLANATORY NOTES:

* RECLASSIFIED TO CONFORM TO 2000 PRESENTATION.

(1) Net income per basic common share excludes 1% of net income allocable to the Company's class B shares prior to November 4, 1999. These shares were exchanged for Common Stock in connection with the TriNet Acquisition and related transactions on November 4, 1999. As a result, the Company now has a single class of Common Stock outstanding.

The accompanying notes are an integral part of the financial statements.

ISTAR FINANCIAL INC.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(IN THOUSANDS)

	SERIES A PREFERRED STOCK	SERIES B PREFERRED STOCK	SERIES C PREFERRED STOCK	SERIES D PREFERRED STOCK	COMMON STOCK AT PAR	COMMON STOCK AT PAR	
						CLASS A	CLASS B
Balance at January 1, 1998.....	\$ --	\$ --	\$ --	\$ --	\$ --	\$ 7,550	\$ 38
Recapitalization Transactions.....	--	--	--	--	--	306,796	1,534
Issuance of options to Advisor.....	--	--	--	--	--	--	--
Effects of reorganization(1).....	--	--	--	--	--	(261,956)	(1,310)
Exercise of options.....	--	--	--	--	--	18	--
Issuance of preferred shares and warrants.....	44	--	--	--	--	--	--
Dividends declared-preferred.....	--	--	--	--	--	--	--
Dividends declared-common.....	--	--	--	--	--	--	--
Net Income for the period.....	--	--	--	--	--	--	--
Change in accumulated other comprehensive income.....	--	--	--	--	--	--	--
Balance at December 31, 1998*.....	\$ 44	\$ --	\$ --	\$ --	\$ --	\$ 52,408	\$ 262
Exercise of options.....	--	--	--	--	--	63	--
Dividends declared-preferred.....	--	--	--	--	--	--	--
Dividends declared-common.....	--	--	--	--	--	--	--
Effects of Incorporation Merger.....	(40)	--	--	--	53	(52,471)	(262)
Acquisition of TriNet.....	--	2	1	4	29	--	--
Issuance of shares of Common Stock through conversion of joint venture partners interest.....	--	--	--	--	--	--	--
Advisor Transaction.....	--	--	--	--	4	--	--
Special stock dividend.....	--	--	--	--	1	--	--
Purchase of treasury stock.....	--	--	--	--	(2)	--	--
Net income for the period.....	--	--	--	--	--	--	--
Change in accumulated other comprehensive income.....	--	--	--	--	--	--	--
Balance at December 31, 1999.....	\$ 4	\$ 2	\$ 1	\$ 4	\$ 85	\$ --	\$ --
Exercise of options.....	--	--	--	--	--	--	--
Dividends declared-preferred.....	--	--	--	--	--	--	--
Dividends declared-common.....	--	--	--	--	--	--	--
Acquisition of ACRE Partners.....	--	--	--	--	--	--	--
Restricted stock units issued to employees in lieu of cash bonuses....	--	--	--	--	--	--	--
Restricted stock units granted to employees.....	--	--	--	--	--	--	--
Issuance of stock through DRIP plan....	--	--	--	--	--	--	--
Purchase of treasury stock.....	--	--	--	--	--	--	--
Net income for the period.....	--	--	--	--	--	--	--
Change in accumulated other comprehensive income.....	--	--	--	--	--	--	--
Balance at December 31, 2000.....	\$ 4	\$ 2	\$ 1	\$ 4	\$ 85	\$ --	\$ --

EXPLANATORY NOTE:

	WARRANTS AND OPTIONS	ADDITIONAL PAID-IN CAPITAL	RETAINED EARNINGS (DEFICIT)	ACCUMULATED OTHER COMPREHENSIVE INCOME	TREASURY STOCK	TOTAL
Balance at January 1, 1998.....	\$ --	\$ --	\$ (1,075)	\$ (162)	\$ --	\$ 6,351
Recapitalization Transactions.....	--	432,084	--	--	--	740,414
Issuance of options to Advisor.....	5,985	--	--	--	--	5,985
Effects of reorganization(1).....	--	262,786	--	--	--	(480)
Exercise of options.....	(270)	537	--	--	--	285
Issuance of preferred shares and warrants.....	13,189	206,170	--	--	--	219,403
Dividends declared-preferred.....	--	15	(944)	--	--	(929)
Dividends declared-common.....	--	--	(60,343)	--	--	(60,343)
Net Income for the period.....	--	--	59,903	--	--	59,903
Change in accumulated other comprehensive income.....	--	--	--	139	--	139
Balance at December 31, 1998*.....	\$ 18,904	\$ 901,592	\$ (2,459)	\$ (23)	\$ --	\$ 970,728
Exercise of options.....	(969)	1,853	--	--	--	947
Dividends declared-preferred.....	--	330	(25,149)	--	--	(24,819)
Dividends declared-common.....	--	--	(116,813)	--	--	(116,813)
Effects of Incorporation Merger.....	--	52,720	--	--	--	--
Acquisition of TriNet.....	--	868,933	--	--	--	868,969
Issuance of shares of Common Stock through conversion of joint venture partners interest.....	--	6,226	--	--	--	6,226
Advisor Transaction.....	--	97,862	--	--	--	97,866
Special stock dividend.....	--	24,456	(24,457)	--	--	--
Purchase of treasury stock.....	--	--	--	--	(40,439)	(40,441)
Net income for the period.....	--	--	38,886	--	--	38,886
Change in accumulated other						

comprehensive income.....	--	--	--	(206)	--	(206)
Balance at December 31, 1999.....	\$ 17,935	\$1,953,972	\$ (129,992)	\$ (229)	\$ (40,439)	\$1,801,343
Exercise of options.....	(992)	7,089	--	--	--	6,097
Dividends declared-preferred.....	--	330	(36,906)	--	--	(36,576)
Dividends declared-common.....	--	--	(205,477)	--	--	(205,477)
Acquisition of ACRE Partners.....	--	3,637	--	--	--	3,637
Restricted stock units issued to employees in lieu of cash bonuses....	--	1,125	--	--	--	1,125
Restricted stock units granted to employees.....	--	212	--	--	--	212
Issuance of stock through DRIP plan....	--	31	--	--	--	31
Purchase of treasury stock.....	--	--	--	--	(302)	(302)
Net income for the period.....	--	--	217,586	--	--	217,586
Change in accumulated other comprehensive income.....	--	--	--	209	--	209
Balance at December 31, 2000.....	\$ 16,943	\$1,966,396	\$ (154,789)	\$ (20)	\$ (40,741)	\$1,787,885

EXPLANATORY NOTE:

* RECLASSIFIED TO CONFORM TO 2000 PRESENTATION.

(1) As adjusted for one-for-six reverse stock split effective June 19, 1998.

The accompanying notes are an integral part of the financial statements.

ISTAR FINANCIAL INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(IN THOUSANDS)

	FOR THE YEAR ENDED DECEMBER 31,		
	2000	1999*	1998*
Cash flows from operating activities:			
Net income.....	\$ 217,586	\$ 38,886	\$ 59,903
Adjustments to reconcile net income to cash flows provided by operating activities:			
Minority interest.....	195	41	54
Non-cash expense for options issued to Advisor.....	1,700	412	5,985
Non-cash expense for Advisor Transaction.....	--	94,476	--
Equity in earnings of unconsolidated joint ventures and subsidiaries.....	(4,753)	(234)	(96)
Depreciation and amortization.....	47,402	15,932	7,662
Amortization of discounts/premiums and deferred interest.....	(27,059)	(25,493)	(17,750)
Distributions from operating joint venture.....	4,511	470	--
Deferred operating lease income adjustments.....	(9,130)	(1,597)	--
Realized (gain)/loss on sale of securities.....	233	(11)	--
Gain on sale of corporate tenant lease assets.....	(2,948)	--	--
Extraordinary loss on early extinguishment of debt.....	705	--	--
Provision for possible credit losses.....	6,500	4,750	2,750
Changes in assets and liabilities:			
(Increase) decrease in restricted cash.....	(10,246)	2,924	(5,699)
Increase in accrued interest and operating lease income receivable.....	(3,761)	(3,089)	(5,613)
Decrease in deferred expenses and other assets.....	(26,764)	(1,212)	(902)
Increase (decrease) in accounts payable, accrued expenses and other liabilities.....	(1,702)	(3,706)	8,621
Cash flows provided by operating activities.....	192,469	122,549	54,915
Cash flows from investing activities:			
Net cash outflow for the Recapitalization Transactions (Note 3).....	--	--	(334,964)
Net cash outflow for TriNet Acquisition (Note 3).....	--	(23,723)	--
Proceeds from sale of corporate tenant lease assets.....	146,265	--	--
New investment originations/acquisitions.....	(849,618)	(640,757)	(975,670)
Principal fundings on existing loan commitments.....	(56,039)	(45,916)	(16,500)
Investment in iStar Operating, Inc.....	(3,443)	--	(426)
Proceeds from sale of investment securities.....	30	--	--
Repayments of and principal collections from loans and other investments.....	584,452	520,768	103,926
Investments (in) and advances to unconsolidated joint ventures.....	(24,047)	(377)	(47,675)
Distributions from unconsolidated joint ventures.....	34,759	47,365	--
Other capital expenditures on real estate subject to operating leases.....	(9,011)	(1,271)	--
Cash flows used in investing activities.....	(176,652)	(143,911)	(1,271,309)
Cash flows from financing activities:			
Net borrowings (repayments) under revolving credit facilities.....	(183,837)	168,592	640,945
Borrowings under term loans.....	90,000	39,234	368,683
Repayments under term loans.....	(300,799)	--	--
Borrowings under repurchase agreements.....	65,067	(7,331)	46,091
Repayments under repurchase agreements.....	(31,564)	--	--
Mortgage note repayments.....	--	(150)	--
Borrowings under bond offerings.....	863,254	--	--
Repayments under bond offerings.....	(274,919)	--	--
Common dividends paid.....	(202,397)	(90,076)	(38,638)
Preferred dividends paid.....	(36,576)	(20,524)	--
Minority interest.....	(164)	--	--
Extraordinary loss on early extinguishment of debt.....	(317)	--	--
Payment for deferred financing costs.....	(21,048)	(4,593)	(11,615)
Proceeds from issuance of class B shares.....	--	--	1,534
Costs incurred in reorganization.....	--	--	(480)
Purchase of treasury stock.....	(302)	(40,439)	--
Proceeds from exercise of options.....	6,129	947	285
Proceeds from issuance of preferred stock and warrants....	--	--	219,403
Cash flows (used in) provided by financing activities....	(27,473)	45,660	1,226,208
Increase (decrease) in cash and cash equivalents.....	(11,656)	24,298	9,814
Cash and cash equivalents at beginning of period.....	34,408	10,110	296
Cash and cash equivalents at end of period.....	\$ 22,752	\$ 34,408	\$ 10,110
Supplemental disclosure of cash flow information:			
Cash paid during the period for interest.....	\$ 142,145	\$ 85,835	\$ 38,006

* RECLASSIFIED TO CONFORM TO 2000 PRESENTATION.

The accompanying notes are an integral part of the financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1--ORGANIZATION AND BUSINESS

ORGANIZATION--iStar Financial Inc. (1) (the "Company") began its business in 1993 through private investment funds formed to capitalize on inefficiencies in the real estate finance market. In March 1998, these funds contributed their approximately \$1.1 billion of assets to the Company's predecessor, Starwood Financial Trust, in exchange for a controlling interest in that company. Since that time, the Company has grown by originating new lending and leasing transactions, as well as through corporate acquisitions. Specifically, in September 1998, the Company acquired the loan origination and servicing business of a major insurance company, and in December 1998, the Company acquired the mortgage and mezzanine loan portfolio of its largest private competitor. Additionally, in November 1999, the Company acquired TriNet Corporate Realty Trust, Inc. ("TriNet"), which was then the largest publicly traded company specializing in the net leasing of corporate office and industrial facilities (the "TriNet Acquisition"). The TriNet Acquisition was structured as a stock-for-stock merger of TriNet with a subsidiary of the Company. Concurrent with the TriNet Acquisition, the Company also acquired its external advisor (the "Advisor Transaction") in exchange for shares of common stock of the Company ("Common Stock") and converted its organizational form to a Maryland corporation (the "Incorporation Merger"). As part of the conversion to a Maryland corporation, the Company replaced its dual class common share structure with a single class of Common Stock. The Company's Common Stock began trading on the New York Stock Exchange under the symbol "SFI" in November 1999.

During 1993 through 1997, the Company did not qualify as a real estate investment trust ("REIT") under the Internal Revenue Code of 1986, as amended (the "Code"). However, pursuant to a closing agreement with the Internal Revenue Service (the "IRS") obtained in March 1998, the Company was eligible and elected to be taxed as a REIT for the taxable year beginning January 1, 1998.

BUSINESS--The Company is the leading publicly traded finance company focused on the commercial real estate industry. The Company provides structured financing to private and corporate owners of real estate nationwide, including senior and junior mortgage debt, corporate mezzanine and subordinated capital, and corporate net lease financing. The Company, which has elected to be taxed as a real estate investment trust ("REIT"), seeks to deliver superior risk-adjusted returns on equity for shareholders by providing innovative and value-added financing solutions to its customers.

The Company has implemented its investment strategy by: (1) focusing on the origination of large, highly structured mortgage, corporate and lease financings where customers require flexible financial solutions, and avoiding commodity businesses in which there is significant direct competition from other providers of capital; (2) developing direct relationships with borrowers and corporate tenants as opposed to sourcing transactions through intermediaries; (3) adding value beyond simply providing capital by offering borrowers and corporate tenants specific lending expertise, flexibility, certainty and continuing relationships beyond the closing of a particular financing transaction; and (4) taking advantage of market anomalies in the real estate financing markets when the Company believes credit is mispriced by other providers of capital, such as the spread between lease yields and the yields on corporate tenants' underlying credit obligations.

The Company intends to continue to emphasize a mix of portfolio financing transactions to create built-in diversification and single-asset financings for properties with strong, long-term competitive market positions.

EXPLANATORY NOTE:

(1) As more fully discussed in Note 4, on November 4, 1999, the Company changed its form and became a corporation under Maryland law and changed its name from Starwood Financial Trust to Starwood Financial Inc. Further, effective April 30, 2000, the registrant changed its name to iStar Financial Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 2--BASIS OF PRESENTATION

The accompanying audited Consolidated Financial Statements have been prepared in conformity with generally accepted accounting principles ("GAAP") for complete financial statements. The Consolidated Financial Statements include the accounts of the Company, its qualified REIT subsidiaries, and its majority-owned and controlled partnerships. Certain third-party mortgage servicing operations are conducted through iStar Operating, Inc. ("iStar Operating"), a taxable corporation which is not consolidated with the Company for financial reporting or income tax purposes. The Company owns all of the non-voting preferred stock and a 95% economic interest in iStar Operating, which is accounted for under the equity method for financial reporting purposes. The Company does not own any of the outstanding voting stock of iStar Operating. In addition, the Company has an investment in TriNet Management Operating Company, Inc. ("TMOC"), a taxable noncontrolled subsidiary of the Company, which is also accounted for under the equity method. Further, certain other investments in partnerships or joint ventures which the Company does not control are also accounted for under the equity method. All significant intercompany balances and transactions have been eliminated in consolidation.

In the opinion of management, the accompanying Consolidated Financial Statements contain all adjustments, consisting of normal recurring adjustments, necessary for a fair presentation of the Company's consolidated financial position at December 31, 2000 and December 31, 1999 and the results of its operations, changes in shareholders' equity and its cash flows for the years ended December 31, 2000, 1999 and 1998. Such operating results are not necessarily indicative of the results that may be expected for any other interim periods or the entire year.

NOTE 3--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

LOANS AND OTHER LENDING INVESTMENTS, NET--As described in Note 5, "Loans and Other Lending Investments," includes the following investments: senior mortgages, subordinate mortgages, corporate/ partnership loans/unsecured notes, loan participations and other lending investments. In general, management considers its investments in this category as held-to-maturity and, accordingly, reflects such items at amortized historical cost.

REAL ESTATE SUBJECT TO OPERATING LEASES AND DEPRECIATION--Real estate subject to operating leases is generally recorded at cost. Certain improvements and replacements are capitalized when they extend the useful life, increase capacity or improve the efficiency of the asset. Repairs and maintenance items are expensed as incurred. The Company capitalizes interest costs incurred during the land development or construction period on qualified development projects, including investments in joint ventures accounted for under the equity method. Depreciation is computed using the straight line method of cost recovery over estimated useful lives of 40.0 years for buildings, five years for furniture and equipment, the shorter of the remaining lease term or expected life for tenant improvements, and the remaining life of the building for building improvements.

Real estate assets to be disposed of are reported at the lower of their carrying amount or fair value less costs to sell. The Company also periodically reviews long-lived assets to be held and used for an impairment in value whenever events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. In management's opinion, real estate assets to be held and used are not carried at amounts in excess of their estimated recoverable amounts.

CAPITALIZED INTEREST--The Company capitalizes interest costs incurred during the land development or construction period on qualified development projects, including investments in joint ventures accounted for under the equity method. Interest capitalized was approximately \$513,000 and \$377,000 during the years ended December 31, 2000 and 1999, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 3--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

CASH AND CASH EQUIVALENTS--Cash and cash equivalents include cash held in banks or invested in money market funds with original maturity terms of less than 90 days.

RESTRICTED CASH--Restricted cash represents amounts required to be maintained in escrow under certain of the Company's debt obligations and leasing cost obligations.

NON-CASH ACTIVITY--During the year ended December 31, 1998, the Company had significant non-cash activity including: (1) conversion of units in APMT Limited Partnership (shown as "minority interest" in the consolidated financial statements) to class A shares of the Company (see Note 4); (2) issuance of options to Starwood Financial Advisors, L.L.C. (the "Advisor") to acquire class A shares of the Company (see Note 11); and (3) issuance of new class A shares in exchange for a portion of the acquisition of loans and related investments as part of the Recapitalization Transactions (see Note 4).

The cash portion of the Recapitalization Transactions is summarized as follows (in thousands):

Acquisition of loans and other investments.....	\$ (1,061,006)
Acquired accrued interest and operating lease income receivable.....	(7,451)
Conversion of minority interest.....	(5,387)
Par value of class A shares issued.....	306,796
Additional paid in capital on class A shares issued.....	432,084

Net cash outflow for the Recapitalization Transactions.....	\$ (334,964)
	=====

During 1999, the Company acquired TriNet (see Note 4). The following is a summary of the effects of this transaction on the Company's consolidated financial position (in thousands):

	ACQUISITION OF TRINET

Fair value of:	
Assets acquired.....	\$ (1,589,714)
Liabilities assumed.....	676,936
Minority interest.....	2,524
Stock issued.....	875,195

Cash paid.....	(35,059)
Less cash acquired.....	11,336

Net cash outflow for TriNet Acquisition.....	\$ (23,723)
	=====

There was no non-cash activity during the year ended December 31, 2000.

MARKETABLE SECURITIES-- From time to time, the Company invests excess working capital in short-term marketable securities such as those issued by the Government National Mortgage Association ("GNMA"), Federal National Mortgage Association ("FNMA"), and Federal Home Loan Mortgage Corporation ("FHLMC"). Although the Company generally intends to hold such investments for investment purposes, it may, from time to time, sell any of its investments in these securities as part of its management of liquidity. Accordingly, the Company considers such investments as "available-for-sale" and reflects such investments at fair market value with changes in fair market value reflected as a component of shareholders' equity.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 3--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

REPURCHASE AGREEMENTS-- The Company may enter into sales of securities or loans under agreements to repurchase the same security or loan. The amounts borrowed under repurchase agreements are carried on the balance sheet as part of debt obligations at the amount advanced plus accrued interest. Interest incurred on the repurchase agreements is reported as interest expense.

REVENUE RECOGNITION--The Company's revenue recognition policies are as follows:

LOANS AND OTHER LENDING INVESTMENTS: The Company generally intends to hold all of its loans and other lending investments to maturity. Accordingly, it reflects all of these investments at amortized cost less allowance for loan losses, acquisition premiums or discounts, deferred loan fees and undisbursed loan funds. On occasion, the Company may acquire loans at either premiums or discounts based on the credit characteristics of such loans. These premiums or discounts are recognized as yield adjustments over the lives of the related loans. If loans that were acquired at a premium or discount are prepaid, the Company immediately recognizes the unamortized premium or discount as a decrease or increase in the prepayment gain or loss, respectively. Loan origination or exit fees, as well as direct loan origination costs, are also deferred and recognized over the lives of the related loans as a yield adjustment. Interest income is recognized using the effective interest method applied on a loan-by-loan basis.

Certain of the Company's loans provide for accrual of interest at specified rates which differ from current payment terms. Interest is recognized on such loans at the accrual rate subject to management's determination that accrued interest and outstanding principal are ultimately collectible, based on the underlying collateral and operations of the borrower.

Prepayment penalties or yield maintenance payments from borrowers are recognized as additional income when received. Certain of the Company's loan investments provide for additional interest based on the borrower's operating cash flow or appreciation of the underlying collateral. Such amounts are considered contingent interest and are reflected as income only upon certainty of collection.

LEASING INVESTMENTS: Operating lease revenue is recognized on the straight-line method of accounting from the later of the date of the origination of the lease or the date of acquisition of the facility subject to existing leases. Accordingly, contractual lease payment increases are recognized evenly over the term of the lease. The cumulative difference between lease revenue recognized under this method and contractual lease payment terms is recorded as a deferred operating lease income receivable on the balance sheet.

PROVISION FOR POSSIBLE CREDIT LOSSES--The Company's accounting policies require that an allowance for estimated credit losses be maintained at a level that management, based upon an evaluation of known and inherent risks in the portfolio, considers adequate to provide for possible credit losses. Specific valuation allowances are established for impaired loans in the amount by which the carrying value, before allowance for estimated losses, exceeds the fair value of collateral less disposition costs on an individual loan basis. Management considers a loan to be impaired when, based upon current information and events, it believes that it is probable that the Company will be unable to collect all amounts due according to the contractual terms of the loan agreement on a timely basis. Management measures these impaired loans at the fair value of the loans' underlying collateral less estimated disposition costs. Impaired loans may be left on accrual status during the period the Company is pursuing repayment of the loan; however, these loans are placed on non-accrual status at such time that the loans either: (1) become 90 days delinquent; or (2) management determines the borrower is incapable of, or has ceased efforts toward, curing the cause of the impairment. While on non-accrual status, interest income is recognized only upon actual receipt. Impairment losses are recognized as direct write-downs of the related loan with a corresponding charge to the provision for possible credit losses. Charge-offs occur when loans, or a portion thereof, are considered

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 3--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

uncollectible and of such little value that further pursuit of collection is not warranted. Management also provides a portfolio reserve based upon its periodic evaluation and analysis of the portfolio, historical and industry loss experience, economic conditions and trends, collateral values and quality, and other relevant factors.

INCOME TAXES--The Company did not qualify as a REIT from 1993 through 1997; however, it did not incur any material tax liabilities as a result of its operations. See Note 10 to the Consolidated Financial Statements for more information.

As confirmed in a closing agreement with the IRS obtained in March 1998, the Company was eligible and has elected to be taxed as a REIT for its tax year beginning January 1, 1998. As a REIT, the Company is subject to federal income taxation at corporate rates on its REIT taxable income; however, the Company is allowed a deduction for the amount of dividends paid to its shareholders, thereby subjecting the distributed net income of the Company to taxation at the shareholder level only. iStar Operating and TMOC are not consolidated for federal income tax purposes and are taxed as corporations. For financial reporting purposes, current and deferred taxes are provided for in the portion of earnings recognized by the Company with respect to its interest in iStar Operating and TMOC.

NET INCOME ALLOCABLE TO COMMON SHARES--Net income allocable to common shares excludes 1% of net income allocable to the class B shares prior to November 4, 1999. The class A and class B shares were exchanged for Common Stock in connection with the TriNet Acquisition, as more fully described in Note 4.

EARNINGS (LOSS) PER COMMON SHARES--In accordance with the Statement of Financial Accounting Standards No. 128 ("FASB No. 128"), the Company presents both basic and diluted earnings per share ("EPS"). Basic earnings per share ("Basic EPS") excludes dilution and is computed by dividing net income available to common shareholders by the weighted average number of shares outstanding for the period. Diluted earnings per share ("Diluted EPS") reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock, where such exercise or conversion would result in a lower earnings per share amount.

USE OF ESTIMATES--The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

NEW ACCOUNTING STANDARDS--In June 1998, the FASB issued Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities" ("SFAS No. 133"). On June 23, 1999, the FASB voted to defer the effectiveness of SFAS No. 133 for one year. SFAS No. 133 is now effective for fiscal years beginning after June 15, 2000, but earlier application is permitted as of the beginning of any fiscal quarter subsequent to June 15, 1998. SFAS No. 133 establishes accounting and reporting standards for derivative financial instruments and hedging activities. It requires that an entity recognize all derivatives as either assets or liabilities in the statement of financial position and measure those instruments at fair value. If certain conditions are met, a derivative may be specifically designated as: (1) a hedge of the exposure to changes in the fair value of a recognized asset or liability or an unrecognized firm commitment; (2) a hedge of the exposure to variable cash flows of a forecasted transaction; or (3) in certain circumstances, a hedge of a foreign currency exposure. The Company adopted this pronouncement, as amended by Statement of Financial Accounting Standards No. 137 "Accounting for Derivative Instruments and Hedging Activities--deferral of the Effective Date of FASB Statement No. 133" and Statement of Financial Accounting Standards No. 138 "Accounting for Certain Derivative Instruments and

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 3--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Certain Hedging Activities--an Amendment of FASB Statement No. 133," on January 1, 2001. Because the Company has primarily used derivatives as cash flow hedges of interest rate risk only, the adoption of SFAS No. 133 did not have a material financial impact on the financial position and results of operations of the Company. However, should the Company change its current use of such derivatives (see Note 9), the adoption of SFAS No. 133 could have a more significant effect on the Company prospectively.

In December 1999, the Securities and Exchange Commission ("SEC") issued Staff Accounting Bulletin No. 101 ("SAB 101"), Revenue Recognition in Financial Statements." In June 2000, the SEC staff amended SAB 101 to provide registrants with additional time to implement SAB 101. The Company adopted SAB 101, as required, in the fourth quarter of fiscal 2000. The adoption of SAB 101 did not have a material financial impact on the financial position or the results of operations of the Company.

In March 2000, the FASB issued FASB Interpretation No. 44 ("FIN 44"), "Accounting for Certain Transactions Involving Stock Compensation." The Company was required to adopt FIN 44 effective July 1, 2000 with respect to certain provisions applicable to new awards, exchanges of awards in a business combination, modifications to outstanding awards, and changes in grantee status that occur on or after that date. FIN 44 addresses practice issues related to the application of Accounting Practice Bulletin Opinion No. 25, "Accounting for Stock Issued to Employees." The initial adoption of FIN 44 by the Company did not have a material impact on its consolidated financial position or results of operations.

NOTE 4--CAPITAL TRANSACTIONS

PRIOR TRANSACTIONS WITH AFFILIATES--Through a series of transactions beginning in November 1993 and through March 18, 1998, the date of the Recapitalization Transactions described in the following section, Starwood Mezzanine Investors, L.P. ("Starwood Mezzanine") and certain other affiliates (collectively, the "Starwood Investors") had acquired controlling interests in the Company represented by an aggregate of 874,016 class A shares, or 69.46% of the then total class A shares outstanding, and 629,167 class B shares, representing 100% of the then total class B shares outstanding. Together, the class A and class B shares held by the Starwood Investors represented 79.64% of the voting interests of the Company.

During the quarter ended March 31, 1998, the Company consummated certain transactions and entered into agreements which significantly recapitalized and expanded its capital resources, as well as modified future operations, including those described herein below in "Recapitalization Transactions" and "Advisor Agreement."

RECAPITALIZATION TRANSACTIONS--As more fully discussed above, pursuant to a series of transactions beginning in March 1994 and including the exercise of the class A and class B warrants in January 1997, the Starwood Investors acquired joint ownership of 69.46% and 100% of the outstanding class A shares and class B shares of the Company, respectively, through which they controlled approximately 79.64% of the voting interests in the Company as of December 31, 1997. Prior to the consummation of these transactions on March 18, 1998 (collectively, the "Recapitalization Transactions"), Starwood Mezzanine also owned 761,491 units which represented the remaining 91.95% of APMT Limited Partnership not held by the Company. Those units were convertible into cash, an additional 761,491 class A shares of the Company, or a combination of the two, as determined by the Company.

On March 18, 1998, each outstanding unit held by Starwood Mezzanine was exchanged for one class A share of the Company and, concurrently, the partnership was liquidated through a distribution of its net assets to the Company, its then sole partner.

Simultaneously, Starwood Mezzanine contributed various real estate loan investments to the Company in exchange for 9,191,333 class A shares and \$25.5 million in cash, as adjusted. Starwood

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 4--CAPITAL TRANSACTIONS (CONTINUED)

Opportunity Fund IV, L.P. ("SOF IV"), one of the Starwood Investors, contributed loans and other lending investments, \$17.9 million in cash and certain letters of intent in exchange for 41,179,133 class A shares of the Company and a cash payment of \$324.3 million. Concurrently, the holders of the class B shares who were affiliates of the Starwood Investors acquired 25,565,979 additional class B shares sufficient to maintain existing voting preferences pursuant to the Company's Amended and Restated Declaration of Trust. Immediately after these transactions, the Starwood Investors owned approximately 99.27% of the outstanding class A shares of the Company and 100% of the class B shares. Assets acquired from Starwood Mezzanine were reflected using step acquisition accounting at predecessor basis adjusted to fair value to the extent of post-transaction, third-party ownership. Assets acquired from SOF IV were reflected at their fair market value.

ADVISORY AGREEMENT--In connection with the Recapitalization Transactions, the Company and its former external advisor (the "Advisor"), an affiliate of the Starwood Investors, entered into an Advisory Agreement (the "Advisory Agreement") pursuant to which the Advisor managed the affairs of the Company, subject to the Company's purpose and investment policy, the investment restrictions and the directives of the Board of Directors.

The Company paid the Advisor a quarterly base management fee of 0.3125% (1.25% per annum) of the "Book Equity Value" of the Company. "Book Equity Value" was generally defined as the excess of the book value of the assets of the Company over all liabilities of the Company.

In addition, the Company paid the Advisor a quarterly incentive fee of 5.00% of the Company's "Adjusted Net Income" during each quarter that the Adjusted Net Income for such quarter (restated and annualized as a rate of return on the Company's Book Equity Value for such quarter) equaled or exceeded the "Benchmark BB Rate." "Adjusted Net Income" was generally defined as the Company's gross income less the Company's expenses for the applicable quarter (including the base fee for such quarter but not the incentive fee for such quarter). The Advisor was also reimbursed for certain expenses it incurred on behalf of the Company.

Prior to the transactions described below through which, among other things, the Company became internally-managed, the Company was dependent on the services of the Advisor and its officers and employees for the successful execution of its business strategy.

1999 TRANSACTIONS--On November 3, 1999, consistent with previously announced terms, the Company's shareholders approved a series of transactions including: (1) the acquisition, through a merger, of TriNet; (2) the acquisition, through a merger and a contribution of interests, of 100% of the ownership interests in the Advisor; and (3) the change in form, through a merger, of the Company's organization to a Maryland corporation. TriNet shareholders also approved the TriNet Acquisition on November 3, 1999. These transactions were consummated on November 4, 1999. As part of these transactions, the Company also replaced its dual class common share structure with a single class of Common Stock.

TRINET ACQUISITION--TriNet merged with and into a subsidiary of the Company, with TriNet surviving as a wholly-owned subsidiary of the Company (the "Leasing Subsidiary"). In the TriNet Acquisition, each share of TriNet common stock was converted into 1.15 shares of Common Stock, resulting in an aggregate issuance of 28.9 million shares of Common Stock. Each share of TriNet Series A, Series B and Series C Cumulative Redeemable Preferred Stock was converted into a share of Series B, Series C or Series D (respectively) Cumulative Redeemable Preferred Stock of the Company. The Company's preferred stock issued to the former TriNet preferred shareholders has substantially the same terms as the TriNet preferred stock, except that the new Series B, C and D preferred stock has additional voting rights not

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 4--CAPITAL TRANSACTIONS (CONTINUED)

associated with the TriNet preferred stock. The holders of the Company's Series A preferred stock retained the same rights and preferences as existed prior to the TriNet Acquisition.

The TriNet Acquisition was accounted for as a purchase. Because the Company's stock prior to the transaction was largely held by the Starwood Investors, and, as a result, the stock was not widely traded relative to the amount of shares outstanding, the pro forma financial information presented below was prepared utilizing a stock price of \$28.14 per TriNet share, which was the average stock price of TriNet during the five-day period before and after the TriNet Acquisition was agreed to and announced.

ADVISOR TRANSACTION--Contemporaneously with the consummation of the TriNet Acquisition, the Company acquired 100% of the interests in the Advisor in exchange for total consideration of four million shares of Common Stock. For accounting purposes, the Advisor Transaction was not considered the acquisition of a "business" in applying Accounting Principles Board Opinion No. 16, "Business Combinations" and, therefore, the market value of the Common Stock issued in excess of the fair value of the net tangible assets acquired of approximately \$94.5 million was charged to operating income as a non-recurring, non-cash item in the fourth quarter of 1999, rather than capitalized as goodwill.

INCORPORATION MERGER--Prior to the consummation of the TriNet Acquisition and the Advisor Transaction, the Company changed its form from a Maryland trust to a Maryland corporation in the Incorporation Merger, which technically involved a merger of the Company with a wholly-owned subsidiary formed solely to effect such merger. In the Incorporation Merger, the class B shares were converted into shares of Common Stock on a 49-for-one basis (the same ratio at which class B shares were previously convertible into class A shares), and the class A shares were converted into shares of Common Stock on a one-for-one basis. As a result, the Company no longer has multiple classes of common shares. The Incorporation Merger was treated as a transfer of assets and liabilities under common control. Accordingly, the assets and liabilities transferred from the Maryland trust to the Maryland corporation were reflected at their predecessor basis and no gain or loss was recognized.

The Company declared and paid a special dividend of one million shares of its Common Stock payable pro rata to all holders of record of its Common Stock following completion of the Incorporation Merger, but prior to the effective time of the TriNet Acquisition and the Advisor Transaction.

PRO FORMA INFORMATION--The summary unaudited pro forma consolidated statements of operations for the years ended December 31, 1999 and 1998 are presented as if the following transactions, consummated in November 1999, had occurred on January 1, 1998: (1) the TriNet Acquisition; (2) the Advisor Transaction; and (3) the borrowings necessary to consummate the aforementioned transactions, and as if the following transactions consummated in March 1998 had occurred on January 1, 1998: (1) the Recapitalization Transactions; (2) the exchange of each outstanding unit in the APMT Limited Partnership held by holders other than the Company for one class A share; (3) the liquidation and termination of the partnership; and (4) the borrowings necessary to consummate the aforementioned transactions. The unaudited pro forma information is based upon the historical consolidated results of operations of the Company and TriNet for the years ended December 31, 1999 and 1998, after giving effect to the events described above.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 4--CAPITAL TRANSACTIONS (CONTINUED)

PRO FORMA
CONSOLIDATED STATEMENTS OF OPERATIONS
(IN THOUSANDS, EXCEPT PER SHARE DATA)

	FOR THE YEAR ENDED DECEMBER 31,	
	1999	1998
	(UNAUDITED)	
REVENUE:		
Interest income.....	\$218,359	\$140,261
Operating lease income.....	186,776	169,196
Other income.....	21,000	9,776
	-----	-----
Total revenue.....	426,135	319,233
	-----	-----
EXPENSES:		
Interest expense.....	135,795	99,138
Operating costs-corporate tenant lease assets.....	12,601	7,651
Depreciation and amortization.....	36,423	35,053
General and administrative.....	21,716	20,770
Provision for possible credit losses.....	4,750	2,750
Stock option compensation expense.....	2,474	5,985
	-----	-----
Total costs and expenses.....	213,759	171,347
	-----	-----
Income before minority interest.....	\$212,376	\$147,886
Minority interest.....	(164)	(128)
	-----	-----
Net income.....	\$212,212	\$147,758
Preferred dividend requirements.....	(36,906)	(16,622)
	-----	-----
Net income allocable to common shareholders.....	\$175,306	\$131,136
	=====	=====
BASIC EARNINGS PER SHARE:		
Basic earnings per common share.....	\$ 2.01	\$ 1.50
	=====	=====
Weighted average number of common shares outstanding.....	87,073	87,193
	=====	=====

Investments and dispositions are assumed to have taken place as of January 1, 1998; however, loan originations and acquisitions are not reflected in these pro forma numbers until the actual origination or acquisition date by the Company. The pro forma information above excludes the charge of approximately \$94.5 million taken by the Company in fiscal 1999 to reflect the costs incurred in acquiring the Advisor as such charge is non-recurring. The pro forma information also excludes certain non-recurring historical charges recorded by TriNet of \$3.4 million in 1999 for a provision for a real estate write-down and \$3.0 million in 1998 for a special charge for an expected reduction in TriNet's investment activity. General and administrative costs represent estimated expense levels as an internally-managed Company.

The pro forma financial information is not necessarily indicative of what the consolidated results of operations of the Company would have been as of and for the periods indicated, nor does it purport to represent the results of operations for future periods.

ISTAR FINANCIAL INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 5--LOANS AND OTHER LENDING INVESTMENTS

The following is a summary description of the Company's loans and other lending investments (in thousands):

TYPE OF INVESTMENT	UNDERLYING PROPERTY TYPE (1)	# OF BORROWERS IN CLASS (1)	ORIGINAL COMMITMENT AMOUNT (1)	PRINCIPAL BALANCES OUTSTANDING (1)	CARRYING VALUE AS OF DECEMBER 31,	
					2000	1999
Senior Mortgages(5)	Office/Hotel/Mixed Use/ Apartment/Retail/Resort	21	\$1,337,717	\$1,232,307	\$1,210,992	\$1,039,052
Subordinated Mortgages	Office/Hotel/Mixed Use	13	372,136	340,088	325,558	464,105
Corporate Loans/Partnership Loans/Unsecured Notes	Office/Hotel/Residential/ Apartment	14	413,946	401,795	398,978	309,768
Loan Participations	Office/Retail	3	127,497	111,388	111,251	128,105
Other Lending Investments	Resort/Office/Mixed Use/ Residential/Homebuilder	N/A	N/A	N/A	192,404	69,976
Gross Carrying Value					-----	-----
Provision for Possible Credit Losses					\$2,239,183	\$2,011,006
Total, Net					-----	-----
					(14,000)	(7,500)
					-----	-----
Total, Net					\$2,225,183	\$2,003,506
					=====	=====

TYPE OF INVESTMENT	EFFECTIVE MATURITY DATES	CONTRACTUAL INTEREST PAYMENT RATES (2)	CONTRACTUAL INTEREST ACCRUAL RATES (3)	PRINCIPAL AMORTIZ- ATION	PARTICI- PATION FEATURES
Senior Mortgages(5)	2001 to 2019	Fixed: 6.13% to 20.00% Variable: LIBOR + 1.50% to 6.00%	Fixed: 6.13% to 24.00% Variable: LIBOR + 1.50% to 6.00%	Yes (4)	Yes (3)
Subordinated Mortgages	2002 to 2007	Fixed: 7.00% to 15.25% Variable: LIBOR + 5.80%	Fixed: 10.07% to 17.00% Variable: LIBOR + 5.80%	Yes (4)	Yes (3)
Corporate Loans/Partnership Loans/Unsecured Notes	2001 to 2008	Fixed: 6.13% to 14.50% Variable: LIBOR + 2.78% to 7.50%	Fixed: 6.13% to 17.50% Variable: LIBOR + 2.78% to 7.50%	Yes	Yes (3)
Loan Participations	2003 to 2005	Fixed: 10.00% to 13.60% Variable: LIBOR + 4.50%	Fixed: 13.60% to 14.00% Variable: LIBOR + 4.50%	No	Yes (3)
Other Lending Investments	2002 and 2013	Fixed: 6.75% to 12.75%	Fixed: 6.75% to 12.75%	No	No
Gross Carrying Value					
Provision for Possible Credit Losses					
Total, Net					

EXPLANATORY NOTES:

- (1) Amounts and details are for loans outstanding as of December 31, 2000.
- (2) Substantially all variable-rate loans are based on 30-day LIBOR and reprice monthly. The 30-day LIBOR rate on December 29, 2000 was 6.56%.
- (3) Under some of these loans, the lender receives additional payments representing additional interest from participation in available cash flow from operations of the property and the proceeds, in excess of a base amount, arising from a sale or refinancing of the property.
- (4) The loans require fixed payments of principal and interest resulting in partial principal amortization over the term of the loan with the remaining principal due at maturity. In addition, one of the loans permits additional annual prepayments of principal of up to \$1.3 million without penalty at the borrower's option.
- (5) The unfunded commitment amount on one of the Company's construction loans, included in senior mortgages, was \$16.2 million as of December 31, 1999. As of December 31, 2000, the construction loan was fully funded.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 5--LOANS AND OTHER LENDING INVESTMENTS (CONTINUED)

During the years ended December 31, 2000 and 1999, respectively, the Company and its affiliated ventures originated or acquired an aggregate of approximately \$721.2 million and \$663.4 million in loans and other lending investments, funded \$56.0 million and \$46.4 million under existing loan commitments and received principal repayments of \$584.5 million and \$561.9 million.

As of December 31, 2000, the Company had nine loans with unfunded commitments. The total unfunded commitment amount was approximately \$151.1 million, of which \$83.5 million was discretionary (i.e., at the Company's option) and \$67.6 million was non-discretionary.

The Company's loans and other lending investments are predominantly pledged as collateral under either the iStar Asset Receivables secured notes, the secured revolving facilities or secured term loans (see Note 7).

The Company has reflected provisions for possible credit losses of approximately \$6.5 million, \$4.8 million and \$2.8 million in its results of operations during the years ended December 31, 2000, 1999 and 1998, respectively. These provisions represent portfolio reserves based on management's evaluation of general market conditions, the Company's internal risk management policies and credit risk ratings system, industry loss experience, the likelihood of delinquencies or defaults, and the underlying collateral. No direct impairment reserves on specific loans were considered necessary. Management may transfer reserves between general and specific reserves as considered necessary.

NOTE 6--REAL ESTATE SUBJECT TO OPERATING LEASES

During 2000, the Company acquired one corporate tenant lease facility for a purchase price of \$22.8 million and exercised an option to purchase another facility for \$16.4 million by funding an additional \$474,000 on an existing convertible mortgage loan. Construction was completed on five facilities under development in one of the Company's joint venture partnerships for a total development cost of \$65.2 million. In addition, the TN-CP joint venture acquired one facility for a purchase price of \$36.8 million. The Company also purchased 78.4 acres of land for approximately \$80.7 million subject to a 20-year ground lease to a corporate customer, with the first year of operating lease payments equal to a return on cost of approximately 11.6%. In addition, the Company purchased 32.4 acres of land for approximately \$2.3 million on which it is constructing a build-to-suit distribution facility for a corporate customer under a 15-year tenant lease.

The Company's investments in real estate subject to operating leases, at cost, were as follows (in thousands):

	DECEMBER 31,	
	2000	1999
Buildings and improvements.....	\$1,294,572	\$1,390,933
Land and land improvements.....	344,490	277,872
Less: accumulated depreciation.....	(46,975)	(14,627)
	-----	-----
	1,592,087	1,654,178
Investments in unconsolidated joint ventures.....	78,082	60,106
	-----	-----
Real estate subject to operating leases, net...	\$1,670,169	\$1,714,284
	=====	=====

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 6--REAL ESTATE SUBJECT TO OPERATING LEASES (CONTINUED)

The Company's net lease facilities are leased to customers with initial term expiration dates from 2001 to 2020. Future operating lease payments under non-cancelable leases, excluding customer reimbursements of expenses, in effect at December 31, 2000, are approximately as follows (in thousands):

YEAR	AMOUNT
-----	-----
2001.....	\$ 176,429
2002.....	172,811
2003.....	164,401
2004.....	146,279
2005.....	127,867
Thereafter.....	751,177

	\$1,538,964
	=====

Under certain leases, the Company receives additional participating lease payments to the extent gross revenues of the tenant exceed a base amount. The Company earned \$0.6 million and \$0.5 million of such additional participating lease payments in the years ended December 31, 2000 and 1999, respectively. In addition, the Company also receives reimbursements from tenants for certain facility operating expenses.

At December 31, 2000, the Company had investments in five joint ventures: (1) TriNet Sunnyvale Partners L.P. ("Sunnyvale"), whose external partners are John D. O'Donnell, Trustee, John W. Hopkins, and Donald S. Grant; (2) Corporate Technology Associates LLC ("CTC I"), whose external member is Corporate Technology Centre Partners LLC; (3) Sierra Land Ventures ("Sierra"), whose external joint venture partner is Sierra-LC Land, Ltd.; (4) TriNet Milpitas Associates, LLC ("Milpitas"), whose external member is The Prudential Insurance Company of America; and (5) ACRE Simon, L.L.C. ("ACRE"), whose external partner is William E. Simon & Sons Realty Investments, L.L.C. These ventures were formed for the purpose of operating, acquiring and in certain cases, developing corporate tenant lease facilities. At December 31, 2000, all facilities held by CTC II and TN-CP had been sold. The Company previously had an equity investment in CTC II which was sold for approximately \$66.0 million in September, 2000. In connection with this sale, the note receivable from the venture was modified to mature on December 31, 2001. The note receivable and related accrued interest are included in Loans and Other Lending Investments at December 31, 2000.

Through the TriNet Acquisition, the Company also acquired a 50% interest in W9/TriNet Poydras LLC ("Poydras"). Effective November 22, 1999, the joint venture partners, who are affiliates of Whitehall Street Real Estate Limited Partnership, IX and The Goldman Sachs Group L.P. (the "Whitehall Group"), elected to exercise their right under the partnership agreement, which was accelerated as a result of the TriNet Acquisition, to exchange all of their membership units for 350,746 shares of Common Stock of the Company and a \$767,000 distribution of available cash. As a consequence, Poydras is now wholly owned and is reflected on a consolidated basis in these financial statements.

At December 31, 2000, the ventures comprised 23 net leased facilities, three of which were under development (these three facilities became fully operational with lease payments commencing as of January 2001). Additionally, 17.7 acres of land are held for sale. The Company's combined investment in these joint ventures at December 31, 2000 was \$78.1 million. The joint ventures' purchase price for the 23 facilities owned at December 31, 2000 was \$295.7 million. The purchase price of the land held for sale was \$6.8 million. In the aggregate, the joint ventures had total assets of \$366.8 million and total liabilities of \$267.8 million as of December 31, 2000, and net income of \$7.1 million for the year ended December 31,

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 6--REAL ESTATE SUBJECT TO OPERATING LEASES (CONTINUED)

2000. The Company accounts for these investments under the equity method because the Company's joint venture partners have certain participating rights which limit the Company's control. The Company's investments in and advances to unconsolidated joint ventures, its percentage ownership interests, its respective income and the Company's pro rata share of its ventures' third-party debt as of December 31, 2000 are presented below (in thousands):

UNCONSOLIDATED JOINT VENTURE	OWNERSHIP %	EQUITY INVESTMENT	NOTE RECEIVABLE	ACCRUED INTEREST RECEIVABLE	TOTAL INVESTMENT	JOINT VENTURE INCOME	INTEREST INCOME	PRO RATA SHARE OF THIRD-PARTY DEBT
Operating:								
Sunnyvale.....	44.7%	\$12,772	\$ --	\$ --	\$ 12,772	\$1,163	\$ --	\$ 10,728
CTC I.....	50.0%	32,440	--	--	32,440	1,053	--	43,789
CTC II.....	50.0%	--	24,874	6,222	31,096	(755)	5,371	--
Milpitas.....	50.0%	24,289	--	--	24,289	2,941	--	40,641
TN-CP.....	50.0%	--	--	--	--	397	--	--
ACRE Simon.....	20.0%	5,099	--	--	5,099	42	--	6,009
Development:								
Sierra.....	50.0%	3,482	--	--	3,482	217	--	724
Total.....		\$78,082	\$24,874	\$6,222	\$109,178	\$5,058	\$5,371	\$101,891

Effective September 29, 2000, iStar Sunnyvale Partners, LP entered into an interest rate cap agreement with Bear Stearns Financial Products, limiting the venture's exposure to interest rate movements on its \$24.0 million LIBOR-based mortgage loan to an interest rate cap of 9.0% through November 9, 2003.

Currently, the limited partners of the Sunnyvale partnership have the option to convert their partnership interest into cash; however, the Company may elect to deliver 297,728 shares of Common Stock in lieu of cash. Additionally, commencing in February 2002, subject to acceleration under certain circumstances, partnership units held by certain partners of Milpitas may be converted into 984,476 shares of Common Stock.

Income generated from the above joint venture investments is included in Operating Lease Income in the Consolidated Statements of Operations.

ISTAR FINANCIAL INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 7--DEBT OBLIGATIONS

As of December 31, 2000 and 1999, the Company has debt obligations under various arrangements with financial institutions as follows (in thousands):

	MAXIMUM AMOUNT AVAILABLE	CARRYING VALUE AS OF		STATED INTEREST RATES	SCHEDULED MATURITY DATE
		DECEMBER 31, 2000	DECEMBER 31, 1999		
SECURED REVOLVING CREDIT FACILITIES:					
Line of credit.....	\$ 700,000 (1)	\$ 284,371	\$ 592,984	LIBOR + 1.75% - 2.25% (1)	March 2005 (1)
Line of credit.....	500,000	307,978	169,952	LIBOR + 1.50% - 1.75% (2)	August 2002 (2)
UNSECURED REVOLVING CREDIT FACILITIES:					
Line of credit.....	350,000	173,450	186,700	LIBOR + 1.55%	May 2001 (3)
Line of credit.....	100,000	--	--	LIBOR + 2.25%	January 2002
Total revolving credit facilities.....	\$1,650,000	765,799	949,636		
=====					
SECURED TERM LOANS:					
Secured by real estate under operating leases.....		150,678	153,618	7.44%	March 2009
Secured by senior and subordinate mortgage investments.....		--	109,398	LIBOR + 1.00%	August 2000 (4)
Secured by senior mortgage investment.....		--	90,902	LIBOR + 1.00%	August 2000 (4)
Secured by corporate lending investments.....		60,000	--	LIBOR + 2.50%	June 2003 (5)
Secured by real estate under operating leases (6).....		77,860	78,610	LIBOR + 1.38%	June 2001
Secured by real estate under operating leases.....		60,471	73,279	Fixed: 6.00%-11.38% Variable: LIBOR + 1.00%	(7)
Secured by senior mortgage investment.....		--	54,000	LIBOR+ 1.75% (8)	November 2000
Total term loans.....		349,009	559,807		
Debt premiums (discounts).....		51	(521)		
Total secured term loans.....		349,060	559,286		
iStar Asset Receivables secured notes:					
Class A.....		207,114	--	LIBOR + 0.30%	August 2003 (9)
Class B.....		94,055	--	LIBOR + 0.50%	October 2003 (9)
Class C.....		105,813	--	LIBOR + 1.00%	January 2004 (9)
Class D.....		52,906	--	LIBOR + 1.45%	June 2004 (9)
Class E.....		123,447	--	LIBOR + 2.75%	January 2005 (9)
Class F.....		5,000	--	LIBOR + 3.15%	January 2005 (9)
Total iStar Asset Receivables secured notes.....		588,335	--		
UNSECURED NOTES (10):					
6.75% Dealer Remarketable Securities (11).....		125,000	125,000	6.75%	March 2013
7.30% Notes.....		100,000	100,000	7.30%	May 2001
7.70% Notes.....		100,000	100,000	7.70%	July 2017
7.95% Notes.....		50,000	50,000	7.95%	May 2006
Total unsecured notes.....		375,000	375,000		
Less: debt discount (12).....		(18,490)	(21,481)		
Total unsecured notes.....		356,510	353,519		
OTHER DEBT OBLIGATIONS.....		72,263	38,763	Various	Various
TOTAL DEBT OBLIGATIONS.....		\$2,131,967	\$1,901,204		
=====					

EXPLANATORY NOTES:

(1) On December 28, 2000, the Company expanded the facility to \$700.0 million, increased the range of collateral eligible for inclusion in the facility, increased pricing to LIBOR +1.75% to 2.25%, and extended its final maturity to March 2005 (including an option to extend for an additional year).

- (2) On February 4, 2000, the Company extended the term of its \$500.0 million facility to August 2002 and increased pricing under the facility to LIBOR + 1.50% to 1.75%.
- (3) Subsequent to year end, the Company extended the maturity of this credit facility to May 2002.
- (4) On May 17, 2000, the Company repaid these secured term loan obligations.
- (5) The Company has a one-year extension option in June 2003.
- (6) The Company provides a guarantee for 25% of the principal balance outstanding.
- (7) These mortgage loans mature at various dates through 2010.
- (8) On November 30, 2000, the Company repaid this secured loan obligation.
- (9) Principal payments on these bonds are a function of the principal repayments on loan assets which collateralize these obligations. The dates indicated above represent the expected date on which the final payment would occur for such class based on the assumptions that the loans which collateralize the obligations are not voluntarily prepaid, the loans are paid on their effective maturity dates and no extensions of the effective maturity dates of any of the loans are granted. The final maturity date for the underlying indenture on classes A, B, C, D, E and F is September 25, 2022.
- (10) The notes are callable by the Company at any time for an amount equal to the total of principal outstanding, accrued interest and the applicable make-whole prepayment premium.
- (11) Subject to mandatory tender on March 1, 2003, to either the dealer or the Leasing Subsidiary. The initial coupon of 6.75% applies to first five-year term through the mandatory tender date. If tendered to the dealer, the notes must be remarketed. The rates reset upon remarketing.
- (12) These obligations were assumed as part of the TriNet Acquisition. As part of the accounting for the purchase, these fixed rate obligations were considered to have stated interest rates which were below the then prevailing market rates at which the Leasing Subsidiary could issue new debt obligations and, accordingly, the Company ascribed a market discount to each obligation. Such discounts will be amortized as an adjustment to interest expense using the effective interest method over the related term of the obligations. As adjusted, the effective annual interest rates on these obligations were 8.81%, 8.75%, 9.51% and 9.04%, for the 6.75% Dealer Remarketable Securities, 7.30% Notes, 7.70% Notes and 7.95% Notes, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 7--DEBT OBLIGATIONS (CONTINUED)

Availability of amounts under the secured revolving credit facilities are based on percentage borrowing base calculations.

Certain of the Leasing Subsidiary's debt obligations contain financial covenants pertaining to the subsidiary. Such obligations also establish restrictions on certain intercompany transactions between the Leasing Subsidiary and other Company affiliates. Further, such obligations also provide for a limit on distributions from the Leasing Subsidiary at 85% of cash flow from operations on a rolling four-quarter basis.

On January 31, 2000, the Company closed a new unsecured revolving credit facility. The facility is led by a major commercial bank, which committed \$50.0 million of the facility amount. On July 7, 2000, the Company increased the facility amount to \$100.0 million through syndication. The new facility has a two-year primary term and a one-year extension, at the Company's option, and bears interest at LIBOR plus 2.25%.

On February 4, 2000, the Company extended the term of its existing \$500.0 million secured credit facility. The Company extended the original August 2000 maturity date to August 2002, through a one-year extension to the facility's draw period and an additional one-year "term out" period during which outstanding principal amortizes 25% per quarter. In connection with the extension, the Company and the facility lender also expanded the range of assets that the lender would accept as collateral under the facility. In exchange for the extension and expansion, the Company agreed to increase the facility's interest rate from LIBOR plus 1.25% to 1.50%, to a revised rate of LIBOR plus 1.50% to 1.75%, depending upon certain conditions.

On May 17, 2000, the Company closed the inaugural offering under its proprietary matched funding program, iStar Asset Receivables ("STARS"), Series 2000-1. In the initial transaction, a wholly-owned subsidiary of the Company issued \$896.5 million of investment grade bonds secured by the subsidiary's assets, which had an aggregate outstanding principal balance of approximately \$1.2 billion at inception. Principal payments received on the assets will be utilized to repay the most senior class of the bonds then outstanding. The maturity of the bonds match funds the maturity of the underlying assets financed under the program. The Company initially purchased the class F bonds at a par value of \$38.2 million, which the Company financed with a \$27.8 million repurchase agreement maturing in May 2001, which has a balance of \$24.2 million at December 31, 2000 and is included in other debt obligations in the preceding table. On July 17, 2000, the Company sold, at par, \$5.0 million of the class F bonds to an institutional investor. For accounting purposes, these transactions were treated as secured financings.

On June 20, 2000, the Company closed a \$60.0 million term loan secured by a corporate lending investment it originated in the first quarter of 2000. The new loan replaced a \$30.0 million interim facility, and effectively match funds the expected weighted average maturity of the underlying corporate loan asset. The loan has a three-year primary term and a one-year extension, at the Company's option, and bears interest at LIBOR plus 2.50%.

On December 28, 2000, the Company expanded its existing \$675.0 million secured warehouse facility to \$700.0 million. The Company extended the original March 2001 maturity date to March 2005, including a one-year "term-out" extension option to the facility's maturity during which the interest rate spread will increase 25 basis points, no additional draws under the facility will be permitted, and the outstanding principal must amortize 25% per quarter. In connection with the extension, the Company and the facility lender also increased the range of collateral eligible for inclusion in the facility. Also in connection with the

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 7--DEBT OBLIGATIONS (CONTINUED)

extension, the Company agreed to increase the facility's interest rate from LIBOR plus 1.50% to a revised rate of LIBOR plus 1.75% to 2.25%, depending upon certain conditions.

See also Note 17--Subsequent Events for information on a new \$700.0 million secured revolving credit facility entered into on January 11, 2001 and the extension of the Company's \$350.0 million unsecured revolving credit facility.

During the year ended December 31, 2000, the Company incurred an extraordinary loss of approximately \$0.7 million as a result of the early retirement of certain secured debt obligations of its Leasing Subsidiary.

Future expected/scheduled maturities of outstanding long-term debt obligations are as follows (in thousands):

2001(1).....	\$ 280,917
2002(2).....	496,420
2003.....	361,169
2004.....	158,719
2005(3).....	416,557
Thereafter.....	436,624

Total principal maturities.....	2,150,406
Net unamortized debt (discounts)/premiums.....	(18,439)

Total debt obligations.....	\$2,131,967
	=====

EXPLANATORY NOTES:

- -----

- (1) Includes the 1994 mortgage loan balance of \$36.3 million which had an original maturity date in 2004 and was repaid on March 1, 2001.
- (2) Reflects the one-year extension on the \$350.0 million unsecured revolving credit facility to mature in 2002.
- (3) Assumes exercise of one-year extension option on secured revolving facility.

NOTE 8--SHAREHOLDERS' EQUITY

Prior to November 4, 1999, the Company was authorized to issue 105.0 million shares, representing 70.0 million class A shares and 35.0 million class B shares, with a par value of \$1.00 and \$0.01 per share, respectively. Class B shares were required to be issued by the Company in an amount equal to one half of the number of class A shares outstanding. Class A and class B shares were each entitled to one vote per share with respect to the election of directors and other matters. Pursuant to the Declaration of Trust, the class B shares were convertible at the option of the class B shareholders into class A shares on the basis of 49 class B shares for one class A share. However, the holder of class B shares had agreed with the Company that it would not convert the class B shares into class A shares without the approval of a majority of directors that were not affiliated with such holder. All distributions of cash were made 99% to the holders of class A shares and 1% to the holders of class B shares.

On December 15, 1998, for an aggregate purchase price of \$220.0 million, the Company issued 4.4 million shares of Series A Preferred Stock and warrants to acquire 6.1 million common shares of Common Stock, as adjusted for dilution, at \$34.35 per share. The warrants are exercisable on or after

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 8--SHAREHOLDERS' EQUITY (CONTINUED)

December 15, 1999 at a price of \$34.35 per share and expire on December 15, 2005. The proceeds were allocated between the two securities issued based on estimated relative fair values.

As more fully described in Note 4, the Company consummated a series of transactions on November 4, 1999 in which its class A and class B shares were exchanged into a single class of Common Stock. The Company's charter now provides for the issuance of up to 200.0 million shares of Common Stock, par value \$0.001 per share, and 30.0 million shares of preferred stock. As part of these transactions, the Company adopted articles supplementary creating four series of preferred stock designated as 9.5% Series A Cumulative Redeemable Preferred Stock, consisting of 4.4 million shares, 9.375% Series B Cumulative Redeemable Preferred Stock, consisting of 2.3 million shares, 9.20% Series C Cumulative Redeemable Preferred Stock, consisting of approximately 1.5 million shares, and 8.0% Series D Cumulative Redeemable Preferred Stock, consisting of 4.6 million shares. The Series B, C and D Cumulative Redeemable Preferred Stock were issued in the TriNet Acquisition in exchange for similar issuances of TriNet stock then outstanding. The Series A, B, C and D Cumulative Redeemable Preferred Stock are redeemable without premium at the option of the Company at their respective liquidation preferences beginning on December 15, 2003, June 15, 2001, August 15, 2001 and October 8, 2002, respectively.

STOCK REPURCHASE PROGRAM: The Board of Directors approved, and the Company has implemented, a stock repurchase program under which the Company is authorized to repurchase up to 5.0 million shares of its Common Stock from time to time, primarily using proceeds from the disposition of assets and excess cash flow from operations, but also using borrowings under its credit facilities if the Company determines that it is advantageous to do so. As of December 31, 2000 and December 31, 1999, the Company had repurchased approximately 2.3 million shares at an aggregate cost of approximately \$40.7 million and \$40.4 million, respectively.

NOTE 9--RISK MANAGEMENT AND USE OF FINANCIAL INSTRUMENTS

RISK MANAGEMENT--In the normal course of its on-going business operations, the Company encounters economic risk. There are three main components of economic risk: interest rate risk, credit risk and market risk. The Company is subject to interest rate risk to the degree that its interest-bearing liabilities mature or reprice at different speeds, or different bases, than its interest-earning assets. Credit risk is the risk of default on the Company's loan assets that results from a property's, borrower's or tenant's inability or unwillingness to make contractually required payments. Market risk reflects changes in the value of loans due to changes in interest rates or other market factors, including the rate of prepayments of principal and the value of the collateral underlying loans and the valuation of corporate tenant lease facilities held by the Company.

USE OF DERIVATIVE FINANCIAL INSTRUMENTS--The Company's use of derivative financial instruments is primarily limited to the utilization of interest rate agreements or other instruments to manage interest rate risk exposure. The principal objective of such arrangements is to minimize the risks and/or costs associated with the Company's operating and financial structure as well as to hedge specific anticipated transactions. The counterparties to these contractual arrangements are major financial institutions with which the Company and its affiliates may also have other financial relationships. The Company is potentially exposed to credit loss in the event of nonperformance by these counterparties. However, because of their high credit ratings, the Company does not anticipate that any of the counterparties will fail to meet their obligations.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 9--RISK MANAGEMENT AND USE OF FINANCIAL INSTRUMENTS (CONTINUED)

The Company has entered into LIBOR interest rate caps struck at 9.00%, 7.50% and 7.50% in notional amounts of \$300.0 million, \$40.4 million and \$38.3 million, respectively, which expire in March 2001, January 2001 and June 2001, respectively. In addition, in connection with the TriNet Acquisition, the Company acquired LIBOR interest rate caps currently struck at 7.75%, 7.75% and 7.50% in notional amounts of \$75.0 million, \$35.0 million and \$75.0 million, respectively, which expire in December 2004, December 2004 and August 2001, respectively. In connection with the closing of STARS, Series 2000-1 in May 2000, the Company entered into a LIBOR interest rate cap struck at 10.00% in the notional amount of \$312.0 million, and simultaneously sold a LIBOR interest rate cap with the same terms. Since these instruments do not reduce the Company's net interest rate risk exposure, they do not qualify as hedges and changes in their respective values are charged to earnings. As the significant terms of these arrangements are substantially the same, the effects of a revaluation of these two instruments are expected to substantially offset one another. At December 31, 2000 and 1999, the net fair value of the Company's interest rate caps were \$0.4 million and \$2.2 million, respectively.

The Company has entered into LIBOR interest rate swaps struck at 5.714%, 7.055%, and 7.058% in notional amounts of \$92.0 million, \$125.0 million and \$125.0 million, respectively, which expire in March 2001, June 2003 and June 2003, respectively. These swaps effectively fix the interest rate on a portion of the Company's floating-rate term loan obligations. In connection with the TriNet Acquisition, the Company acquired an interest rate swap which, together with certain existing interest rate cap agreements, effectively fix the interest rate on \$75.0 million of the Leasing Subsidiary's LIBOR-based borrowings at 5.58% plus the applicable margin through December 1, 2004. Management expects that it will have aggregate LIBOR-based borrowings at the Leasing Subsidiary in excess of the notional amount for the duration of the swap. The actual borrowing cost to the Company with respect to indebtedness covered by the swap will depend upon the applicable margin over LIBOR for such indebtedness, which will be determined by the terms of the relevant debt instruments. In June 2000, an interest rate swap with a notional amount of approximately \$112.0 million matured. At December 31, 2000 and 1999, the fair value (liability) of the Company's interest rate swaps were (\$7.7) million and \$3.4 million, respectively.

During the year ended December 31, 1999, the Company settled an aggregate notional amount of approximately \$63.0 million that was outstanding under certain hedging agreements which the Company had entered into in order to hedge the potential effects of interest rate movements on anticipated fixed-rate borrowings. The settlement of such agreements resulted in a receipt of approximately \$0.6 million which had been deferred pending completion of the planned fixed-rate financing transaction. Subsequently, the transaction was modified and was actually consummated as a variable-rate financing transaction. As a result, the previously deferred receipt no longer qualified for hedge accounting treatment and the \$0.6 million was recognized as a gain included in other income in the consolidated statement of operations for the year ended December 31, 2000 in connection with the closing of STARS, Series 2000-1.

During the year ended December 31, 1999, the Company refinanced its \$125.0 million term loan maturing March 15, 1999 with a \$155.4 million term loan maturing March 5, 2009. The new term loan bears interest at 7.44% per annum, payable monthly, and amortizes over an approximately 22-year schedule. The new term loan represented forecasted transactions for which the Company had previously entered into U.S. Treasury-based hedging transactions. The net \$3.4 million cost of the settlement of such hedges has been deferred and is being amortized as an increase to the effective financing cost of the new term loan over its effective ten-year term.

CREDIT RISK CONCENTRATIONS--Concentrations of credit risks arise when a number of borrowers or tenants related to the Company's investments are engaged in similar business activities, or activities in the

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 9--RISK MANAGEMENT AND USE OF FINANCIAL INSTRUMENTS (CONTINUED)

same geographic region, or have similar economic features that would cause their ability to meet contractual obligations, including those to the Company, to be similarly affected by changes in economic conditions. The Company regularly monitors various segments of its portfolio to assess potential concentrations of credit risks. Management believes the current credit risk portfolio is reasonably well diversified and does not contain any unusual concentration of credit risks.

Substantially all of the Company's real estate subject to operating leases (including those held by joint ventures) and loans and other lending investments, are collateralized by facilities located in the United States, with significant concentrations (i.e., greater than 10%) as of December 31, 2000 in California (23.7%) and Texas (14.7%). As of December 31, 2000, the Company's investments also contain significant concentrations in the following asset/collateral types: office (48.5%) and hotel/resorts (20.2%).

The Company underwrites the credit of prospective borrowers and tenants and often requires them to provide some form of credit support such as corporate guarantees or letters of credit. Although the Company's loans and other lending investments and corporate tenant lease assets are geographically diverse and the borrowers and tenants operate in a variety of industries, to the extent the Company has a significant concentration of interest or operating lease revenues from any single borrower or tenant, the inability of that borrower or tenant to make its payment could have an adverse effect on the Company. As of December 31, 2000, the Company's five largest borrowers or tenants collectively accounted for approximately 18.6% of the Company's aggregate annualized interest and operating lease revenue.

NOTE 10--INCOME TAXES

Although originally formed to qualify as a REIT under the Code for the purpose of making and acquiring various types of mortgage and other loans, during 1993 through 1997, the Company failed to qualify as a REIT. As confirmed by a closing agreement with the Internal Revenue Service (the "IRS") obtained in March 1998, the Company was eligible, elected to be taxed as a REIT and qualified for REIT status for the tax years commencing on January 1, 1998. The Company did not incur any material tax liabilities as a result of its operations during such years.

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and income tax purposes, as well as operating loss and tax credit carry forwards. A valuation allowance is recorded if, based on the weight of available evidence, it is more likely than not that some portion or all of the deferred income tax asset will not be realized. Given the limited nature of the Company's operations and assets and liabilities from 1993 through 1997, the only deferred tax assets are net operating loss carry forwards ("NOL's") of approximately \$4.0 million, which arose during such periods. Since the Company has elected to be treated as a REIT for its tax years beginning January 1, 1998, the NOL's will expire unutilized. Accordingly, no net deferred tax asset value, after consideration of a 100% valuation allowance, has been reflected in these financial statements as of December 31, 2000 and 1999, nor has any net tax provision for the fiscal years ended December 31, 2000, 1999 or 1998.

NOTE 11--STOCK OPTION PLANS AND EMPLOYEE BENEFITS

The Company's 1996 Long-Term Incentive Plan (the "Plan") is designed to provide incentive compensation for officers, other key employees and directors of the Company. The Plan provides for awards of stock options and restricted stock and other performance awards. The maximum number of shares of Common Stock available for awards under the Plan is 9% of the outstanding shares of Common Stock, calculated on a fully diluted basis, from time to time; provided that the number of shares of

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 11--STOCK OPTION PLANS AND EMPLOYEE BENEFITS (CONTINUED)

Common Stock reserved for grants of options designated as incentive stock options is 5.0 million, subject to certain antidilution provisions in the Plan. All awards under the Plan, other than automatic awards to non-employee directors, are at the discretion of the Board or a committee of the Board. At December 31, 2000, a total of approximately 7.7 million shares of Common Stock were available for awards under the Plan, of which options to purchase approximately 4.7 million shares of Common Stock were outstanding and approximately 56,000 shares of restricted stock were outstanding.

Concurrently with the Recapitalization Transactions, the Company issued approximately 2.5 million (as adjusted) fully vested and immediately exercisable options to purchase class A shares at \$14.72 per share (as adjusted) to the Advisor with a term of ten years. The Advisor granted a portion of these options to its employees and the remainder were allocated to an affiliate. Upon consummation of the Advisor Transaction, these individuals became employees of the Company. In general, the grants to these employees provided for scheduled vesting over a predefined service period of three to five years and, under certain conditions, provide for accelerated vesting. These options expire on March 15, 2008.

In connection with the TriNet Acquisition, outstanding options to purchase TriNet stock under TriNet's stock option plans were converted into options to purchase shares of Common Stock on substantially the same terms, except that both the exercise price and number of shares issuable upon exercise of the TriNet options were adjusted to give effect to the merger exchange ratio of 1.15 shares of Common Stock for each share of TriNet common stock. In addition, options held by the former directors of TriNet and certain executive officers became fully vested as a result of the transaction. Such options were converted into options to purchase shares of Common Stock on substantially the same terms, as adjusted for the merger exchange ratio.

Also, as a result of the TriNet Acquisition, TriNet terminated its dividend equivalent rights program. The program called for immediate vesting and cash redemption of all dividend equivalent rights upon a change of control of 50% or more of the voting common stock. Concurrent with the TriNet Acquisition, all dividend equivalent rights were vested and amounts due to former TriNet employees of approximately \$8.3 million were paid by the Company. Such payments were included as part of the purchase price paid by the Company to acquire TriNet for financial reporting purposes.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 11--STOCK OPTION PLANS AND EMPLOYEE BENEFITS (CONTINUED)

Changes in options outstanding during each of fiscal 1998, 1999 and 2000 are as follows:

	NUMBER OF SHARES			AVERAGE STRIKE PRICE
	EMPLOYEES	NON-EMPLOYEE DIRECTORS	OTHER	
OPTIONS OUTSTANDING, DECEMBER 31, 1997.....	--	1,333	--	\$13.32
Granted in 1998.....	--	9,996	2,402,476	\$ --
Exercised in 1998.....	--	(687)	(18,000)	\$15.00
Forfeited in 1998.....	--	(646)	--	\$15.00
OPTIONS OUTSTANDING, DECEMBER 31, 1998.....	--	9,996	2,384,476	\$15.00
Granted in 1999.....	--	4,998	--	\$57.50
Exercised in 1999.....	--	--	(68,233)	\$15.00
Forfeited in 1999.....	(23,690)	--	(4,166)	\$24.94
Assumed in TriNet Acquisition.....	1,321,322	131,100	--	\$25.62
Reclassification for Advisor Transaction(1).....	1,447,083	--	(1,447,083)	\$15.00
Adjustment for dilution.....	33,537	285	16,169	\$14.72
OPTIONS OUTSTANDING, DECEMBER 31, 1999.....	2,778,252	146,379	881,163	\$19.03
Granted in 2000.....	1,852,059	80,000	80,000	\$17.34
Exercised in 2000.....	(412,734)	--	--	\$15.67
Forfeited in 2000.....	(682,005)	--	--	\$25.47
OPTIONS OUTSTANDING, DECEMBER 31, 2000.....	3,535,572	226,379	961,163	\$18.97

EXPLANATORY NOTE:

(1) Represents the reclassification of stock options originally granted to the Advisor and regranted to its employees who became employees of the Company upon consummation of the Advisor Transaction (see Note 4).

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 11--STOCK OPTION PLANS AND EMPLOYEE BENEFITS (CONTINUED)

The following table summarizes information concerning outstanding and exercisable options as of December 31, 2000:

EXERCISE PRICE RANGE	OPTIONS OUTSTANDING			OPTIONS EXERCISABLE	
	OPTIONS OUTSTANDING	WEIGHTED AVERAGE REMAINING CONTRACTUAL LIFE	WEIGHTED AVERAGE EXERCISE PRICE	CURRENTLY EXERCISABLE	WEIGHTED AVERAGE EXERCISE PRICE
\$14.72 - \$15.00	1,992,668	7.20	\$14.73	947,168	\$14.72
\$16.69 - \$16.88	1,212,109	8.09	\$16.86	81,533	\$16.88
\$17.38 - \$17.56	550,000	9.21	\$17.39	--	\$ --
\$19.50 - \$19.69	6,250	9.39	\$19.54	--	\$ --
\$20.63 - \$21.44	258,050	6.87	\$21.01	100,050	\$21.13
\$22.44 - \$22.45	54,500	3.82	\$22.44	34,500	\$22.45
\$23.32 - \$23.64	130,842	2.12	\$23.46	101,351	\$23.41
\$24.13 - \$24.57	173,650	3.63	\$24.31	173,650	\$24.31
\$25.22 - \$26.09	34,500	3.40	\$25.74	34,500	\$25.74
\$26.30 - \$26.85	108,100	2.95	\$26.74	108,100	\$26.74
\$28.26 - \$28.54	67,113	1.97	\$28.37	60,842	\$28.36
\$30.33	119,888	1.60	\$30.33	99,769	\$30.33
\$33.15 - \$33.70	10,350	1.97	\$33.39	8,913	\$33.43
\$55.39	5,094	8.42	\$55.39	1,698	\$55.39
	4,723,114	7.18	\$17.65	1,752,074	\$19.25

EXPLANATORY NOTE:

(1) Includes approximately 764,000 options which were granted, on a fully exercisable basis, in connection with the Recapitalization Transactions to Starwood Capital Group, and were subsequently regranted by that entity to its employees subject to vesting requirements. As a result of those vesting requirements, less than 2,000 of these options are currently exercisable by the beneficial owners. In the event that these employees forfeit such options, they revert to Starwood Capital Group, who may regrant them at its discretion.

The Company has elected to use the intrinsic method for accounting for options issued to employees or directors, as allowed under Statement of Financial Accounting Standards No. 123 "Accounting for Stock Based Compensation" ("SFAS No. 123") and, accordingly, recognizes no compensation charge in connection with these options to the extent that the options exercise price equals or exceeds the quoted price of the Company's common shares at the date of grant or measurement date. In connection with the Advisor Transaction, as part of the computation of the one-time charge to earnings, the Company calculated a deferred compensation charge of approximately \$5.1 million. This deferred charge represents the difference of the closing sales price of the shares of Common Stock on the date of the Advisor Transaction of \$20.25 over the strike price of the options of \$14.72 per share (as adjusted) for the unvested portion of the options granted to former employees of the Advisor who are now employees of the Company. This deferred charge will be amortized over the related remaining vesting terms to the individual employees as additional compensation expense.

In connection with the original grant of options in March 1998 to the Advisor, the Company utilized the option value method as required by SFAS No. 123. An independent financial advisory firm estimated the value of these options at date of grant to be approximately \$2.40 per share using a Black-Scholes valuation model. In the absence of comparable historical market information for the Company, the

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 11--STOCK OPTION PLANS AND EMPLOYEE BENEFITS (CONTINUED)

advisory firm utilized assumptions consistent with activity of a comparable peer group of companies, including an estimated option life of five years, a 27.5% volatility rate and an estimated annual dividend rate of 8.5%. The resulting charge to earnings was calculated as the number of options allocated to the Advisor multiplied by the estimated value at consummation. A charge of approximately \$6.0 million was reflected in the Company's first quarter 1998 financial results for this original grant.

Had the Company's compensation costs been determined using the fair value method of accounting for stock options issued under the Plan to employees and directors prescribed by SFAS No. 123, the Company's net income and earnings per share for the fiscal years ended December 31, 2000 and 1999 would have been reduced on a pro forma basis by approximately \$275,000 and \$141,000, respectively. This would not have significantly impacted earnings per share. As the Company had no employees prior to the consummation of the Advisor Transaction, no pro forma adjustment is necessary to reflect in the results of operations for fiscal 1998 as if the option value were utilized.

For the above SFAS No. 123 calculation, the Company utilized the following assumptions: a 26.8% volatility rate (historical volatility for the Company's Common Stock at December 31, 2000), a risk free rate of 5.3% and an estimated annual dividend rate of 13.5%.

Future charges may be taken to the extent of additional option grants, which are at the discretion of the Board of Directors.

During the year ended December 31, 2000, the Company granted 76,585 restricted stock units ("RSU's") to new employees. The RSU's vest over a three-year period, with the exception of 12,500 RSU's, which were immediately vested on the date of grant. The RSU's are valued at the date of grant and are reflected as compensation expense over the vesting period.

On July 28, 2000, the Company granted to its employees profits interests in a wholly-owned subsidiary of the Company called iStar Venture Direct Holdings, LLC. iStar Venture Direct Holdings, LLC has invested \$2.4 million in the aggregate in the preferred stock of three real estate-related technology companies. The profits interests have a three-year vesting schedules, and are subject to forfeiture in the event of termination of employment for cause or a voluntary resignation.

Effective November 4, 1999, the Company implemented a savings and retirement plan (the "401 (k) Plan"), which is a voluntary, defined contribution plan. All employees are eligible to participate in the 401 (k) Plan following completion of six months of continuous service with the Company. Each participant may contribute on a pretax basis between 2% and 15% of such participant's compensation. At the discretion of the Board of Directors, the Company may make matching contributions on the participant's behalf up to 50% of the first 10% of the participant's annual contribution. The Company made contributions of approximately \$320,000 to the 401 (k) Plan for the year ended December 31, 2000.

NOTE 12--EARNINGS PER SHARE

Prior to November 4, 1999, Basic EPS was computed based on the income allocable to class A shares (net income reduced by accrued dividends on preferred shares and by 1% allocated to class B shares), divided by the weighted average number of class A shares outstanding during the period. Diluted EPS was based on the net earnings allocable to class A shares plus dividends on class B shares which were convertible into class A shares, divided by the weighted average number of class A shares and dilutive potential class A shares that were outstanding during the period. Dilutive potential class A shares included the class B shares, which were convertible into class A shares at a rate of 49 class B shares for one class A

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 12--EARNINGS PER SHARE (CONTINUED)

share, and potentially dilutive options to purchase class A shares issued to the Advisor and the Company's directors and warrants to acquire class A shares.

As more fully described in Note 4, in the Incorporation Merger, the class A shares and class B shares were converted into shares of Common Stock and, as a result, the Company no longer has multiple classes of common shares. Basic and diluted earnings per share are based upon the following weighted average shares outstanding during the years ended December 31, 2000, 1999 and 1998, respectively:

	YEAR ENDED DECEMBER 31,		
	2000	1999	1998
	(IN THOUSANDS)		
Weighted average common shares outstanding for basic earnings per common share.....	85,441	57,749	41,607
Add effect of assumed shares issued under treasury stock method for stock options and restricted stock units.....	710	1,500	1,311
Add effects of conversion of class B shares (49-for-one)....	--	450	445
Add effects of assumed warrants exercised under treasury stock method for stock options.....	--	694	97
Weighted average common shares outstanding for diluted earnings per common share.....	86,151	60,393	43,460

As previously indicated, effective June 19, 1998, the Company consummated a one-for-six reverse stock split for its shares. Historical earnings per share have been retroactively restated to reflect the reverse split for comparative purposes.

NOTE 13--COMPREHENSIVE INCOME

In June 1997, the FASB issued Statement of Financial Accounting Standards No. 130, "Reporting Comprehensive Income" ("SFAS No. 130") effective for fiscal years beginning after December 15, 1997. The statement changes the reporting of certain items currently reported as changes in the shareholders' equity section of the balance sheet and establishes standards for the reporting and display of comprehensive income and its components in a full set of general-purpose financial statements. SFAS No. 130 requires that all components of comprehensive income shall be reported in the financial statements in the period in which they are recognized. Furthermore, a total amount for comprehensive income shall be displayed in the financial statements. The Company has adopted this standard effective January 1, 1998. Total comprehensive income was \$217.8 million, \$38.7 million and \$59.9 million for the years ended December 31, 2000, 1999 and 1998 respectively. The primary component of comprehensive income other than net income was the change in value of certain investments in marketable securities classified as available-for-sale. Upon adoption of SFAS 133/SFAS 137 effective January 1, 2001 (see Note 3), other comprehensive income will also be affected by the mark-to-market on the effective portion of hedge instruments.

NOTE 14--DIVIDENDS

In order to maintain its election to qualify as a REIT, the Company must distribute, at a minimum, an amount equal to 95% of its taxable income and must distribute 100% of its taxable income to avoid paying corporate federal income taxes. The distribution rate was modified to 90% by the REIT Modernization

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 14--DIVIDENDS (CONTINUED)

Act beginning in fiscal 2001. Accordingly, the Company anticipates it will distribute all of its taxable income to its shareholders. Because taxable income differs from cash flow from operations due to non-cash revenues or expenses, in certain circumstances, the Company may be required to borrow to make sufficient dividend payments to meet this anticipated dividend threshold.

On November 4, 1999, the class A shares were converted into shares of Common Stock on a one-for-one basis. Total dividends declared by the Company aggregated \$116.1 million, or \$1.86 per common share, for the year ended December 31, 1999. For the year ended December 31, 2000, total dividends declared by the Company aggregated \$205.5 million, or \$2.40 per common share. The Company also declared dividends aggregating \$20.9 million, \$4.7 million, \$3.0 million and \$8.0 million, respectively, on its Series A, B, C and D preferred stock, respectively, for the year ended December 31, 2000.

In November 1999, the Company declared and paid a dividend of a total of one million shares of Common Stock pro rata to all holders of record of Common Stock as of the close of business on November 3, 1999.

The Series A preferred stock has a liquidation preference of \$50.00 per share and carries an initial dividend yield of 9.50% per annum. The dividend rate on the preferred shares will increase to 9.75% on December 15, 2005, to 10.00% on December 15, 2006 and to 10.25% on December 15, 2007 and thereafter. Dividends on the Series A preferred shares are payable quarterly in arrears and are cumulative.

Holders of shares of the Series B preferred stock are entitled to receive, when and as declared by the Board of Directors, out of funds legally available for the payment of dividends, cumulative preferential cash dividends at the rate of 9.375% per annum of the \$25.00 liquidation preference, equivalent to a fixed annual rate of \$2.34 per share. Dividends are cumulative from the date of original issue and are payable quarterly in arrears on or before the 15th day of each March, June, September and December or, if not a business day, the next succeeding business day. Any dividend payable on the Series B preferred stock for any partial dividend period will be computed on the basis of a 360-day year consisting of twelve 30-day months. Dividends will be payable to holders of record as of the close of business on the first day of the calendar month in which the applicable dividend payment date falls or on another date designated by the Board of Directors of the Company for the payment of dividends that is not more than 30 nor less than ten days prior to the dividend payment date.

Holders of shares of the Series C preferred stock are entitled to receive, when and as declared by the Board of Directors, out of funds legally available for the payment of dividends, cumulative preferential cash dividends at the rate of 9.20% of the \$25.00 liquidation preference per year, equivalent to a fixed annual rate of \$2.30 per share.

Holders of shares of the Series D preferred stock are entitled to receive, when and as declared by the Board of Directors, out of funds legally available for the payment of dividends, cumulative preferential cash dividends at the rate of 8.00% of the \$25.00 liquidation preference per year, equivalent to a fixed annual rate of \$2.00 per share.

The exact amount of future quarterly dividends to common shareholders will be determined by the Board of Directors based on the Company's actual and expected operations for the fiscal year and the Company's overall liquidity position.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 15--FAIR VALUES OF FINANCIAL INSTRUMENTS

SFAS No. 107, "Disclosures About Fair Value of Financial Instruments" ("SFAS No. 107"), requires the disclosure of the estimated fair values of financial instruments. The fair value of a financial instrument is the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. Quoted market prices, if available, are utilized as estimates of the fair values of financial instruments. Because no quoted market prices exist for a significant part of the Company's financial instruments, the fair values of such instruments have been derived based on management's assumptions, the amount and timing of future cash flows and estimated discount rates. The estimation methods for individual classifications of financial instruments are described more fully below. Different assumptions could significantly affect these estimates. Accordingly, the net realizable values could be materially different from the estimates presented below. The provisions of SFAS No. 107 do not require the disclosure of the fair value of non-financial instruments, including intangible assets or the Company's real estate assets under operating leases.

In addition, the estimates are only indicative of the value of individual financial instruments and should not be considered an indication of the fair value of the Company as an operating business.

SHORT-TERM FINANCIAL INSTRUMENTS--The carrying values of short-term financial instruments including cash and cash equivalents and short-term investments approximate the fair values of these instruments. These financial instruments generally expose the Company to limited credit risk and have no stated maturities, or have an average maturity of less than 90 days and carry interest rates which approximate market.

LOANS AND OTHER LENDING INVESTMENTS--For the Company's interests in loans and other lending investments, the fair values were estimated by discounting the future contractual cash flows (excluding participation interests in the sale or refinancing proceeds of the underlying collateral) using estimated current market rates at which similar loans would be made to borrowers with similar credit ratings for the same remaining maturities.

MARKETABLE SECURITIES--Securities held for investment, securities available for sale, loans held for sale, trading account instruments, long-term debt and trust preferred securities traded actively in the secondary market have been valued using quoted market prices.

OTHER FINANCIAL INSTRUMENTS--The carrying value of other financial instruments including, restricted cash, accrued interest receivable, accounts payable, accrued expenses and other liabilities approximate the fair values of the instruments.

DEBT OBLIGATIONS--A substantial portion of the Company's existing debt obligations bear interest at fixed margins over LIBOR. Such margins may be higher or lower than those at which the Company could currently replace the related financing arrangements. Other obligations of the Company bear interest at fixed rates, which may differ from prevailing market interest rates. As a result, the fair values of the Company's debt obligations were estimated by discounting current debt balances from December 31, 2000 or 1999 to maturity using estimated current market rates at which the Company could enter into similar financing arrangements.

INTEREST RATE PROTECTION AGREEMENTS--The fair value of interest rate protection agreements such as interest rate caps, floors, collars and swaps used for hedging purposes (see Note 9) is the estimated amount the Company would receive or pay to terminate these agreements at the reporting date, taking into account current interest rates and current creditworthiness of the respective counterparties.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 15--FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

The book and fair values of financial instruments as of December 31, 2000 and 1999 were (in thousands):

	2000		1999	
	BOOK VALUE	FAIR VALUE	BOOK VALUE	FAIR VALUE
FINANCIAL ASSETS:				
Loans and other lending				
investments.....	\$2,239,183	\$2,333,112	\$2,011,006	\$2,031,065
Marketable securities.....	41	41	4,344	4,344
Allowance for credit				
losses.....	(14,000)	(14,000)	(7,500)	(7,500)
FINANCIAL LIABILITIES:				
Debt obligations.....	2,131,967	2,135,574	1,901,204	1,885,797
Interest rate protection				
agreements.....	2,495	(7,261)	3,139	5,556

NOTE 16--SEGMENT REPORTING

Statement of Financial Accounting Standard No. 131 ("SFAS No. 131") establishes standards for the way the public business enterprises report information about operating segments in annual financial statements and requires that those enterprises report selected financial information about operating segments in interim financial reports issued to shareholders.

The Company has two reportable segments: Real Estate Lending and Corporate Tenant Leasing. The Company does not have substantial foreign operations. The accounting policies of the segments are the same as those described in Note 3. The Company has no single customer that accounts for 10% or more of revenues (see Note 9 for other information regarding concentrations of credit risk).

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 16--SEGMENT REPORTING (CONTINUED)

The Company evaluates performance based on the following financial measures for each segment:

	REAL ESTATE LENDING	CORPORATE TENANT LEASING (1)	CORPORATE/ OTHER (2)	COMPANY TOTAL
(IN THOUSANDS)				
2000:				
Total revenues(3):	\$ 279,680	\$ 191,821	\$ 321	\$ 471,822
Total operating and interest expense(4):	115,906	111,808	28,570	256,284
Net operating income before minority interests(5):	163,774	80,013	(28,249)	215,538
Total long-lived assets(6):	2,225,183	1,670,169	N/A	3,895,352
Total assets:	2,225,183	1,670,169	139,423	4,034,775
1999:				
Total revenues(3):	209,848	42,186	12,763	264,797
Total operating and interest expense(4):	70,778	36,749	118,343	225,870
Net operating income before minority interests(5):	139,070	5,437	(105,580)	38,927
Total long-lived assets(6):	2,003,506	1,714,284	N/A	3,717,790
Total assets:	2,003,506	1,714,284	95,762	3,813,552
1998:				
Total revenues(3):	112,914	12,378	2,804	128,096
Total operating and interest expense(4):	36,998	12,554	18,587	68,139
Net operating income before minority interests(5):	75,916	(176)	(15,783)	59,957
Total long-lived assets(6):	1,823,761	189,942	N/A	2,013,703
Total assets:	1,823,761	189,942	45,913	2,059,616

EXPLANATORY NOTES:

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- (1) Includes the Company's pre-existing Corporate Tenant Leasing investments since March 18, 1998 and the Corporate Tenant Leasing business acquired in the TriNet Acquisition since November 4, 1999.
- (2) Corporate and Other represents all corporate-level items, including general and administrative expenses and any intercompany eliminations necessary to reconcile to the consolidated Company totals. This caption also includes the Company's servicing business, which is not considered a material separate segment. In addition, as more fully discussed in Note 4, Corporate and Other for the year ended December 31, 1999 includes a non-recurring charge, non-cash of approximately \$94.5 million relating to the Advisor Transaction.
- (3) Total revenues represents all revenues earned during the period from the assets in each segment. Revenue from the Real Estate Lending business primarily represents interest income and revenue from the Corporate Tenant Leasing business primarily represents operating lease income.
- (4) Total operating and interest expense represents provision for possible credit losses for the Real Estate Lending business and operating costs on corporate tenant lease assets for the Corporate Tenant Leasing business, as well as interest expense specifically related to each segment. General and administrative expense, advisory fees (prior to November 4, 1999) and stock option compensation expense is included in Corporate and Other for all periods. Depreciation and amortization of \$34,514, \$10,340 and \$4,287 in 2000, 1999 and 1998, respectively, are included in the amounts presented above.
- (5) Net operating income before minority interests represents net operating income before minority interest, gain on sale of corporate tenant lease assets and extraordinary loss as defined in note (3) above, less total operating and interest expense, as defined in note (4) above.
- (6) Total long-lived assets is comprised of Loans and Other Lending Investments, net and Real Estate Subject to Operating Leases, net, for each respective segment.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 17--SUBSEQUENT EVENTS

On January 11, 2001 the Company closed a new \$700.0 million secured revolving credit facility which is led by a major commercial bank. The new facility has a three-year primary term and one-year "term-out" extension option, and bears interest at LIBOR plus 1.40% to 2.15%, depending upon the collateral contributed to the borrowing base. The new facility accepts a broad range of structured finance assets and has a final maturity of January 2005. In addition, subsequent to year end, the Company extended the maturity of its \$350.0 million unsecured revolving credit facility to May 2002.

NOTE 18--QUARTERLY FINANCIAL INFORMATION (UNAUDITED)

The following table sets forth the selected quarterly financial data for the Company (in thousands, except per share amounts).

	QUARTER ENDED			
	DECEMBER 31,	SEPTEMBER 30,	JUNE 30,	MARCH 31,
2000:				
Revenue.....	\$122,337	\$120,683	\$117,914	\$110,888
Net income.....	56,177	55,591	53,829	51,989
Net income allocable to common shares.....	46,950	46,364	44,602	42,762
Net income per common share.....	\$ 0.55	\$ 0.54	\$ 0.52	\$ 0.50
Weighted average common shares outstanding--basic.....	85,731	85,662	85,281	85,087
1999:				
Revenue.....	\$ 89,483	\$ 60,635	\$ 59,255	\$ 55,424
Net income (loss) (1).....	(50,485)	31,271	29,883	28,217
Net income (loss) allocable to common shares (2).....	(58,405)	25,963	24,575	22,909
Net income (loss) per common shares.....	\$ (0.80)	\$ 0.49	\$ 0.46	\$ 0.43
Weighted average common shares outstanding--basic.....	73,427	52,471	52,471	52,447

EXPLANATORY NOTES:

- (1) As more fully discussed in Note 4, the quarter ended December 31, 1999 includes a non-recurring, non cash charge of approximately \$94.5 million relating to the Advisor Transaction. Excluding such charge, net income for the quarter would have been approximately \$44.0 million and net income per common share for the quarter would have been \$0.49.
- (2) On November 4, 1999, through the Incorporation Merger, the class B shares were effectively converted into shares of Common Stock on a 49-for-one basis and the class A shares were converted into shares of Common Stock on a one-for-one basis.

ISTAR FINANCIAL INC.

SCHEDULE II--VALUATION AND QUALIFYING ACCOUNTS AND RESERVES

(IN THOUSANDS)

DESCRIPTION	BALANCE AT BEGINNING OF PERIOD	ADDITIONS		DEDUCTIONS	BALANCE AT END OF PERIOD
		CHARGED TO COSTS AND EXPENSES	CHARGES TO OTHER ACCOUNTS		
FOR THE YEAR ENDED DECEMBER 31, 1998					
Provision for possible credit losses					
(1).....	\$ --	\$2,750	\$ --	\$ --	\$ 2,750
FOR THE YEAR ENDED DECEMBER 31, 1999					
Provision for possible credit losses					
(1).....	\$2,750	\$4,750	\$ --	\$ --	\$ 7,500
FOR THE YEAR ENDED DECEMBER 31, 2000					
Provision for possible credit losses					
(1).....	\$7,500	\$6,500	\$ --	\$ --	\$14,000

EXPLANATORY NOTE:

(1) See Note 5 to the Company's 2000 Consolidated Financial Statements.

ISTAR FINANCIAL INC.
 SCHEDULE III--REAL ESTATE AND ACCUMULATED DEPRECIATION
 AS OF DECEMBER 31, 2000
 (DOLLARS IN THOUSANDS)

DESCRIPTION	ENCUMBRANCES	INITIAL COST		COSTS CAPITALIZED SUBSEQUENT TO ACQUISITION	GROSS AMOUNT AT CLOSE OF PERIOD		
		LAND	BUILDING AND IMPROVEMENTS		LAND	BUILDING AND IMPROVEMENTS	TOTAL
UNISYS CENTRAL TRAINING CENTER 1 2611 Corporate West Drive Lisle, IL	\$ 5,805	\$ 6,153	\$ 14,993	\$ --	\$ 6,153	\$ 14,993	\$ 21,146
REX STORES CORPORATION 2 2875 Needmore Road Dayton, OH	1,890	873	4,614	--	873	4,614	5,487
THE STANDARD REGISTER COMPANY 3 4000 South Racine Avenue Chicago, IL	--	409	2,893	--	409	2,893	3,302
RALPHS GROCERY COMPANY 4 2652 East Long Beach Avenue Los Angeles, CA	--	9,334	12,501	--	9,334	12,501	21,835
UNIVERSAL TECHNICAL INSTITUTE 5-6 3002 North 27th Avenue Phoenix, AZ	--	1,000	1,997	--	1,000	1,997	2,997
CATERAIR INTERNATIONAL CORPORATION 7 50 Adrian Court Burlingame, CA	--	1,219	3,470	--	1,219	3,470	4,689
8 370 Adrian Road Millbrae, CA	--	741	2,107	--	741	2,107	2,848
9 3500 N.W. 24th Street Miami, FL	--	3,048	8,676	--	3,048	8,676	11,724
10 3630 N.W. 25th Street Miami, FL	--	1,612	4,586	--	1,612	4,586	6,198
11 4101 N.W. 25th Street Miami, FL	--	1,393	3,967	--	1,393	3,967	5,360
12 221 West 79th Street Bloomington, MN	--	403	1,147	--	403	1,147	1,550

DESCRIPTION	ACCUMULATED DEPRECIATION	DATE ACQUIRED	DEPRECIABLE LIFE (YEARS)
UNISYS CENTRAL TRAINING CENTER 1 2611 Corporate West Drive Lisle, IL	\$ (437)	1999	40.0
REX STORES CORPORATION 2 2875 Needmore Road Dayton, OH	(135)	1999	40.0
THE STANDARD REGISTER COMPANY 3 4000 South Racine Avenue Chicago, IL	(84)	1999	40.0
RALPHS GROCERY COMPANY 4 2652 East Long Beach Avenue Los Angeles, CA	(365)	1999	40.0
UNIVERSAL TECHNICAL INSTITUTE 5-6 3002 North 27th Avenue Phoenix, AZ	(58)	1999	40.0
CATERAIR INTERNATIONAL CORPORATION 7 50 Adrian Court Burlingame, CA	(101)	1999	40.0
8 370 Adrian Road Millbrae, CA	(61)	1999	40.0
9 3500 N.W. 24th Street Miami, FL	(253)	1999	40.0
10 3630 N.W. 25th Street Miami, FL	(134)	1999	40.0
11 4101 N.W. 25th Street Miami, FL	(116)	1999	40.0
12 221 West 79th Street Bloomington, MN	(33)	1999	40.0

ISTAR FINANCIAL INC.
 SCHEDULE III--REAL ESTATE AND ACCUMULATED DEPRECIATION
 AS OF DECEMBER 31, 2000
 (DOLLARS IN THOUSANDS)

DESCRIPTION	ENCUMBRANCES	INITIAL COST		COSTS CAPITALIZED SUBSEQUENT TO ACQUISITION	GROSS AMOUNT AT CLOSE OF PERIOD		
		LAND	BUILDING AND IMPROVEMENTS		LAND	BUILDING AND IMPROVEMENTS	TOTAL
13 1085 Bible Way Reno, NV	--	248	707	--	248	707	955
14 18850 28th Avenue, South Seattle, WA	--	828	2,355	--	828	2,355	3,183
15 2800 Collingswood Drive Orlando, FL	--	1,476	4,198	--	1,476	4,198	5,674
16 45-10 19th Avenue Astoria, NY	--	1,796	5,109	--	1,796	5,109	6,905
17 24-20 49th Street Astoria, NY	--	897	2,555	--	897	2,555	3,452
18 8401 Escort Street Philadelphia, PA	--	619	1,765	--	619	1,765	2,384
SEARS LOGISTICS SERVICES 19 4150 Lockbourne Industrial Parkway Columbus, OH	2,390	375	7,191	--	375	7,191	7,566
NORTHERN STATES POWER COMPANY 20 3115 Centre Point Drive Roseville, MN	1,205	1,113	4,452	--	1,113	4,452	5,565
PNC MORTGAGE CORPORATION OF AMERICA, INC. 21 440 North Fairway Drive Vernon Hills, IL	--	1,400	12,597	--	1,400	12,597	13,997
VOLKSWAGEN OF AMERICA, INC. 22 450 Barclay Boulevard Lincolnshire, IL	2,896	3,192	7,508	--	3,192	7,508	10,700
23 500 South Seventh Avenue City of Industry, CA	2,258	5,002	11,766	--	5,002	11,766	16,768
24 11650 Central Parkway Jacksonville, FL	1,621	2,310	5,435	--	2,310	5,435	7,745

DESCRIPTION	ACCUMULATED DEPRECIATION	DATE ACQUIRED	DEPRECIABLE LIFE (YEARS)
13 1085 Bible Way Reno, NV	(21)	1999	40.0
14 18850 28th Avenue, South Seattle, WA	(69)	1999	40.0
15 2800 Collingswood Drive Orlando, FL	(122)	1999	40.0
16 45-10 19th Avenue Astoria, NY	(149)	1999	40.0
17 24-20 49th Street Astoria, NY	(75)	1999	40.0
18 8401 Escort Street Philadelphia, PA	(51)	1999	40.0
SEARS LOGISTICS SERVICES 19 4150 Lockbourne Industrial Parkway Columbus, OH	(210)	1999	40.0
NORTHERN STATES POWER COMPANY 20 3115 Centre Point Drive Roseville, MN	(130)	1999	40.0
PNC MORTGAGE CORPORATION OF AMERICA, INC. 21 440 North Fairway Drive Vernon Hills, IL	(367)	1999	40.0
VOLKSWAGEN OF AMERICA, INC. 22 450 Barclay Boulevard Lincolnshire, IL	(219)	1999	40.0
23 500 South Seventh Avenue City of Industry, CA	(343)	1999	40.0
24 11650 Central Parkway Jacksonville, FL	(159)	1999	40.0

ISTAR FINANCIAL INC.
 SCHEDULE III--REAL ESTATE AND ACCUMULATED DEPRECIATION
 AS OF DECEMBER 31, 2000
 (DOLLARS IN THOUSANDS)

DESCRIPTION	ENCUMBRANCES	INITIAL COST		COSTS CAPITALIZED SUBSEQUENT TO ACQUISITION	GROSS AMOUNT AT CLOSE OF PERIOD		
		LAND	BUILDING AND IMPROVEMENTS		LAND	BUILDING AND IMPROVEMENTS	TOTAL
LAND O LAKES 25 1275 Red Fox Road Arden Hills, MN	1,557	719	6,541	--	719	6,541	7,260
MICROSOFT CORPORATION 26 1321 Greenway Irving, TX	1,248	1,804	5,815	131	1,804	5,946	7,750
UNIVERSAL CARD SERVICES 27 7595 Oak Grove Plaza Jacksonville, FL	2,040	1,384	3,911	--	1,384	3,911	5,295
VACANT 28 7585 Oak Grove Plaza Jacksonville, FL	1,055	877	2,237	39	877	2,276	3,153
UNISON INDUSTRIES, L.P. 29 7575 Oak Grove Plaza Jacksonville, FL	3,465	2,366	6,072	--	2,366	6,072	8,438
NIKE DISTRIBUTION WAREHOUSE 30 8400 Winchester Road Memphis, TN	5,316	1,486	23,279	--	1,486	23,279	24,765
CIRRUS LOGIC, INC. 31 46702 Bayside Parkway Fremont, CA	1,046	654	4,591	--	654	4,591	5,245
32 46831 Lakeview Blvd. Fremont, CA	--	1,086	7,964	--	1,086	7,964	9,050
UNIFIED WESTERN GROCERS 33 5200 Sheila Street Commerce, CA	2,504	3,454	12,915	--	3,454	12,915	16,369
FIRST HEALTH STRATEGIES, INC. 34-37 Decker Lake Lane Center Salt Lake City, UT	--	1,179	12,861	--	1,179	12,861	14,040

DESCRIPTION	ACCUMULATED DEPRECIATION	DATE ACQUIRED	DEPRECIABLE LIFE (YEARS)
LAND O LAKES 25 1275 Red Fox Road Arden Hills, MN	(191)	1999	40.0
MICROSOFT CORPORATION 26 1321 Greenway Irving, TX	(171)	1999	40.0
UNIVERSAL CARD SERVICES 27 7595 Oak Grove Plaza Jacksonville, FL	(113)	1999	40.0
VACANT 28 7585 Oak Grove Plaza Jacksonville, FL	(66)	1999	40.0
UNISON INDUSTRIES, L.P. 29 7575 Oak Grove Plaza Jacksonville, FL	(177)	1999	40.0
NIKE DISTRIBUTION WAREHOUSE 30 8400 Winchester Road Memphis, TN	(679)	1999	40.0
CIRRUS LOGIC, INC. 31 46702 Bayside Parkway Fremont, CA	(134)	1999	40.0
32 46831 Lakeview Blvd. Fremont, CA	(232)	1999	40.0
UNIFIED WESTERN GROCERS 33 5200 Sheila Street Commerce, CA	(377)	1999	40.0
FIRST HEALTH STRATEGIES, INC. 34-37 Decker Lake Lane Center Salt Lake City, UT	(375)	1999	40.0

ISTAR FINANCIAL INC.
 SCHEDULE III--REAL ESTATE AND ACCUMULATED DEPRECIATION
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DESCRIPTION	ENCUMBRANCES	INITIAL COST		COSTS CAPITALIZED SUBSEQUENT TO ACQUISITION	GROSS AMOUNT AT CLOSE OF PERIOD		
		LAND	BUILDING AND IMPROVEMENTS		LAND	BUILDING AND IMPROVEMENTS	TOTAL
TRW SPACE AND ELECTRONICS GROUP 38 3701 Doolittle Drive Redondo Beach, CA	--	2,598	9,212	--	2,598	9,212	11,810
DUNHAM'S ATHLEISURE CORPORATION 39 2201 E. Loew Road Marion, IN	--	131	4,254	--	131	4,254	4,385
ACOSTA SALES & MARKETING CO. 40 6300 Dumbarton Circle Fremont, CA	--	880	4,846	--	880	4,846	5,726
INTERNATIONAL FOOD SOLUTION 41 5015 South Water Circle Wichita, KS	--	213	3,189	--	213	3,189	3,402
TECH DATA CORPORATION 42 3900 William Richardson Drive South Bend, IN	--	140	4,640	--	140	4,640	4,780
PRIMERICA LIFE INSURANCE COMPANY 43-44 3120 Breckinridge Boulevard Duluth, GA	--	1,655	14,484	38	1,655	14,522	16,177
LUCENT TECHNOLOGIES 45 Capstone Building Aurora, CO	--	453	3,060	49	453	3,109	3,562
KOCH MEMBRANE SYSTEMS 46 10054 Old Grove Road San Diego, CA	--	1,530	3,060	--	1,530	3,060	4,590
NISSAN MOTOR ACCEPTANCE CORPORATION 47 2901 Kinwest Parkway Irving, TX	--	1,363	10,628	--	1,363	10,628	11,991
LEVER BROTHERS COMPANY 48 3501 E. Terra Drive O'Fallon, MO	--	1,388	12,700	--	1,388	12,700	14,088

DESCRIPTION	ACCUMULATED DEPRECIATION	DATE ACQUIRED	DEPRECIABLE LIFE (YEARS)
TRW SPACE AND ELECTRONICS GROUP 38 3701 Doolittle Drive Redondo Beach, CA	(269)	1999	40.0
DUNHAM'S ATHLEISURE CORPORATION 39 2201 E. Loew Road Marion, IN	(124)	1999	40.0
ACOSTA SALES & MARKETING CO. 40 6300 Dumbarton Circle Fremont, CA	(141)	1999	40.0
INTERNATIONAL FOOD SOLUTION 41 5015 South Water Circle Wichita, KS	(93)	1999	40.0
TECH DATA CORPORATION 42 3900 William Richardson Drive South Bend, IN	(135)	1999	40.0
PRIMERICA LIFE INSURANCE COMPANY 43-44 3120 Breckinridge Boulevard Duluth, GA	(424)	1999	40.0
LUCENT TECHNOLOGIES 45 Capstone Building Aurora, CO	(91)	1999	40.0
KOCH MEMBRANE SYSTEMS 46 10054 Old Grove Road San Diego, CA	(89)	1999	40.0
NISSAN MOTOR ACCEPTANCE CORPORATION 47 2901 Kinwest Parkway Irving, TX	(310)	1999	40.0
LEVER BROTHERS COMPANY 48 3501 E. Terra Drive O'Fallon, MO	(370)	1999	40.0

ISTAR FINANCIAL INC.
 SCHEDULE III--REAL ESTATE AND ACCUMULATED DEPRECIATION
 AS OF DECEMBER 31, 2000
 (DOLLARS IN THOUSANDS)

DESCRIPTION	ENCUMBRANCES	INITIAL COST		COSTS CAPITALIZED SUBSEQUENT TO ACQUISITION	GROSS AMOUNT AT CLOSE OF PERIOD		
		LAND	BUILDING AND IMPROVEMENTS		LAND	BUILDING AND IMPROVEMENTS	TOTAL
FEDERAL EXPRESS CORPORATION 49-51 NonConnah Corporate Center Memphis, TN	--	2,702	25,129	--	2,702	25,129	27,831
VACANT 52 500 Airline Drive Coppell, TX	--	1,664	12,471	33	1,664	12,504	14,168
FRESENIUS USA, INC. 53 2637 Shadelands Drive Walnut Creek, CA	--	808	8,306	--	808	8,306	9,114
TERADYNE, INC. 54 2625 Shadelands Drive Walnut Creek, CA	--	571	5,874	--	571	5,874	6,445
LAM RESEARCH CORPORATION 55 1210 California Circle Milpitas, CA	--	4,095	8,323	--	4,095	8,323	12,418
BLUE CROSS & BLUE SHIELD UNITED OF WISCONSIN 56 401 West Michigan Street Milwaukee, WI	--	1,875	13,914	--	1,875	13,914	15,789
NORTHERN TELECOM INC. 57 2021 Lakeside Boulevard Richardson, TX	--	1,230	5,660	8	1,230	5,668	6,898
adidas AMERICA, INC. 58 5675 North Blackstock Road Spartanburg, SC	--	943	16,836	--	943	16,836	17,779
GLOBAL CROSSING 59 12110 North Pecos Street Westminster, CO	--	307	3,524	--	307	3,524	3,831
RATIONAL SOFTWARE 60 18880 Homestead Road Cupertino, CA	--	7,994	19,037	--	7,994	19,037	27,031

DESCRIPTION	ACCUMULATED DEPRECIATION	DATE ACQUIRED	DEPRECIABLE LIFE (YEARS)
FEDERAL EXPRESS CORPORATION 49-51 NonConnah Corporate Center Memphis, TN	(733)	1999	40.0
VACANT 52 500 Airline Drive Coppell, TX	(364)	1999	40.0
FRESENIUS USA, INC. 53 2637 Shadelands Drive Walnut Creek, CA	(242)	1999	40.0
TERADYNE, INC. 54 2625 Shadelands Drive Walnut Creek, CA	(171)	1999	40.0
LAM RESEARCH CORPORATION 55 1210 California Circle Milpitas, CA	(243)	1999	40.0
BLUE CROSS & BLUE SHIELD UNITED OF WISCONSIN 56 401 West Michigan Street Milwaukee, WI	(406)	1999	40.0
NORTHERN TELECOM INC. 57 2021 Lakeside Boulevard Richardson, TX	(165)	1999	40.0
adidas AMERICA, INC. 58 5675 North Blackstock Road Spartanburg, SC	(491)	1999	40.0
GLOBAL CROSSING 59 12110 North Pecos Street Westminster, CO	(103)	1999	40.0
RATIONAL SOFTWARE 60 18880 Homestead Road Cupertino, CA	(555)	1999	40.0

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 SCHEDULE III--REAL ESTATE AND ACCUMULATED DEPRECIATION
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DESCRIPTION	ENCUMBRANCES	INITIAL COST		COSTS CAPITALIZED SUBSEQUENT TO ACQUISITION	GROSS AMOUNT AT CLOSE OF PERIOD		
		LAND	BUILDING AND IMPROVEMENTS		LAND	BUILDING AND IMPROVEMENTS	TOTAL
GALILEO INTERNATIONAL PARTNERSHIP							
61 6901 S. Havana Street Englewood, CO	--	2,967	15,008	--	2,967	15,008	17,975
AVAYA INC.							
62 6162 S. Willow Drive Englewood, CO	--	1,757	16,930	5	1,757	16,935	18,692
INTERNATIONAL BUSINESS MACHINES CORP.							
63 13800 Diplomat Drive Farmers Branch, TX	--	1,314	8,903	--	1,314	8,903	10,217
RIVEREDGE SUMMIT							
64 1500-1600 RiverEdge Parkway Atlanta, GA	--	5,709	49,091	3,657	5,709	52,748	58,457
NORTHERN TELECOM INC.							
65 Cardinal Commerce Center Richardson, TX	--	858	8,556	--	858	8,556	9,414
CANYON CORPORATE CENTER							
66 5515 East La Palma Avenue Anaheim, CA	--	3,512	13,379	46	3,512	13,425	16,937
67 5601 East La Palma Avenue Anaheim, CA	--	2,227	8,519	--	2,227	8,519	10,746
68 5605 East La Palma Avenue Anaheim, CA	--	622	2,346	155	622	2,501	3,123
SUNBELT BEVERAGE CORP.							
69 7621 Energy Parkway Baltimore, MD	--	1,535	9,324	4	1,535	9,328	10,863
GLOBAL CROSSING							
70 1499 West 121st. Street Westminister, CO	--	616	7,291	--	616	7,291	7,907
CHARLESTON PLACE							
71 1545 Charleston Road Mountain View, CA	--	5,798	12,720	--	5,798	12,720	18,518

DESCRIPTION	ACCUMULATED DEPRECIATION	DATE ACQUIRED	DEPRECIABLE LIFE (YEARS)
GALILEO INTERNATIONAL PARTNERSHIP			
61 6901 S. Havana Street Englewood, CO	(438)	1999	40.0
AVAYA INC.			
62 6162 S. Willow Drive Englewood, CO	(494)	1999	40.0
INTERNATIONAL BUSINESS MACHINES CORP.			
63 13800 Diplomat Drive Farmers Branch, TX	(260)	1999	40.0
RIVEREDGE SUMMIT			
64 1500-1600 RiverEdge Parkway Atlanta, GA	(1,516)	1999	40.0
NORTHERN TELECOM INC.			
65 Cardinal Commerce Center Richardson, TX	(250)	1999	40.0
CANYON CORPORATE CENTER			
66 5515 East La Palma Avenue Anaheim, CA	(392)	1999	40.0
67 5601 East La Palma Avenue Anaheim, CA	(248)	1999	40.0
68 5605 East La Palma Avenue Anaheim, CA	(69)	1999	40.0
SUNBELT BEVERAGE CORP.			
69 7621 Energy Parkway Baltimore, MD	(272)	1999	40.0
GLOBAL CROSSING			
70 1499 West 121st. Street Westminister, CO	(213)	1999	40.0
CHARLESTON PLACE			
71 1545 Charleston Road Mountain View, CA	(371)	1999	40.0

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 SCHEDULE III--REAL ESTATE AND ACCUMULATED DEPRECIATION
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 (DOLLARS IN THOUSANDS)

DESCRIPTION	ENCUMBRANCES	INITIAL COST		COSTS CAPITALIZED SUBSEQUENT TO ACQUISITION	GROSS AMOUNT AT CLOSE OF PERIOD		
		LAND	BUILDING AND IMPROVEMENTS		LAND	BUILDING AND IMPROVEMENTS	TOTAL
72 1565-1585 Charleston Road Mountain View, CA	--	12,834	28,158	--	12,834	28,158	40,992
BAY STATE GAS							
73 300 Friberg Parkway Westborough, MA	--	1,651	10,758	--	1,651	10,758	12,409
WARNER CROSSING							
74 1120 West Warner Road Tempe, AZ	--	701	4,339	--	701	4,339	5,040
75 1130 West Warner Road Tempe, AZ	--	1,033	6,652	--	1,033	6,652	7,685
76 1140 West Warner Road Tempe, AZ	--	1,033	6,652	--	1,033	6,652	7,685
77 8440 South Hardy Drive Tempe, AZ	--	1,033	6,652	--	1,033	6,652	7,685
78 8320 South Hardy Drive Tempe, AZ	--	1,512	9,732	--	1,512	9,732	11,244
GATEWAY LAKES							
79 1551 102nd Avenue St. Petersburg, FL	--	722	3,061	--	722	3,061	3,783
80 1527 102nd Avenue St. Petersburg, FL	--	634	2,685	8	634	2,693	3,327
EDENVALE BUSINESS PARK							
81 5853-5863 Rue Ferrari Drive San Jose, CA	--	9,677	23,288	--	9,677	23,288	32,965
ELECTRONIC DATA SYSTEMS CORP.							
82 105 West Bethany Drive Allen, TX	--	1,238	9,224	--	1,238	9,224	10,462

DESCRIPTION	ACCUMULATED DEPRECIATION	DATE ACQUIRED	DEPRECIABLE LIFE (YEARS)
72 1565-1585 Charleston Road Mountain View, CA	(821)	1999	40.0
BAY STATE GAS			
73 300 Friberg Parkway Westborough, MA	(314)	1999	40.0
WARNER CROSSING			
74 1120 West Warner Road Tempe, AZ	(127)	1999	40.0
75 1130 West Warner Road Tempe, AZ	(194)	1999	40.0
76 1140 West Warner Road Tempe, AZ	(194)	1999	40.0
77 8440 South Hardy Drive Tempe, AZ	(194)	1999	40.0
78 8320 South Hardy Drive Tempe, AZ	(284)	1999	40.0
GATEWAY LAKES			
79 1551 102nd Avenue St. Petersburg, FL	(89)	1999	40.0
80 1527 102nd Avenue St. Petersburg, FL	(78)	1999	40.0
EDENVALE BUSINESS PARK			
81 5853-5863 Rue Ferrari Drive San Jose, CA	(679)	1999	40.0
ELECTRONIC DATA SYSTEMS CORP.			
82 105 West Bethany Drive Allen, TX	(269)	1999	40.0

ISTAR FINANCIAL INC.
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DESCRIPTION	ENCUMBRANCES	INITIAL COST		COSTS CAPITALIZED SUBSEQUENT TO ACQUISITION	GROSS AMOUNT AT CLOSE OF PERIOD		
		LAND	BUILDING AND IMPROVEMENTS		LAND	BUILDING AND IMPROVEMENTS	TOTAL
COMPUTER SCIENCES CORP 83 7700-7720 Hubble Drive Lanham, MD	--	2,486	12,047	164	2,486	12,211	14,697
POLYCOM, INC. 84 1565 Barber Lane Milpitas, CA	--	4,880	12,367	1,498	4,880	13,865	18,745
ALLIANCE DATA SYSTEMS 85 17201 Waterview Parkway Dallas, TX	--	1,918	4,632	--	1,918	4,632	6,550
HEWLETT PACKARD 86 3000 Waterview Parkway Richardson, TX	--	2,932	31,235	--	2,932	31,235	34,167
MULTILINK 87 Six Riverside Drive Andover, MA	--	639	7,176	--	639	7,176	7,815
WELLPOINT HEALTH NETWORK, INC. 88-89 2000 Corporate Center Drive Newbury Park, CA	--	4,563	24,911	--	4,563	24,911	29,474
TRINET PROPERTY PARTNERS, L.P. 90 1022 Hingham Street Rockland, MA	--	2,010	11,761	18	2,010	11,779	13,789
91 65 Dan Road Canton, MA	--	742	3,155	86	742	3,241	3,983
92 One Longwater Circle Norwell, MA	--	1,140	1,658	33	1,140	1,691	2,831
93 100 Longwater Circle Norwell, MA	--	973	3,805	12	973	3,817	4,790
94 101 Philip Drive Norwell, MA	2,232	506	2,277	11	506	2,288	2,794
95 30 Dan Road Canton, MA	--	1,409	3,890	42	1,409	3,932	5,341

DESCRIPTION	ACCUMULATED DEPRECIATION	DATE ACQUIRED	DEPRECIABLE LIFE (YEARS)
COMPUTER SCIENCES CORP 83 7700-7720 Hubble Drive Lanham, MD	(355)	1999	40.0
POLYCOM, INC. 84 1565 Barber Lane Milpitas, CA	(506)	1999	40.0
ALLIANCE DATA SYSTEMS 85 17201 Waterview Parkway Dallas, TX	(135)	1999	40.0
HEWLETT PACKARD 86 3000 Waterview Parkway Richardson, TX	(911)	1999	40.0
MULTILINK 87 Six Riverside Drive Andover, MA	(209)	1999	40.0
WELLPOINT HEALTH NETWORK, INC. 88-89 2000 Corporate Center Drive Newbury Park, CA	(727)	1999	40.0
TRINET PROPERTY PARTNERS, L.P. 90 1022 Hingham Street Rockland, MA	(343)	1999	40.0
91 65 Dan Road Canton, MA	(92)	1999	40.0
92 One Longwater Circle Norwell, MA	(49)	1999	40.0
93 100 Longwater Circle Norwell, MA	(111)	1999	40.0
94 101 Philip Drive Norwell, MA	(67)	1999	40.0
95 30 Dan Road			

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DESCRIPTION	ENCUMBRANCES	INITIAL COST		COSTS CAPITALIZED SUBSEQUENT TO ACQUISITION	GROSS AMOUNT AT CLOSE OF PERIOD		
		LAND	BUILDING AND IMPROVEMENTS		LAND	BUILDING AND IMPROVEMENTS	TOTAL
96 85 Dan Road Canton, MA	--	1,077	2,746	67	1,077	2,813	3,890
97 300 Foxborough Boulevard Foxborough, MA	3,191	1,218	3,756	--	1,218	3,756	4,974
98 105 Forbes Boulevard Mansfield, MA	1,005	584	1,443	--	584	1,443	2,027
99 60 Columbian Street Braintree, MA	--	2,225	7,403	9	2,225	7,412	9,637
100 76 Pacella Park Drive Randolph, MA	2,754	615	3,471	--	615	3,471	4,086
101 260 Kenneth W. Welch Drive Lakeville, MA	--	1,012	4,048	--	1,012	4,048	5,060
102 700 Longwater Drive Norwell, MA	--	1,357	5,429	--	1,357	5,429	6,786
103 3000 Longwater Drive Norwell, MA	2,004	1,155	1,651	300	1,155	1,951	3,106
ICG HOLDINGS, INC.							
104 161 Inverness Drive West Englewood, CO	--	8,572	27,428	--	8,572	27,428	36,000
CONCORD FARMS							
105 Three Concord Farms Concord, MA	--	1,024	4,367	502	1,024	4,869	5,893
106 Four Concord Farms Concord, MA	--	1,852	10,839	64	1,852	10,903	12,755
107 Five Concord Farms Concord, MA	--	2,206	11,715	108	2,206	11,823	14,029

DESCRIPTION	ACCUMULATED DEPRECIATION	DATE ACQUIRED	DEPRECIABLE LIFE (YEARS)
96 85 Dan Road Canton, MA	(80)	1999	40.0
97 300 Foxborough Boulevard Foxborough, MA	(109)	1999	40.0
98 105 Forbes Boulevard Mansfield, MA	(42)	1999	40.0
99 60 Columbian Street Braintree, MA	(216)	1999	40.0
100 76 Pacella Park Drive Randolph, MA	(101)	1999	40.0
101 260 Kenneth W. Welch Drive Lakeville, MA	(118)	1999	40.0
102 700 Longwater Drive Norwell, MA	(158)	1999	40.0
103 3000 Longwater Drive Norwell, MA	(48)	1999	40.0
ICG HOLDINGS, INC.			
104 161 Inverness Drive West Englewood, CO	(800)	1999	40.0
CONCORD FARMS			
105 Three Concord Farms Concord, MA	(132)	1999	40.0
106 Four Concord Farms Concord, MA	(317)	1999	40.0
107 Five Concord Farms Concord, MA	(344)	1999	40.0

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		LAND	BUILDING AND IMPROVEMENTS		LAND	BUILDING AND IMPROVEMENTS	TOTAL
108 Six Concord Farms Concord, MA	--	1,834	10,483	64	1,834	10,547	12,381
Two Concord Farms--Under development Concord, MA	--	1,656	--	297	1,656	297	1,953
Seven Concord Farms--Land Concord, MA	--	1,266	--	7	1,266	7	1,273
ARBELLA CAPITAL CORP. 109 1100 Crown Colony Drive Quincy, MA	12,989	3,562	23,420	237	3,562	23,657	27,219
MAST INDUSTRIES 110 100 Old River Road Andover, MA	--	1,787	8,486	--	1,787	8,486	10,273
HAEMONETICS CORP. 111 355 Wood Road Braintree, MA	--	792	4,929	43	792	4,972	5,764
NOKIA 112 6000 Connection Drive Irving, TX	--	6,083	42,016	--	6,083	42,016	48,099
ANDERSEN CONSULTING 113 1661 Page Mill Road Palo Alto, CA	--	--	19,168	--	--	19,168	19,168
WINDWARD FOREST 114 960 Northpoint Parkway Alpharetta, GA	--	905	6,744	--	905	6,744	7,649
THE MITRE CORPORATION 115 11493 Sunset Hills Road Fairfax, VA	--	4,436	22,362	52	4,436	22,414	26,850
VERIZON SELECT SERVICES, INC. 116 Sierra I at Los Colinas Irving, TX	--	3,363	21,376	--	3,363	21,376	24,739

DESCRIPTION	ACCUMULATED DEPRECIATION	DATE ACQUIRED	DEPRECIABLE LIFE (YEARS)
108 Six Concord Farms Concord, MA	(308)	1999	40.0
Two Concord Farms--Under development Concord, MA		1999	
Seven Concord Farms--Land Concord, MA		1999	
ARBELLA CAPITAL CORP. 109 1100 Crown Colony Drive Quincy, MA	(683)	1999	40.0
MAST INDUSTRIES 110 100 Old River Road Andover, MA	(248)	1999	40.0
HAEMONETICS CORP. 111 355 Wood Road Braintree, MA	(145)	1999	40.0
NOKIA 112 6000 Connection Drive Irving, TX	(1,225)	1999	40.0
ANDERSEN CONSULTING 113 1661 Page Mill Road Palo Alto, CA	(559)	1999	40.0
WINDWARD FOREST 114 960 Northpoint Parkway Alpharetta, GA	(197)	1999	40.0
THE MITRE CORPORATION 115 11493 Sunset Hills Road Fairfax, VA	(654)	1999	40.0
VERIZON SELECT SERVICES, INC. 116 Sierra I at Los Colinas Irving, TX	(623)	1999	40.0

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		LAND	BUILDING AND IMPROVEMENTS		LAND	BUILDING AND IMPROVEMENTS	TOTAL
POYDRAS PLAZA							
117 Entergy Building New Orleans, LA	77,860	1,427	24,252	603	1,427	24,855	26,282
118 Mobil Building New Orleans, LA	--	1,664	16,653	1,149	1,664	17,802	19,466
119 Parking Garage New Orleans, LA	--	4,239	6,462	5	4,239	6,467	10,706
ALCATEL							
120 Campbell Commons		1,233	\$ 15,160	--	1,233	15,160	16,393
EQUINIX							
121 Great Oaks--Land San Jose, CA		82,220	\$ --	--	82,220	--	82,220
FEDERAL EXPRESS--Under development							
3201 Columbia Road Richfield, OH		2,327	\$ --	4,724	2,327	4,724	7,051
LEXMARK							
122 1510 East 4th Street Seymour, IN		550	\$ 22,239	--	550	22,239	22,789
HILTON HOTELS CORPORATION							
123 18740 Pacific Highway South Seattle, WA	153,618	5,101	32,080	--	5,101	32,080	37,181
255 Southwest Temple Salt Lake City, UT	--	5,620	32,695	--	5,620	32,695	38,315
1401 Arden Way Sacramento, CA	--	1,281	9,809	--	1,281	9,809	11,090
7450 Hazard Center Drive San Diego, CA	--	4,394	27,030	--	4,394	27,030	31,424
One Doubletree Drive Sonoma, CA	--	3,308	20,623	--	3,308	20,623	23,931

DESCRIPTION	ACCUMULATED DEPRECIATION	DATE ACQUIRED	DEPRECIABLE LIFE (YEARS)
POYDRAS PLAZA			
117 Entergy Building New Orleans, LA	(703)	1999	40.0
118 Mobil Building New Orleans, LA	(499)	1999	40.0
119 Parking Garage New Orleans, LA	(181)	1999	40.0
ALCATEL			
120 Campbell Commons	(158)	1999	40.0
EQUINIX			
121 Great Oaks--Land San Jose, CA	--	2000	
FEDERAL EXPRESS--Under development			
3201 Columbia Road Richfield, OH	--	2000	
LEXMARK			
122 1510 East 4th Street Seymour, IN	(6)	2000	40.0
HILTON HOTELS CORPORATION			
123 18740 Pacific Highway South Seattle, WA	(2,604)	1998	40.0
255 Southwest Temple Salt Lake City, UT	(2,713)	1998	40.0
1401 Arden Way Sacramento, CA	(1,062)	1998	40.0
7450 Hazard Center Drive San Diego, CA	(2,401)	1998	40.0
One Doubletree Drive Sonoma, CA	(1,447)	1998	40.0

ISTAR FINANCIAL INC.
 SCHEDULE III--REAL ESTATE AND ACCUMULATED DEPRECIATION
 AS OF DECEMBER 31, 2000
 (DOLLARS IN THOUSANDS)

DESCRIPTION	ENCUMBRANCES	INITIAL COST		COSTS CAPITALIZED SUBSEQUENT TO ACQUISITION	GROSS AMOUNT AT CLOSE OF PERIOD		
		LAND	BUILDING AND IMPROVEMENTS		LAND	BUILDING AND IMPROVEMENTS	TOTAL
200 North Riverside Medford, OR	--	609	4,668	--	609	4,668	5,277
1800 Fairview Ave. Boise, ID	--	968	6,405	--	968	6,405	7,373
304 Southeast Nye Avenue Pendleton, OR	--	556	4,245	--	556	4,245	4,801
510 Kelso Drive Kelso, WA	--	502	3,779	--	502	3,779	4,281
100 Columbia Street Vancouver, WA	--	507	3,981	--	507	3,981	4,488
501 Camino Del Rio Durango, CO	--	1,242	7,865	--	1,242	7,865	9,107
1225 North Wenatchee Avenue Wenatchee, WA	--	513	3,825	--	513	3,825	4,338
1313 North Bayshore Drive Coos Bay, OR	--	404	3,049	--	404	3,049	3,453
205 Coburg Road Eugene, OR	--	361	2,721	--	361	2,721	3,082
499 Industrial Street Astoria, OR	--	269	2,043	--	269	2,043	2,312
700 West Broadway Street Missoula, MT	--	210	1,607	--	210	1,607	1,817
1415 Northeast Third Street Bend, OR	--	233	1,729	--	233	1,729	1,962
TOTAL REAL ESTATE SUBJECT TO OPERATING LEASES	\$291,949	\$344,490	\$1,280,304	\$14,268	\$344,490	\$1,294,572	\$1,639,062

DESCRIPTION	ACCUMULATED DEPRECIATION	DATE ACQUIRED	DEPRECIABLE LIFE (YEARS)
200 North Riverside Medford, OR	(511)	1998	40.0
1800 Fairview Ave. Boise, ID	(637)	1998	40.0
304 Southeast Nye Avenue Pendleton, OR	(502)	1998	40.0
510 Kelso Drive Kelso, WA	(447)	1998	40.0
100 Columbia Street Vancouver, WA	(482)	1998	40.0
501 Camino Del Rio Durango, CO	(707)	1998	40.0
1225 North Wenatchee Avenue Wenatchee, WA	(435)	1998	40.0
1313 North Bayshore Drive Coos Bay, OR	(334)	1998	40.0
205 Coburg Road Eugene, OR	(320)	1998	40.0
499 Industrial Street Astoria, OR	(216)	1998	40.0
700 West Broadway Street Missoula, MT	(195)	1998	40.0
1415 Northeast Third Street Bend, OR	(198)	1998	40.0
TOTAL REAL ESTATE SUBJECT TO OPERATING LEASES	\$(46,975)		

ISTAR FINANCIAL INC.

NOTES TO SCHEDULE III

DECEMBER 31, 2000

(DOLLARS IN THOUSANDS)

1. RECONCILIATION OF REAL ESTATE SUBJECT TO OPERATING LEASES:

The following table reconciles Real Estate from January 1, 1998 to December 31, 2000:

	2000	1999	1998
	-----	-----	-----
Balance at January 1.....	\$1,669,038	\$ 194,462	\$ --
Additions (see Note 4 to the Consolidated Financial Statements).....	137,998	1,474,576	194,462
Dispositions.....	(146,715)	--	--
Impact of purchase accounting adjustments.....	(21,259)	--	--
	-----	-----	-----
Balance at December 31.....	\$1,639,062	\$1,669,038	\$194,462
	=====	=====	=====

2. RECONCILIATION OF ACCUMULATED DEPRECIATION:

The following table reconciles Accumulated Depreciation from January 1, 1998 to December 31, 2000:

	2000	1999	1998
	-----	-----	-----
Balance at January 1.....	\$ (14,860)	\$ (4,520)	\$ --
Additions.....	(33,739)	(10,340)	(4,520)
Dispositions.....	1,624	--	--
	-----	-----	-----
Balance at December 31.....	\$ (46,975)	\$ (14,860)	\$ (4,520)
	=====	=====	=====

ISTAR FINANCIAL INC.

SCHEDULE IV--MORTGAGE LOANS ON REAL ESTATE

AS OF DECEMBER 31, 2000

(DOLLARS IN THOUSANDS)

TYPE OF LOAN/BORROWER	DESCRIPTION/LOCATION	INTEREST ACCRUAL RATES (3)	INTEREST PAYMENT RATES	FINAL MATURITY DATE
Senior Mortgages:				
Borrower A.....	Hotel, Various States	7.39%	7.39%	9/11/11
Borrower B.....	Retail, Chicago, IL	8.88%	8.88%	1/1/04
Borrower C(1).....	Hotel, Various States	LIBOR + 1.75%	LIBOR + 1.75%	9/15/03
Borrower D.....	Office, San Diego, CA	LIBOR + 1.50%	LIBOR + 1.50%	12/31/04
Borrower E.....	Office, Dallas, TX	LIBOR + 1.75%	LIBOR + 1.75%	9/8/01
Borrower F(1).....	Office, Dallas, TX	LIBOR + 1.75%	LIBOR + 1.75%	8/26/04
Borrower G.....	Resort/Conference Center Rye Brook, NY	10.30%	10.30%	3/31/07
Borrower H.....	Office, Los Angeles, CA	LIBOR + 4.50%	LIBOR + 4.50%	11/30/02
Borrower I.....	Residential, South Florida	LIBOR + 6.00%	LIBOR + 6.00%	12/30/02
All other senior mortgages individually < 3%.....				
Subordinate Mortgages:				
Borrower D(1).....	Office, San Diego, CA	13.00%	10.00%	2/29/04
Borrower C(1).....	Hotel, Various States	LIBOR + 5.80%	LIBOR + 5.80%	9/15/03
Borrower F(1).....	Office, Dallas, TX	15.00%	11.00%	8/26/04
All other subordinate mortgages individually < 3%.....				
Corporate/Partnership Loans/Unsecured Notes:				
Borrower C(1).....	Hotel, Various States	LIBOR + 5.37%	LIBOR + 5.37%	9/15/03
Borrower J(1).....	Residential, Various States	LIBOR + 7.00%	LIBOR + 7.00%	3/1/05
Borrower K.....	Hotel, Various States	LIBOR + 2.78%	LIBOR + 2.78%	12/1/03
All other partnership loans/unsecured notes individually < 3%.....				
Loan Participations:				
Borrower L.....	Office, New York, NY	LIBOR + 4.50%	LIBOR + 4.50%	8/1/03
All other loan participations individually < 3%.....				
Other Lending Investments:				
Borrower J(1).....	Residential, Various States	10.00%	10.00%	3/1/05
All other lending investments individually < 3%.....				
Subtotal.....				
Provision for Possible Credit Losses.....				
Total:.....				

TYPE OF LOAN/BORROWER	PERIODIC PAYMENT TERMS (3)	PRIOR LIENS (2)	FACE AMOUNT OF LOANS	CARRYING AMOUNT OF LOANS
Senior Mortgages:				
Borrower A.....	P&I	\$ --	\$ 129,500	\$ 114,412
Borrower B.....	P&I	--	108,220	107,838
Borrower C(1).....	P&I	--	106,405	106,405
Borrower D.....	IO	--	105,000	105,000
Borrower E.....	IO	--	97,124	95,404
Borrower F(1).....	IO	--	86,313	86,314
Borrower G.....				
Borrower H.....	P&I	--	77,892	78,469
	IO	--	73,147	73,226

Borrower I.....	IO	--	72,495	72,495
All other senior mortgages individually < 3%.....		--	376,211	371,429
			-----	-----
		--	1,232,307	1,210,992
			-----	-----
Subordinate Mortgages:				
Borrower D(1).....	IO	--	29,000	26,878
Borrower C(1).....	IO	--	40,000	39,832
Borrower F(1).....	IO	--	32,132	32,364
All other subordinate mortgages individually < 3%.....		--	238,956	226,484
			-----	-----
		--	340,088	325,558
			-----	-----
Corporate/Partnership Loans/Unsecured Notes:				
Borrower C(1).....	IO	133,100	78,000	77,651
Borrower J(1).....	IO	1,087,607	25,000	24,894
Borrower K.....	IO	418,497	70,000	67,871
All other partnership loans/unsecured notes individually < 3%.....		--	228,795	228,562
			-----	-----
		1,639,204	401,795	398,978
			-----	-----
Loan Participations:				
Borrower L.....	IO	500,000	100,000	100,000
All other loan participations individually < 3%.....		--	11,388	11,251
			-----	-----
		500,000	111,388	111,251
			-----	-----
Other Lending Investments:				
Borrower J(1).....	IO		150,000	123,059
All other lending investments individually < 3%.....		--	75,227	69,345
			-----	-----
		--	225,227	192,404
			-----	-----
Subtotal.....		2,139,204	2,310,805	2,239,183
			-----	-----
Provision for Possible Credit Losses.....		--	--	(14,000)
			-----	-----
Total:.....		\$2,139,204	\$2,310,805	\$2,225,183
		=====	=====	=====

EXPLANATORY NOTES:

-
- (1) Loan is a part of a common borrowing provided by the Company (see corresponding letter reference).
 - (2) Represents only third-party liens and excludes senior loans held by the Company from the same borrower on the same collateral.
 - (3) P&I = principal and interest, IO = interest only.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

Portions of the Company's definitive proxy statement for the 2001 annual meeting of shareholders to be filed within 120 days after the close of the Company's fiscal year are incorporated herein by reference.

ITEM 11. EXECUTIVE COMPENSATION

Portions of the Company's definitive proxy statement for the 2001 annual meeting of shareholders to be filed within 120 days after the close of the Company's fiscal year are incorporated herein by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

Portions of the Company's definitive proxy statement for the 2001 annual meeting of shareholders to be filed within 120 days after the close of the Company's fiscal year are incorporated herein by reference.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Portions of the Company's definitive proxy statement for the 2001 annual meeting of the shareholders to be filed within 120 days after the close of the Company's fiscal year are incorporated herein by reference.

PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K

(a) and (d). Financial statements and schedules--see Index to Financial Statements and Schedules included in Item 8.

(b) Reports on Form 8-K.

None.

(c) Exhibits--see index on following page.

INDEX TO EXHIBITS

EXHIBIT NUMBER	DOCUMENT DESCRIPTION
2.1	Agreement and Plan of Merger, dated as of June 15, 1999, by and among Starwood Financial Trust, ST Merger Sub, Inc. and TriNet Corporate Realty Trust, Inc. (4)
2.2	Agreement and Plan of Merger, dated as of June 15, 1999, by and among Starwood Financial Trust, Starwood Financial, Inc. and to the extent described therein, TriNet Corporate Realty Trust, Inc. (4)
2.3	Agreement and Plan of Merger, dated as of June 15, 1999, by and among Starwood Financial Trust, SA Merger Sub, Inc., STW Holdings I, Inc., the Stockholders named therein, Starwood Capital Group, L.L.C. and, to the extent described therein, TriNet Corporate Realty Trust, Inc. (4)
3.1	Amended and Restated Charter of the Company (including the Articles Supplementary for the Series A, B, C and D Preferred Stock). (7)
3.2	Bylaws of the Company (8)
4.1	Amended and Restated Registration Rights Agreement dated March 18, 1998 among Starwood Financial Trust and Starwood Mezzanine Investors, L.P., SAHI Partners and SOFI-IV SMT Holdings, L.L.C.(2)
4.2	Investor Rights Agreement, dated as of December 15, 1998 among Starwood Financial Trust, a Maryland real estate investment trust, Starwood Mezzanine Investors, L.P., a Delaware limited partnership, SOFI-IV SMT Holdings, L.L.C., a Delaware limited liability company, B Holdings, L.L.C., a Delaware limited liability company, and Lazard Freres Real Estate Fund II, L.P., a Delaware limited partnership, Lazard Freres Real Estate Offshore Fund II L.P., a Delaware limited partnership, and LF Mortgage REIT, a Maryland real estate investment trust.(3)
4.3	Form of warrant certificates. (3)
4.4	Form of stock certificate for the Company's Common Stock. (6)
4.5	Form of certificate for Series A Preferred Shares of beneficial interest. (3)
10.1	Starwood Financial Trust 1996 Share Incentive Plan. (2)
10.2	Contribution Agreement dated as of February 11, 1998, between Starwood Financial Trust, Starwood Mezzanine Investors, L.P. and Starwood Opportunity Fund IV, L.P. (2)
10.3	Second Amended and Restated Shareholder's Agreement dated March 18, 1998 among B Holdings, L.L.C., SAHI Partners, Starwood Mezzanine Investors, L.P., SOFI-IV SMT Holdings, L.L.C., and Starwood Financial Trust. (2)
10.4	Securities Purchase Agreement, dated as of December 15, 1998, by and between Starwood Financial Trust, Lazard Freres Real Estate Fund II, L.P., a Delaware limited partnership, Lazard Freres Real Estate Offshore Fund II, L.P., a Delaware limited partnership, and LF Mortgage REIT, a Maryland real estate investment trust. (2)
10.5	Asset Purchase and Sale Agreement, dated as of December 15, 1998 by and between Lazard Freres Real Estate Fund, L.P., a Delaware limited partnership, Lazard Freres Real Estate Fund II, L.P., a Delaware limited partnership, Prometheus Mid-Atlantic Holding, L.P., a Delaware limited partnership, Pacific Preferred LLC, a New York limited liability company, Atlantic Preferred II LLC, a New York limited liability company, Indian Preferred LLC, a New York limited liability company and Prometheus Investment Holding, L.P., a Delaware limited partnership and Starwood Financial Trust. (3)

EXHIBIT
NUMBER

DOCUMENT DESCRIPTION

EXHIBIT NUMBER	DOCUMENT DESCRIPTION
10.6	Form of Advisor Lock-Up Agreement, dated as of June 15, 1999, among Greenhill & Co., LLC and each owner of interests in the Advisor. (5)
10.7	Form of Option Standstill Agreement, dated as of June 15, 1999, among Starwood Financial Trust and each of George R. Puskar, Willis Anderson, Jr., Stephen B. Oresman, Robert W. Holman Jr. and John G. McDonald. (5)
10.8	Form of Starwood Financial Trust Affiliate Lock-Up Agreement, dated as of June 15, 1999, between Greenhill & Co., LLC and each of B Holdings L.L.C., SOFI-IV SMT Holdings, L.L.C. and Starwood Mezzanine Investors, L.P. (5)
10.9	Stock Purchase Agreement dated as of June 15, 1999 among Jay Sugarman, Spencer B. Haber, A. William Stein and Robert Holman, Jr. (5)
10.10	Amendment No. 1 to the Stock Purchase Agreement dated as of July 26, 1999, which amends the Stock Purchase Agreement dated as of June 15, 1999 among Jay Sugarman, Spencer B. Haber, A. William Stein and Robert Holman, Jr. (5)
10.11	Shareholder Agreement, dated as of June 15, 1999, among SOFI-IV SMT Holdings, L.L.C., Starwood Mezzanine Investors, L.P., B Holdings, L.L.C. and TriNet Corporate Realty Trust, Inc. (5)
10.12	First Amendment to Shareholder Agreement dated as of July 15, 1999, which amends the Shareholder Agreement, dated as of June 15, 1999, among SOFI-IV SMT Holdings, L.L.C., Starwood Mezzanine Investors, L.P., B Holdings L.L.C. and TriNet Corporate Realty Trust, Inc. (5)
10.13	Employment Agreement, dated as of May 20, 1999, by and between Starwood Financial Advisors, L.L.C. and Jay Sugarman. (6)
10.14	Indenture, dated May 17, 2000, among iStar Asset Receivables Trust, La Salle Bank National Association and ABN AMRO BANK N.V.
12.1	Computation of Ratio of EBITDA to interest expense.
12.2	Computation of Ratio of EBITDA to combined fixed charges.
21.1	Subsidiaries of the Company.
23.	Consents of PricewaterhouseCoopers LLP.

EXPLANATORY NOTES:

-
- (1) Incorporated by reference from the Company's Registration Statement on Form S-4 filed on May 12, 1998.
 - (2) Incorporated by reference from the Company's Annual Report on Form 10-K for the year ended December 31, 1997 filed on April 2, 1998.
 - (3) Incorporated by reference from the Company's Form 8-K filed on December 23, 1998.
 - (4) Incorporated by reference to the Company's Current Report on Form 8-K filed on June 22, 1999.
 - (5) Incorporated by reference to the Company's Registration Statement on Form S-4 filed on August 25, 1999.
 - (6) Incorporated by reference from the Company's Annual Report on Form 10-K for the year ended December 31, 1999 filed on March 30, 2000.
 - (7) Incorporated by reference from the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2000 filed on May 15, 2000.
 - (8) Incorporated by reference from the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2000 filed on August 14, 2000.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, as amended, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

iSTAR FINANCIAL INC.
REGISTRANT

Date March 30, 2001

Jay Sugarman
CHAIRMAN OF THE BOARD OF DIRECTORS

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, this report has been signed below by the following person on behalf of the registrant and in the capacities and on the dates indicated.

Date March 30, 2001

Jay Sugarman
CHIEF EXECUTIVE OFFICER, PRESIDENT AND DIRECTOR

Date March 30, 2001

Spencer B. Haber
CHIEF FINANCIAL OFFICER, SECRETARY AND DIRECTOR
(EXECUTIVE VICE PRESIDENT--FINANCE)

Date March 30, 2001

Willis Andersen Jr.
DIRECTOR

Date March 30, 2001

Jeffrey G. Dishner
DIRECTOR

Date March 30, 2001

Jonathan D. Eilian
DIRECTOR

Date March 30, 2001

Madison F. Grose
DIRECTOR

Date March 30, 2001

Robert W. Holman, Jr.
DIRECTOR

Date March 30, 2001

Robin Josephs
DIRECTOR

Date March 30, 2001

Merrick R. Kleeman
DIRECTOR

Date March 30, 2001

William M. Matthes
DIRECTOR

Date March 30, 2001

John G. McDonald
DIRECTOR

Date March 30, 2001

Michael G. Medzigian
DIRECTOR

Date March 30, 2001

Stephen B. Oresman
DIRECTOR

Date March 30, 2001

George R. Puskar
DIRECTOR

Date March 30, 2001

Barry S. Sternlicht
DIRECTOR

Date March 30, 2001

Kneeland C. Youngblood
DIRECTOR

FIRST AMENDMENT TO REVOLVING CREDIT AGREEMENT

THIS FIRST AMENDMENT TO REVOLVING CREDIT AGREEMENT (this "Amendment") is made as of October 29, 1999, by and among TRINET CORPORATE REALTY TRUST (the "BORROWER"), MORGAN GUARANTY TRUST COMPANY OF NEW YORK, as Administrative Agent (the "LEAD AGENT"), BANK OF AMERICA, N.A. ("BAC"), and the BANKS listed on the signature pages hereof.

W I T N E S S E T H:

WHEREAS, the Borrower and the Banks have entered into the Third Amended and Restated Revolving Credit Agreement, dated as of June 1, 1998 (the "CREDIT AGREEMENT"); and

WHEREAS, the parties desire to modify the Credit Agreement upon the terms and conditions set forth herein.

NOW THEREFORE, for good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties do hereby agree as follows:

1. DEFINITIONS. All capitalized terms not otherwise defined herein shall have the meanings ascribed to them in the Credit Agreement.

2. LEAD AGENT. Simultaneously herewith, Morgan has assigned and transferred its Commitment to BAC and Bank One, NA, and, in accordance with Section 7.8 of the Credit Agreement, hereby resigns as Lead Agent. The Required Banks, with the approval of the Borrower, hereby appoint BAC 257582.08-New York S3A as successor Lead Agent, and Bank One, NA, as "syndication agent". The syndication agent has no right, power, obligation, liability, responsibility or duty under this Agreement other than those applicable to all Banks as such. From and after the date hereof, all references to Morgan shall be deemed to be references to BAC.

3. BAS. The Required Banks acknowledge and agree that Banc of America Securities LLC ("BAS") is hereby appointed "book manager" and "lead arranger".

4. APPLICABLE MARGIN. The grid set forth in the definition "Applicable Margin" is hereby deleted and the following substituted therefor:

Range of Borrower's Credit Rating (S&P/Moody's RATINGS)	Applicable Margin for Base Rate Loans (% PER ANNUM)	Applicable Margin for CD Loans (% PER ANNUM)	Applicable Margin for Euro Dollar Loans (% PER ANNUM)
BBB+/Baa1	0.25	0.975	0.85
BBB/Baa2	0.25	1.125	1.00
BBB-/Baa3	0.25	1.1875	1.0625
Non-Investment Grade	0.50	1.675	1.55

5. LETTERS OF CREDIT. The references in Sections 2.2(b) and 2.6(c) to "10:00 A.M., New York City time" are hereby deleted, and "11:00 A.M., New York City time" substituted therefor. In addition, the following is hereby inserted after the second sentence of Section 2.2(b): "In addition, together with such notice, the Borrower shall deliver to the designated Fronting Bank an "Application and Agreement for Standby Letter of Credit" in the form attached hereto as EXHIBIT A, or in such other form as may reasonably be required by the designated Fronting Bank."

6. EXTENSION FEE. Section 2.9(c) is hereby deleted, and the following substituted therefor:

(c) EXTENSION FEE. Simultaneously with the delivery by Borrower of the Notice to Extend pursuant to Section 2.10(b), the Borrower shall pay to the Lead Agent for the account of the Banks ratably in proportion to their Commitments an extension fee (each, the "EXTENSION FEE") of .20% of the Commitments then outstanding (provided, with respect to any Bank's share of such fee, such Bank has honored its Commitment in accordance herewith).

7. EXTENSION OPTION. Section 2.10(c) of the Credit Agreement, and all references to Section 2.10(c) and to the Request to Extend, are hereby deleted.

8. REPRESENTATIONS. Section 4.15 of the Credit Agreement is hereby deleted.

9. FINANCIAL INFORMATION. The reference to "Borrower" in Section 5.1(k) of the Credit Agreement is hereby deleted and "Starwood" substituted therefor.

10. DIVIDENDS. Section 5.8(d) is hereby deleted and the following substituted therefor:

(d) DIVIDENDS. The Borrower will not, as determined as of the last day of each quarter, with respect to the previous four quarters, pay or declare any dividends on common stock in excess of 85% of CFFOA (as hereinafter defined) for such previous four quarters, provided, however, that dividends may exceed 85% of CFFOA if required in order for Starwood Financial Inc. ("STARWOOD") to maintain its status as a real estate investment trust under the Code, assuming, however, that all other Subsidiaries of Starwood shall have dividended or distributed 100% of their disposable cash during the applicable twelve (12) month period to Starwood. For purposes hereof, "CFFOA" means the "net cash provided by operating activity", as shown on the Borrower's consolidated statements of cash flows,

and calculated in a manner consistent with the Borrower's historical methods of calculating the same.

11. ACQUISITION. Notwithstanding the provisions of Section 5.9 of the Credit Agreement, the Required Banks hereby consent to the acquisition by merger (the "MERGER") of 100% of the stock of the Borrower by Starwood and hereby waive any Event of Default that would otherwise arise under Sections 6.1(i), (j) and (k) of the Credit Agreement.

12. CHANGES IN BUSINESS. Section 5.10 is hereby amended by adding after the reference to "Section 5.17" the following: "and Section 5.23".

13. BORROWER STATUS. Section 5.13 of the Credit Agreement is hereby deleted and the following substituted therefor: "Borrower shall at all times maintain its status as a "qualified REIT subsidiary" of Starwood."

14. ASSET SALES AND TRANSFERS. The following Section 5.20 is hereby added to the Credit Agreement:

SECTION 5.20 ASSET SALES AND TRANSFERS. The Borrower shall not sell, transfer or otherwise convey any Real Property Asset to any Affiliate, other than a wholly-owned Subsidiary or a newly formed joint venture with an unaffiliated third party, except that any such sale, transfer or

conveyance shall be permitted if the same is for a price not less than the then fair market value of the applicable Real Property Asset, shall be on an all cash basis, and shall otherwise be on fair market, arms' length terms. For purposes of this Section, the term "AFFILIATE" shall mean as applied to any Person, any other Person that directly or indirectly controls, is controlled by, or is under common control with, that Person. For purposes of this definition, "control" (including, with correlative meanings, the terms "controlling", "controlled by" and "under common control with"), as applied to any Person, means the possession, directly or indirectly, of the power to vote fifteen percent (15%) or more of the equity securities having voting power for the election of directors of such Person or otherwise to direct or cause the direction of the management and policies of that Person, whether through the ownership of voting equity securities or by contract or otherwise.

15. INTERCOMPANY DEBT. The following Section 5.21 is hereby added to the Credit Agreement: SECTION 5.21. The Borrower may not incur any Debt from Starwood or any Affiliate of Starwood ("AFFILIATE DEBT"), unless repayment of such Debt, by its express written terms, is fully subordinated to the repayment of the Loans and all other Obligations, as well as all other Debt from un-Affiliated third parties. In addition, all Affiliate Debt shall be on then market terms, and at no time shall, in the aggregate, exceed fifteen percent (15%) of the total Debt permitted pursuant to Section 5.8(b) of the Credit Agreement. In addition, at no time may the Borrower or any Subsidiary of the Borrower lend any amounts to Starwood or any of its wholly-owned Subsidiaries or any Affiliates of Starwood

that in the aggregate would exceed five percent (5%) of Consolidated Tangible Net Worth.

16. BOARD OF DIRECTORS. The following Section 5.22 is hereby added to the Credit Agreement:

SECTION 5.22. From and after the Effective Date, the members of the board of directors of the Borrower (the "Board") shall at all times be identical with the members of the board of directors of Starwood, except that at all times there shall be one additional member of the Board (the "SPECIAL DIRECTOR"), which member shall be "independent" (in accordance with S&P's standard requirement from time to time). A unanimous vote of all members of the Board, including the Special Director, shall be required in accordance with the organizational documents of the Borrower (the "UNANIMOUS VOTING REQUIREMENT", for the Borrower to (i) file a voluntary insolvency proceeding, or (ii) to sell, transfer or convey in any three (3) month period, any Real Property Asset(s) to Starwood or any wholly-owned Subsidiary of Starwood or any Affiliates of Starwood other than a wholly-owned Subsidiary of the Borrower or a newly formed joint venture of the Borrower with an unaffiliated third party, that exceed, either individually or in the aggregate, five percent (5%) of Combined Asset Value as of the last day of the most recently ended fiscal quarter for which financial information has been delivered in accordance with Section 5.1 (a) and (b).

17. ALTERNATIVE INVESTMENTS. The following Section 5.23 is hereby added to the Credit Agreement:

SECTION 5.23. ALTERNATIVE INVESTMENTS. Borrower may use proceeds of the Loans to make Alternative Investments, provided, however, that as of the last day of each calendar quarter, the total book value, calculated in accordance with GAAP but without deduction for depreciation, of Alternative Investments made from and after the closing of the Merger shall not exceed 20% of Combined Asset Value. For purposes hereof, "ALTERNATIVE INVESTMENTS" means any investment other than (i) the acquisition of a Real Property Asset more than 75% of the rentable area of which is leased to a single tenant, whether directly or through a joint venture, or (ii) development activities as described in Section 5.17. Whether directly or through a joint venture.

18. EVENTS OF DEFAULT. (a) Section 6.1(i) of the Credit Agreement is hereby deleted and the following substituted therefor: "(i) Starwood shall cease to own, directly or indirectly, 100% of the issued and outstanding shares of stock of the Borrower;"

(b) Section 6.1(j) of the Credit Agreement is hereby deleted and the following substituted therefor: "(j) there shall not be at all times at least one Special Director on the Board, or the Unanimous Voting Requirements shall be amended, modified or terminated without the prior written consent of the Required Banks;"

(c) Section 6.1(k) of the Credit Agreement is hereby deleted and the following substituted therefor: "(k) Starwood shall cease at any time to qualify as a real estate investment trust under the Code;"

19. NOTICES. The reference in Section 9.1 of the Credit Agreement to "One Embarcadero Center, 33rd Floor, San Francisco, CA 94111, Attn.: A. William Stein" is hereby deleted and the following substituted therefor: "1114 Avenue of the Americas, 27th Floor, New York, NY 10036, Attn.: Spencer Haber, with a copy to Nina Matis, Esq."

20. ADDITIONAL COMMITMENT. Section 9.18 of the Credit Agreement is hereby deleted.

21. EFFECTIVE DATE. This Amendment shall become effective when each of the following conditions is satisfied (or waived by the Required Banks) (the date such conditions are satisfied or waived being deemed the "EFFECTIVE DATE"):

(a) the Borrower shall have executed and delivered to the Lead Agent a duly executed original of this Amendment;

(b) the Required Banks shall have executed and delivered to the Lead Agent a duly executed original of this Amendment;

(c) the Lead Agent shall have received all documents the Lead Agent may reasonably request relating to the existence of the Borrower, the authority for and the validity of this Amendment, and the other documents executed in connection therewith, and any other matters relevant hereto, all in form and substance reasonably satisfactory to the Lead Agent. Such documentation shall include, without limitation, the organizational documents of the Borrower, as amended, modified or supplemented prior to the Effective Date, each certified to be true, correct and complete by an officer of the Borrower, as of a date not more than twenty (20) days prior to the Effective Date, together with a good standing certificate from the Secretary of State (or the equivalent thereof) of the State of Maryland with respect to

the Borrower, to be dated not more than twenty (20) days prior to the Effective Date;

(d) the Lead Agent shall have received all certificates, agreements and other documents and papers referred to in this Amendment, unless otherwise specified, in sufficient counterparts, satisfactory in form and substance to the Administrative Agent in its reasonable discretion;

(e) the Borrower shall have taken all actions required to authorize the execution and delivery of this Amendment and the performance hereof by the Borrower;

(f) the Lead Agent shall have received from the Borrower, for the account of the Banks, an amendment fee equal to .30% of the Commitments;

(g) the Lead Agent shall have received the reasonable fees and expenses accrued through the Effective Date of Skadden, Arps, Slate, Meagher & Flom LLP, together with any other fees or expenses of the Lead Agent;

(h) the representations and warranties of the Borrower contained in the Credit Agreement, as amended hereby, shall be true and correct in all material respects on and as of the Effective Date, as the same may be amended by virtue of the Merger transactions with Starwood described in the Proxy, dated September 22, 1999, a copy of which has previously been delivered by the Borrower to the Banks (the "PROXY");

(i) receipt by the Lead Agent and the Banks of a certificate of an officer of the Borrower certifying that the Borrower is in compliance with all covenants of the Borrower contained in the Credit Agreement, as amended hereby, including, without limitation, the requirements of Section 5.8, as of the Effective Date, as the same may be amended by virtue of the Merger transactions with Starwood described in the Proxy; and

(j) receipt by the Lead Agent of proof reasonably satisfactory to the Lead Agent that Starwood shall have acquired by merger 100% of the stock of the Borrower.

22. ENTIRE AGREEMENT. This Amendment constitutes the entire and final agreement among the parties hereto with

respect to the subject matter hereof and there are no other agreements, understandings, undertakings, representations or warranties among the parties hereto with respect to the subject matter hereof except as set forth herein.

23. GOVERNING LAW. This Amendment shall be governed by, and construed in accordance with, the law of the State of New York.

24. COUNTERPARTS. This Amendment may be executed in any number of counterparts, all of which taken together shall constitute one and the same agreement, and any of the parties hereto may execute this Amendment by signing any such counterpart.

25. HEADINGS, ETC. Section or other headings contained in this Amendment are for reference purposes only and shall not in any way affect the meaning or interpretation of this Amendment.

26. NO FURTHER MODIFICATIONS. Except as modified herein, all of the terms and conditions of the Credit Agreement, as modified hereby shall remain in full force and effect and, as modified hereby, the Borrower confirms and ratifies all of the terms, covenants and conditions of the Credit Agreement in all respects.

IN WITNESS WHEREOF, the parties hereto have caused this Amendment to be duly executed by their respective authorized officers as of the day and year first above written.

BORROWER: TRINET CORPORATE REALTY TRUST, INC.

By: -----

Name:
Title:

Facsimile number: (415) 391-6259
Address: One Embarcadero Center
33rd Floor
San Francisco, CA 94111
Attn: Chief Financial
Officer

MORGAN GUARANTY TRUST COMPANY OF NEW YORK,
as Bank and as resigning Lead Agent

By: _____
Name:
Title:

BANK OF AMERICA, N.A., as a Bank
and as successor Lead Agent

By:

Name:

Title:

600 Montgomery Street
37th Floor
Mail Code: CA5-801-37-01
San Francisco, CA 94111
Attention:
Telecopy:

DOMESTIC AND EURO-CURRENCY LENDING
OFFICE:

Attention:
Telecopy:

BANKERS TRUST COMPANY, as Co-Agent and as a Bank

By: _____

Name:

Title:

DRESDNER BANK AG, NEW YORK AND GRAND CAYMAN BRANCHES,
as Bank and as Co-Agent

By: _____
Name:
Title:

By: _____
Name:
Title:

BANK ONE, NA (f/k/a The First National Bank of Chicago,
as a Bank, as Co-Agent, and as Syndication Agent

By:

Name:
Title:

PNC BANK, NATIONAL ASSOCIATION, as a Bank
and as Co-Agent

By: _____

Name:
Title:

AMSOUTH BANK

By: _____
Name:
Title:

BANK OF MONTREAL, CHICAGO BRANCH

By: _____
Name:
Title:

FIRST UNION NATIONAL BANK

By: _____

Name:

Title:

UBS AG, STAMFORD BRANCH

By: _____
Name:
Title:

By: _____
Name:
Title:

KEY BANK NATIONAL ASSOCIATION
(f/k/a Society Bank)

By: _____
Name:
Title:

THE INDUSTRIAL BANK OF JAPAN, LIMITED,
LOS ANGELES AGENCY

By: _____

Name:
Title:

COMMERZBANK AKTIENGESELLSCHAFT,
NEW YORK AND GRAND CAYMAN BRANCHES

By: -----

Name:
Title:

By: -----

Name:
Title:

BANQUE NATIONALE DE PARIS

By: _____

Name:

Title:

iSTAR ASSET RECEIVABLES TRUST,
Issuer

and

LASALLE BANK NATIONAL ASSOCIATION,
Indenture Trustee

and

ABN AMRO BANK N.V.
Fiscal Agent

INDENTURE

Dated as of May 17, 2000

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INDENTURE, dated as of May 17, 2000, among iStar Asset Receivables Trust, a business trust established under the laws of the State of Delaware (the "ISSUER"), and LaSalle Bank National Association, a national banking association, as indenture trustee (the "INDENTURE Trustee") and ABN AMRO BANK N.V., a Netherlands banking corporation, as fiscal agent (the "FISCAL AGENT").

PRELIMINARY STATEMENT

The Issuer has duly authorized the execution and delivery of this Indenture to provide for issues of Series of its mortgage backed bonds called "STARS." All covenants and agreements made by the Issuer in this Indenture are for the benefit and security of the Bondholders.

ARTICLE I

DEFINITIONS

Section 1.1 DEFINITIONS; INTERPRETATION.

(1) Except as otherwise specified herein or as the context otherwise may require, capitalized terms used but not defined herein are defined in Appendix I hereto, which also contains rules as to usage that shall be applicable herein.

(2) If, with respect to any Series, a conflict exists between the provisions of this Indenture and any Supplemental Indenture, the provisions of the Supplemental Indenture shall be controlling for the related Series.

(3) As used in this Indenture and unless the context requires a different meaning, capitalized terms are used in this Indenture with the following meanings:

"ACT" has the meaning specified in SECTION 10.02.

"AGGREGATE INTEREST/INTEREST FUNDS AMOUNT" means, with respect to any Interest Surplus Series and any Payment Date, an amount equal to the sum of the Allocated Interest/Interest Funds Amounts on such Payment Date with respect to each Series that is an Eligible Interest Deficit Series related to such Interest Surplus Series.

"AGGREGATE INTEREST/PRINCIPAL FUNDS AMOUNT" means, with respect to any Interest Surplus Series and any Payment Date, an amount equal to the sum of the Allocated Interest/Principal

Funds Amounts on such Payment Date with respect to each Series that is an Eligible Principal Deficit Series related to such Interest Surplus Series.

"AGGREGATE PRINCIPAL/INTEREST FUNDS AMOUNT" means, with respect to any Principal Surplus Series and any Payment Date, an amount equal to the sum of the Allocated Principal/Interest Funds Amounts on such Payment Date with respect to each Series that is an Eligible Interest Deficit Series related to such Principal Surplus Series.

"AGGREGATE PRINCIPAL/PRINCIPAL FUNDS AMOUNT" means, with respect to any Principal Surplus Series and any Payment Date, an amount equal to the sum of the Allocated Principal/Principal Funds Amounts on such Payment Date with respect to each Series that is an Eligible Principal Deficit Series related to such Principal Surplus Series.

"ALLOCATED INTEREST/INTEREST FUNDS AMOUNT" means, with respect to any Payment Date, any Interest Surplus Series and any Interest Deficit Series which is an Eligible Interest Deficit Series with respect to such Interest Surplus Series, the amount of the Shared Interest Funds from to such Interest Surplus Series allocated to make payments on such Interest Deficit Series pursuant to SECTION 3.07(e) (i) on such Payment Date, which is an amount equal to the product of (i) a fraction, the numerator of which is the Remaining Shared Interest Funds of such Interest Surplus Series on such Payment Date, and the denominator of which is the sum of the Remaining Shared Interest Funds of each Interest Surplus Series for which the Interest Deficit Series is also an Eligible Interest Deficit Series on such Payment Date, and (ii) the Interest Deficit Amount for such Interest Deficit Series, in each case, prior to the application of Shared Interest Funds to reduce the Interest Deficit Amount of such Interest Deficit Series on such Payment Date.

"ALLOCATED INTEREST/PRINCIPAL FUNDS AMOUNT" means, with respect to any Payment Date, any Interest Surplus Series and any Principal Deficit Series which is an Eligible Principal Deficit Series with respect to such Interest Surplus Series after application of Shared Principal Funds pursuant to SECTION 3.07(f) (i) on such Payment Date, the amount of the Shared Interest Funds from such Interest Surplus Series allocated to make payments on such Principal Deficit Series pursuant to SECTION 3.07(f) (ii) on such Payment Date, which is an amount equal to the product of (i) a fraction, the numerator of which is the Remaining Shared Interest Funds of such Interest Surplus Series on such Payment Date, and the denominator of which is sum of the Remaining Shared Interest Funds of each Interest Surplus Series for which the Principal Deficit Series is also an Eligible Principal Deficit Series on such Payment Date, and (ii) the Principal Deficit Amount for such Principal Deficit Series remaining after application of SECTION 3.07(f) (i) on such Payment Date, in each case prior to the application of Shared Interest Funds to reduce the Principal Deficit Amount of such Principal Deficit Series on such Payment Date .

"ALLOCATED PRINCIPAL/INTEREST FUNDS AMOUNT" means, with respect to any Payment Date, any Principal Surplus Series and any Series which is an Eligible Interest Deficit Series with respect to such Principal Surplus Series after application of Shared Interest Funds pursuant to

SECTION 3.07(e) (i) on such Payment Date, the amount of the Shared Principal Funds from such Principal Surplus Series allocated to make payments on such Interest Deficit Series pursuant to SECTION 3.07(e) (ii) on such Payment Date, which is an amount equal to the product of (i) a fraction, the numerator of which is the Remaining Shared Principal Funds of such Principal Surplus Series on such Payment Date, and the denominator of which is the sum of the Remaining Shared Principal Funds of each other Principal Surplus Series with respect to which such Eligible Interest Deficit Series is also an Eligible Interest Deficit Series on such Payment Date, and (ii) the Interest Deficit Amount for such Interest Deficit Series remaining after application of SECTION 3.07(e) (i) on such Payment Date, in each case prior to the application of Shared Principal Funds to reduce the Interest Deficit Amount of such Interest Deficit Series on such Payment Date.

"ALLOCATED PRINCIPAL/PRINCIPAL FUNDS AMOUNT" means, with respect to any Payment Date, any Principal Surplus Series and any Series which is an Eligible Principal Deficit Series with respect to such Principal Surplus Series, the amount of the Shared Principal Funds from such Principal Surplus Series allocated to make payments on such Principal Deficit Series pursuant to SECTION 3.07(f) (i) on such Payment Date, which is an amount equal to the product of (i) a fraction, the numerator of which is the Remaining Shared Principal Funds of such Principal Surplus Series on such Payment Date, and the denominator of which is sum of the Remaining Shared Principal Funds of each Principal Surplus Series with respect to which the Principal Deficit Series is also an Eligible Principal Deficit Series on such Payment Date, and (ii) the Principal Deficit Amount for such Principal Deficit Series, in each case, prior to the application of Shared Principal Funds to reduce the Principal Deficit Amount of such Principal Deficit Series on such Payment Date.

"AUTOMATIC INDENTURE EVENT OF DEFAULT" has the meaning specified in SECTION 5.01.

"AVAILABLE SERIES FIXED RATE INTEREST FUNDS" means, with respect to any Series and any Collection Period, the sum of the following amounts (as amended or modified by the applicable Supplemental Indenture):

- (i) the total amount of all cash received in respect of interest payments (including any deferred interest payments) and other non-principal payments due in such Collection Period on the Loans included in the related Fixed Rate Series Issuer Assets or on any Equity Interests related to such Loans that are on deposit in the Primary Collection Account on the Business Day preceding the related Remittance Date exclusive of (a) interest payments on the related Fixed Rate Series Issuer Assets collected but due on a Due Date subsequent to such Collection Period, (b) the interest portion of Principal Prepayments, Balloon Payments, Liquidation Proceeds, Insurance Proceeds, Condemnation Proceeds and other unscheduled Recoveries with respect to the related Fixed Rate Series Issuer Assets received subsequent to such Collection Period, (c) all amounts in the Primary Collection Account on the last day of the Collection Period that are due to persons other than

the Bondholders of such Series, including any amounts allocable to the reimbursement of Control Advances made by SFI pursuant to the applicable Servicing Agreement and reimbursement of Protective Advances that have been deemed to be Nonrecoverable Advances, and (d) amounts deposited in the Primary Collection Account in error during such Collection Period;

- (ii) all Bond Interest Advances made with respect to the related Bonds or the related Fixed Rate Series Issuer Assets, as specified in the applicable Supplemental Indenture, during such Collection Period;
- (iii) all Control Advances in respect of interest made on the Fixed Rate Series Issuer Assets;
- (iv) all payments in respect of interest deposited into the Primary Collection Account during such Collection Period with respect any related Fixed Rate Series Issuer Asset which SFI is required to repurchase pursuant to the Company Purchase Agreement;
- (v) all payments made during such Collection Period by the Issuer in respect of the interest portion of optional redemptions of the Bonds of such Series not made from payments on the related Fixed Rate Series Issuer Assets;
- (vi) Recoveries with respect to the related Fixed Rate Series Issuer Assets received during such Collection Period; and
- (vii) all other fees collected with respect to the Fixed Rate Series Issuer Assets which are payable to the Issuer, as specified in the applicable Supplemental Indenture, which fees may include, but are not limited to, Prepayment Premiums, Exit Fees, Loan Fees and Extension Fees.

"AVAILABLE SERIES FIXED RATE PRINCIPAL FUNDS" means, with respect to any Series and any Collection Period, the sum of the following amounts (as amended or modified by the applicable Supplemental Indenture):

- (i) the total amount of all cash received during such Collection Period in respect of principal payments, including, but not limited to, Principal Prepayments, Balloon Payments, Net Insurance Proceeds, Net Liquidation Proceeds and Condemnation Proceeds, made on the related Fixed Rate Series Issuer Assets that is on deposit in the Primary Collection Account on the Business Day preceding the related Remittance Date, exclusive of (a) scheduled principal payments on the related Fixed Rate Series Issuer Assets collected during such Collection Period but due on a Due Date subsequent to the related Collection Period, (b) Principal Prepay

ments, Balloon Payments, Net Liquidation Proceeds, Net Insurance Proceeds, Condemnation Proceeds and other unscheduled Recoveries with respect to the related Fixed Rate Series Issuer Assets received during such Collection Period which were due in a subsequent Collection Period, (c) all amounts in the Collection Account on the last day of such Collection Period that are due to persons other than the Bondholders of such Series, including any amounts allocable to the reimbursement of Control Advances made by SFI pursuant to the applicable Servicing Agreement and reimbursement of Protective Advances, (d) any deferred interest payments on the related Fixed Rate Series Issuer Assets, and (e) amounts deposited in the Primary Collection Account during such Collection Period in error;

- (ii) all Principal Advances made with respect to the related Bonds or the related Fixed Rate Series Issuer Assets, as specified in the applicable Supplemental Indenture, during such Collection Period;
- (iii) all Control Advances in respect of principal made on the Fixed Rate Series Issuer Assets;
- (iv) all payments in respect of principal deposited into the Primary Collection Account during such Collection Period with respect any related Fixed Rate Series Issuer Asset which SFI is required to repurchase pursuant to the Company Purchase Agreement; and
- (v) all payments during such Collection Period by the Issuer in respect of the principal portion of payments in respect of optional redemptions of the Bonds of such Series not made from payments on the related Fixed Rate Series Issuer Assets.

"AVAILABLE SERIES FLOATING RATE INTEREST FUNDS" means, with respect to any Series and any Collection Period, the sum of the following amounts (as amended or modified by the applicable Supplemental Indenture):

- (i) the total amount of all cash received in respect of interest payments (including any deferred interest payments) and other non-principal payments due in such Collection Period on the Loans included in the related Floating Rate Series Issuer Assets or on any Equity Interests related to such Loans that are on deposit in the Primary Collection Account on the Business Day preceding the related Remittance Date exclusive of (a) interest payments on the related Floating Rate Series Issuer Assets collected but due on a Due Date subsequent to such Collection Period, (b) the interest portion of Principal Prepayments, Balloon Payments, Liquidation Proceeds, Insurance Proceeds, Condemnation Proceeds and other unscheduled Recoveries with respect to the related Floating Rate Series Issuer Assets received

subsequent to such Collection Period, (c) all amounts in the Primary Collection Account on the last day of the Collection Period that are due to persons other than the Bondholders of such Series, including any amounts allocable to the reimbursement of Control Advances made by SFI pursuant to the applicable Servicing Agreement and reimbursement of Protective Advances that have been deemed to be Nonrecoverable Advances, and (d) amounts deposited in the Primary Collection Account in error during such Collection Period;

- (ii) all Bond Interest Advances made with respect to the related Bonds or the related Floating Rate Series Issuer Assets, as specified in the applicable Supplemental Indenture, during such Collection Period;
- (iii) all Control Advances in respect of interest made on the Floating Rate Series Issuer Assets;
- (iv) all payments in respect of interest deposited into the Primary Collection Account during such Collection Period with respect to any related Floating Rate Series Issuer Asset which SFI is required to repurchase pursuant to the Company Purchase Agreement;
- (v) all payments made during such Collection Period by the Issuer in respect of the interest portion of optional redemptions of the Bonds of such Series not made from payments on the related Floating Rate Series Issuer Assets;
- (vi) Recoveries with respect to the related Floating Rate Series Issuer Assets received during such Collection Period; and
- (vii) all other fees collected with respect to the Floating Rate Series Issuer Assets which are payable to the Issuer, as specified in the applicable Supplemental Indenture, which fees may include, but are not limited to, Prepayment Premiums, Exit Fees, Loan Fees and Extension Fees.

"AVAILABLE SERIES FLOATING RATE PRINCIPAL FUNDS" means, with respect to any Series and any Collection Period, the sum of the following amounts (as amended or modified by the applicable Supplemental Indenture):

- (i) the total amount of all cash received during such Collection Period in respect of principal payments, including, but not limited to, Principal Prepayments, Balloon Payments, Net Insurance Proceeds, Net Liquidation Proceeds and Condemnation Proceeds, made on the related Floating Rate Series Issuer Assets that is on deposit in the Primary Collection Account on the Business Day preceding the related Remittance Date, exclusive of (a) scheduled principal payments on the related Floating Rate Series Issuer Assets collected during such Collection Period but due on a Due Date subsequent to the related Collection Period, (b) Principal Prepayments, Balloon Payments, Net Liquidation Proceeds, Net Insurance Proceeds, Condemnation Proceeds and other unscheduled Recoveries with respect to the related Floating Rate Series Issuer Assets received during such Collection Period which were due in a subsequent Collection Period, (c) all amounts in the Collection Account on the last day of such Collection Period that are due to persons other than the Bondholders of such Series, including any amounts allocable to the reimbursement of Control Advances made by SFI pursuant to the applicable Servicing Agreement and reimbursement of Protective Advances, (d) any deferred interest payments on the related

Floating Rate Series Issuer Assets, and (e) amounts deposited in the Primary Collection Account during such Collection Period in error;

- (ii) all Principal Advances made with respect to the related Bonds or the related Floating Rate Series Issuer Assets, as specified in the applicable Supplemental Indenture, during such Collection Period;
- (iii) all Control Advances in respect of principal made on the Floating Rate Series Issuer Assets;
- (iv) all payments in respect of principal deposited into the Primary Collection Account during such Collection Period with respect any related Floating Rate Series Issuer Asset which SFI is required to repurchase pursuant to the Company Purchase Agreement; and
- (v) all payments during such Collection Period by the Issuer in respect of the principal portion of payments in respect of optional redemptions of the Bonds of such Series not made from payments on the related Floating Rate Series Issuer Assets.

"AVAILABLE SERIES FUNDS" means, with respect to any Series and any Collection Period, the sum of the Available Series Interest Funds and Available Series Principal Funds.

"AVAILABLE SERIES INTEREST FUNDS" means, with respect to any Series and any Collection Period, the sum of Available Series Fixed Rate Interest Funds and Available Series Floating Rate Interest Funds.

"AVAILABLE SERIES PRINCIPAL FUNDS" means, with respect to any Series and any Collection Period, the sum of Available Series Fixed Rate Principal Funds and Available Series Floating Rate Principal Funds.

"BOND OWNER" means, with respect to a Bond in book-entry form, the Person who is the owner of the beneficial interest of such book-entry Bond, as reflected on the books of the Clearing Agency, or on the books of a Person maintaining an account with such Clearing Agency (directly as a Clearing Agency participant or as an indirect participant, in each case in accordance with the rules of such Clearing Agency).

"BUSINESS DAY" means any day other than a Saturday, a Sunday, or a day on which national banking associations or state banking institutions in The City of New York or the city in which the principal corporate trust office of the Indenture Trustee is located are authorized or obligated by law or executive order or governmental decree to be closed.

"CLEARING AGENCY" means an organization registered as a "clearing agency" pursuant to Section 17A of the Securities Exchange Act of 1934.

"CREDIT ENHANCEMENT" means, for any Series, the subordination, cash collateral guaranty or account, collateral interest, letter of credit, surety bond, insurance policy, spread account, reserve account, cross-support feature, or any other credit support feature for the benefit of the holders of one or more Classes of securities of that Series.

"CREDIT ENHANCEMENT AGREEMENT" means any agreement, instrument or document governing the terms of any Credit Enhancement of any Series or Class or pursuant to which any Credit Enhancement of any Series or Class is issued or outstanding.

"ELIGIBLE INTEREST DEFICIT SERIES" means, with respect to any (i) Interest Surplus Series and any Payment Date, all subsequently issued Interest Deficit Series (by chronological order of date of issuance) on such Payment Date, and (ii) Principal Surplus Series and any Payment Date, all subsequently issued Interest Deficit Series (by chronological order of date of issuance) on such Payment Date.

"ELIGIBLE PRINCIPAL DEFICIT SERIES" means, with respect to any (i) Interest Surplus Series and any Payment Date, all subsequently issued Principal Deficit Series (by chronological order of date of issuance) on such Payment Date, and (ii) Principal Surplus Series and any Payment Date, all subsequently issued Principal Deficit Series (by chronological order of date of issuance) on such Payment Date.

"FITCH" means Fitch IBCA, Inc. and its successors.

"FIXED RATE SERIES ISSUER ASSETS" means, with respect to any Series, the Series Issuer Assets identified in the related Supplemental Indenture as Fixed Rate Issuer Assets.

"FLOATING RATE SERIES ISSUER ASSETS" means, with respect to any Series, the Series Issuer Assets identified in the related Supplemental Indenture as Floating Rate Issuer Assets.

"FOREIGN CLEARING AGENCY" means Clearstream, societe anonyme, or the Euroclear system.

"GRANT" means mortgage, pledge, bargain, warrant, alienate, remise, release, convey, assign, transfer, create, and grant a Lien upon and a security interest in and a right of set-off against, deposit, set over, and confirm pursuant to this Indenture. A Grant of the Collateral or of any other agreement or instrument shall include all rights, powers, and options (but none of the obligations) of the granting party thereunder, including the immediate and continuing right to claim for, collect, receive, and give receipt for all payments on the Collateral and all other moneys payable under or in connection with it, to give and receive notices and other communications, to make waivers or other agreements, to exercise all rights and options, to bring proceedings in the name of the granting party or otherwise, and generally to do and receive anything that the granting party is or may be entitled to do or receive under the Collateral.

"INDENTURE" means this Indenture, as supplemented by each Supplemental Indenture relating to any Series of Bonds that may be issued on or after the date hereof.

"INDENTURE EVENT OF DEFAULT" has the meaning specified in SECTION 5.01.

"INDENTURE TRUSTEE" means LaSalle Bank National Association, a national banking association, in its capacity as indenture trustee, or any successor indenture trustee.

"INSOLVENCY EVENT" means, with respect to a specified Person, (a) (i) the entry of a decree or order for relief by a court having jurisdiction in the premises against that Person or any substantial part of its property in an involuntary case under any applicable bankruptcy, insolvency, or other similar law now or hereafter in effect, (ii) the appointment of a conservator, receiver, liquidator, assignee, custodian, trustee, sequestrator or similar official for that Person or for all or any substantial part of its property, or (iii) the ordering of the winding-up or liquidation of that Person's business, if such decree or order remains unstayed and in effect for a period of 60 consecutive days; (b) the commencement by that Person of a voluntary case under any applicable bankruptcy, insolvency or other similar law now or hereafter in effect, or the consent by the Person to the entry of an order for relief in an involuntary case under any such law, or the consent by the Person to the appointment of or taking possession by a conservator, receiver, liquidator, assignee for the benefit of creditors, custodian, trustee, sequestrator or similar official for the particular party or for all or any substantial part of its property, or the making by the Person of any general assignment for the benefit of creditors; or (c) the failure by the Person generally to pay its debts as they become due or the admission by it in writing (as to which admission the Indenture Trustee has written notice) of its inability to pay its debts generally as they become due.

"INTEREST DEFICIT AMOUNT" means, with respect to any Series, the excess, if any, of the Series Interest Required Amount over the Available Series Interest Funds for such Series on such Payment Date.

"INTEREST DEFICIT SERIES" means, with respect to any Payment Date, each Series for which the related Interest Deficit Amount is greater than zero.

"INTEREST SHORTFALL" means, with respect to any Series, the amount specified as the "Interest Shortfall" in the related Supplemental Indenture.

"INTEREST SURPLUS SERIES" means, with respect to any Payment Date, each Series for which the related Shared Interest Funds on such Payment Date is greater than zero.

"LIEN" means any mortgage, deed of trust, pledge, hypothecation, assignment, encumbrance, lien (statutory or other), preference, participation interest, priority or other security agreement or preferential arrangement of any nature whatsoever resulting in an encumbrance against real or personal property of a Person, including any conditional sale or other title retention agreement, any financing lease having substantially the same economic effect as any of the foregoing, and the filing of any financing statement under the UCC or comparable law of any jurisdiction to evidence any of the foregoing.

"MAJORITY IN INTEREST" of any Series or any Class has the meaning given to it in the related Supplemental Indenture.

"MATURITY DATE" means, with respect to each Class of Bonds of each outstanding Series, the date on which the entire unpaid principal amount of such Class is due and payable in the absence of default, as specified in the applicable Supplemental Indenture for each Class under the definition "Class Maturity Date."

"PAYING AGENT" has the meaning specified in SECTION 2.08.

"PAYMENT DATE" means, for each Series, the date specified in the related Supplemental Indenture.

"PRINCIPAL DEFICIT AMOUNT" means, with respect to any Series and any Payment Date, the excess, if any, of the Series Principal Required Amount for such Series on such Payment Date over the Available Series Principal Funds for such Series on such Payment Date.

"PRINCIPAL DEFICIT SERIES" means, with respect to any Payment Date, each Series for which the related Principal Deficit Amount is greater than zero.

"PRINCIPAL SURPLUS SERIES" means, with respect to any Payment Date, each Series for which the Shared Principal Funds on such Payment Date is greater than zero.

"RELEASED SHARED FUNDS" has the meaning specified in SECTION 3.07(g).

"REMAINING SHARED INTEREST FUNDS" means, with respect to any Payment Date, any Interest Surplus Series and (i) any Eligible Interest Deficit Series with respect to such Interest Surplus Series on such Payment Date, the excess of (a) the Shared Interest Funds from such Interest Surplus Series prior to any allocations thereof pursuant to SECTIONS 3.07(e)(i) and 3.07(f)(ii) over (b) the sum of the Allocated Interest/Interest Funds Amounts from such Interest Surplus Series allocated to each other Series issued prior to such Eligible Interest Deficit Series which is also an Eligible Interest Deficit Series with respect to such Interest Surplus Series on such Payment Date and the sum of the Allocated Interest/Principal Funds Amounts with respect to such Interest Surplus Series allocated to each Series issued prior to such Eligible Principal Deficit Series which is also an Eligible Principal Deficit Series with respect to such Interest Surplus Series on such Payment Date and (ii) any Eligible Principal Deficit Series with respect to such Interest Surplus Series on such Payment Date, the excess of the Shared Interest Funds from such Interest Surplus Series, over the sum of (x) the amounts in the foregoing CLAUSE (I) (B), plus (y) the Allocated Interest/Interest Funds Amount, if any, with respect to such Eligible Principal Deficit Series (if also an Eligible Interest Deficit Series on such Payment Date).

"REMAINING SHARED PRINCIPAL FUNDS" means, with respect to any Payment Date, any Principal Surplus Series and (i) any Eligible Principal Deficit Series with respect to such Principal Surplus Series on such Payment Date, the excess of (a) the Shared Principal Funds from such Principal Surplus Series prior to any allocations thereof pursuant to SECTIONS 3.07(e)(ii) and 3.07(f)(i) on such Payment Date, over (b) the sum of the Allocated Principal/Principal Funds Amounts from such Principal Surplus Series allocated to each Series issued prior to such Eligible Principal Deficit Series which is also an Eligible Principal Deficit Series with respect to such Principal Surplus Series on such Payment Date and the sum of the Allocated Principal/Interest Funds amounts with respect to such Principal Surplus Series allocated to each Series issued prior to such Eligible Principal Deficit Series which is also an Eligible Interest Deficit Series with respect to such Principal Surplus Series on such Payment Date and (ii) any Eligible Interest Deficit Series with respect to such Principal Surplus Series on such Payment Date, the excess of the Shared Principal Funds from such Principal Surplus Series, over the sum of (x) the amounts in the foregoing CLAUSE (I) (B), plus (y) the Allocated Principal/Principal Funds Amount, if any, with respect to such Eligible Interest Deficit Series (if also an Eligible Principal Deficit Series on such Payment Date).

"REQUIRED PAYOFF AMOUNT" means, with respect to any Series, the sum of the (i) outstanding principal amount of the Bonds of such Series, (ii) the accrued and unpaid interest with respect to such Series and (iii) the Yield Maintenance Premiums, if any, due with respect to such Series.

"RESPONSIBLE OFFICER" means, (i) when used with respect to the initial Indenture Trustee, any officer of its Asset-Backed Securities Trust Services Group with direct responsibility for the matters contemplated by this Indenture and the related Supplemental Indentures and with respect to any other Indenture Trustee, any officer within the corporate trust department of the Indenture Trustee, including any vice president, assistant vice president, treasurer, assistant treasurer, trust officer, secretary or any assistant secretary, or any other officer who customarily performs functions similar to those performed by any of the above designated officers, and also, regarding a particular matter, any other officer of the Indenture Trustee to whom the matter is referred because of that officer's knowledge of and familiarity with the particular subject and (ii) when used with respect to any other Person, any of the Chairman, the President, any Vice President, the Treasurer, any Assistant Treasurer, the Secretary, or any Assistant Secretary of that Person.

"SERIES INDENTURE EVENT OF DEFAULT" has the meaning specified in SECTION 5.01.

"SERIES INTEREST REQUIRED AMOUNT" means, with respect to any Series, the amount, if any, specified in the related Supplemental Indenture.

"SERIES ISSUER ASSETS" means, with respect to any Series, the Issuer Assets identified in the Schedule of Issuer Assets attached to the related Supplemental Indenture, the payments of interest and principal on which serve as the primary source of payment with respect to the Bonds of such Series.

"SERIES PRINCIPAL REQUIRED AMOUNT" means, with respect to any Series, the amount, if any, specified in the related Supplemental Indenture.

"SERIES TERMINATION DATE" means, for any Series, the date specified in the related Supplemental Indenture.

"SHARED INTEREST FUNDS" means, with respect to any Series and any Payment Date, the Available Series Interest Funds remaining, if any, after application thereof to pay the Series Interest Required Amount of such Series on such Payment Date.

"SHARED FUNDS" means Shared Interest Funds and Shared Principal Funds.

"SHARED PRINCIPAL FUNDS" means, with respect to any Series and any Payment Date, the Available Series Principal Funds remaining, if any, after application thereof to pay the Series Principal Required Amount of such Series on such Payment Date.

"TRANSACTION DOCUMENTS" means the Indenture, the Trust Agreement, any Servicing Agreement, any Primary Servicing Agreement, the Company Purchase Agreement, the Issuer Purchase Agreement and any Supplemental Indenture.

"TRANSFER AGENT AND REGISTRAR" means, initially, the Indenture Trustee and, if the Indenture Trustee is at any time no longer the Transfer Agent and Registrar, the Person appointed Transfer Agent and Registrar by the Issuer for the purpose of effecting transfers or exchanges of Bonds, and registering Bonds, pursuant to SECTION 2.05.

"YIELD MAINTENANCE PREMIUMS" means, with respect to any Series, the amount specified as the "Yield Maintenance Premium" in the related Supplemental Indenture.

ARTICLE II

THE BONDS

Section 1.2 FORM GENERALLY.

Any Series or Class of Bonds, together with the Indenture Trustee's certificate of authentication, shall be in substantially the form of an exhibit to the related Supplemental Indenture with appropriate insertions, omissions, substitutions, and other variations permitted by this Indenture, and may have letters, numbers or other marks of identification and any legends or endorsements that the officers executing them deem appropriate and that are consistent with this Indenture. Any portion of the text of any Bond may be set forth on its reverse, with an appropriate reference to the reverse on the face of the Bond.

The Bonds may be typewritten, printed, lithographed or engraved, or produced by any combination of these methods, all as determined by the officers executing them.

Each Bond other than a Definitive Bond shall be dated the related Closing Date, and each Definitive Bond shall be dated as of the date of its authentication.

Section 1.3 DENOMINATIONS.

The Bonds of each Series shall be issued in fully registered form in minimum amounts specified in the related Supplemental Indenture. Bonds shall be issued without coupons attached.

Section 1.4 EXECUTION, AUTHENTICATION, AND DELIVERY.

Each Bond shall be executed by manual or facsimile signature on behalf of the Issuer by the Owner Trustee.

Bonds bearing the manual or facsimile signature of an individual who was, at the time when the signature was affixed, authorized to sign on behalf of the Issuer shall not be rendered invalid notwithstanding the fact that the individual ceased to be so authorized prior to

the authentication and delivery of the Bonds or does not hold that office at the date of issuance of the Bonds.

At any time and from time to time after the execution and delivery of this Indenture, the Issuer may deliver Bonds executed by the Issuer to the Indenture Trustee for authentication and delivery, and the Indenture Trustee shall authenticate and deliver the Bonds as provided in this Indenture and not otherwise, except as may otherwise be specified in the Supplemental Indenture related to a Series of Bonds.

No Bond shall be entitled to any benefit under this Indenture or be valid for any purpose unless a certificate of authentication appears on the Bond substantially in the form provided for in this Indenture executed by the Indenture Trustee by the manual signature of a duly authorized signatory. The certificate of authentication upon any Bond shall be conclusive evidence, and the only evidence, that a Bond has been duly authenticated and delivered.

Section 1.1 AUTHENTICATING AGENT.

(1) The Indenture Trustee may appoint authenticating agents for the Bonds. Any authenticating agent shall be authorized to act on behalf of the Indenture Trustee in authenticating the Bonds in connection with the issuance, delivery, registration of transfer, exchange or repayment of the Bonds. Whenever reference is made in this Indenture to the authentication of Bonds by the Indenture Trustee or the Indenture Trustee's certificate of authentication, that reference includes authentication on behalf of the Indenture Trustee by an authenticating agent and a certificate of authentication executed on behalf of the Indenture Trustee by an authenticating agent. The authenticating agent with respect to any Series must be acceptable to the Issuer and the applicable Master Servicer.

(2) Any institution succeeding to the corporate agency business of an authenticating agent shall continue to be an authenticating agent without the execution or filing of any power or any further act on the part of the Indenture Trustee or the authenticating agent.

(3) An authenticating agent may at any time resign by giving written notice of resignation to the Indenture Trustee and to the Issuer. The Indenture Trustee may at any time terminate the agency of an authenticating agent by giving notice of termination to that authenticating agent and to the Issuer and the applicable Master Servicer.

(4) The Issuer agrees to pay to each authenticating agent from time to time reasonable compensation for its services under this Section.

(5) The provisions of SECTION 6.04 shall be applicable to any authenticating agent.

(6) Pursuant to an appointment made under this Section, the Bonds may be endorsed using, in lieu of or in addition to the Indenture Trustee's certificate of authentication, an alternative certificate of authentication in substantially the following form:

"This is one of the Bonds described in the within-mentioned Agreement.

as Authenticating Agent
for the Indenture Trustee

By: -----
Authorized Signatory"

Section 1.2 REGISTRATION OF AND LIMITATIONS ON TRANSFER AND EXCHANGE OF BONDS.

The Issuer shall cause to be kept a register in which the Issuer shall provide for the registration of Bonds and the registration of transfers of Bonds. The Indenture Trustee initially shall be the transfer agent and registrar for the purpose of registering Bonds and transfers of Bonds. Upon any resignation of any Transfer Agent and Registrar, the Issuer shall promptly appoint a successor or assume the duties of Transfer Agent and Registrar if it elects not to appoint a successor.

If, after the date hereof, a Person other than the Indenture Trustee is appointed by the Issuer as Transfer Agent and Registrar, the Issuer shall give the Indenture Trustee prompt written notice of that appointment and of the location, and any change in the location, of the Bond Register. The Indenture Trustee may inspect the Bond Register at all reasonable times and obtain copies of it, and the Indenture Trustee may rely upon a certificate executed by the Transfer Agent and Registrar as to the names, addresses and taxpayer identification numbers of the Bondholders and the principal amounts and numbers of the Bonds.

Subject to any applicable restrictions on transfer provided for in the Supplemental Indenture for the related Series of Bonds, upon surrender for registration of transfer of any Bond at the office or agency of the Issuer maintained pursuant to SECTION 3.02, the Issuer shall execute and the Indenture Trustee shall authenticate and deliver, in the name of the designated transferees, new Bonds (of the same Series and Class) in any authorized denominations of like aggregate principal amount.

At the option of a Bondholder, Bonds may be exchanged for other Bonds (of the same Series and Class) in any authorized denominations and of like aggregate principal amount,

upon surrender of the Bonds to be exchanged at the office or agency of the Issuer. Whenever any Bonds are so surrendered for exchange, the Issuer shall execute and the Indenture Trustee shall authenticate and deliver the Bonds that the Bondholder making the exchange is entitled to receive.

All Bonds issued upon any registration of transfer or exchange of Bonds shall evidence the same obligations and the same debt, and their Holders shall be entitled to the same rights and privileges under this Indenture, as the surrendered Bonds or the Holders thereof, as applicable.

Every Bond presented or surrendered for registration of transfer or exchange shall be duly endorsed by, or be accompanied by a written instrument of transfer in a form satisfactory to the Indenture Trustee and duly executed by, its Bondholder or any attorney-in-fact thereof duly authorized in writing, and by any other documents as may be required pursuant to the Supplemental Indenture for the related Series. Each Bondholder must satisfy all transfer restrictions described in the applicable Bond.

The registration of transfer of any Bond shall be subject to any specific requirements set forth in the related Supplemental Indenture.

No service or other charge shall be imposed for any registration of transfer or exchange of Bonds. The Issuer and the Transfer Agent and Registrar may require payment of a sum sufficient to cover any tax or other governmental charge that may be imposed on any registration of transfer or exchange of the Bonds.

Section 1.3 MUTILATED, DESTROYED, LOST OR STOLEN BONDS.

If: (a) the Indenture Trustee receives evidence to its reasonable satisfaction of the destruction, loss or theft of any Bond, and there is delivered to the Indenture Trustee such security or indemnity as may be required by it to hold the Issuer, the Transfer Agent and Registrar and the Indenture Trustee harmless; or (b) any mutilated Bond is surrendered to the Indenture Trustee, then, in the absence of notice to the Issuer, the Transfer Agent and Registrar, or the Indenture Trustee that the Bond has been acquired by a bona fide purchaser, the Issuer shall execute, and the Indenture Trustee shall authenticate and deliver, in exchange for or in lieu of any such mutilated, destroyed, lost or stolen Bond, a replacement Bond of like Series, Class, tenor (including the same date of issuance) and denomination, bearing a number not contemporaneously outstanding. However, if the mutilated, destroyed, lost or stolen Bond shall have become or within seven days shall be due and payable, or shall have been selected or called for redemption, instead of issuing a replacement Bond, the Issuer may pay the Bond when so due or payable or upon the applicable scheduled redemption date without its surrender, except that any mutilated Bond shall be surrendered. If a bona fide purchaser of the original Bond in lieu of which a replacement Bond was issued (or payment was made) presents for payment the original

Bond, the Issuer and the Indenture Trustee shall be entitled to recover on the security or indemnity therefor to the extent of any loss, damage, cost or expense incurred by the Issuer or the Indenture Trustee in connection therewith the replacement Bond (or the payment) from the Person to whom it was delivered or any Person taking the replacement Bond from the Person to whom the replacement Bond was delivered or any assignee of that Person, except a bona fide purchaser.

Upon the issuance of any replacement Bond under this Section, the Issuer may require the payment by the Holder of the Bond of a sum sufficient to cover any tax or other governmental charge that may be imposed on that issuance and any other reasonable expenses (including the fees and expenses of the Indenture Trustee or the Transfer Agent and Registrar) connected with that issuance.

Every replacement Bond issued pursuant to this Section in replacement of any mutilated, destroyed, lost or stolen Bond shall constitute complete and indefeasible evidence of an obligation of the Issuer, as if originally issued, whether or not the destroyed, lost or stolen Bond shall be found at any time and shall be entitled to all of the benefits of this Indenture equally and proportionately with any other duly issued Bonds of the same Series and Class.

The provisions of this Section are exclusive and shall preclude all other rights and remedies regarding the replacement or payment of mutilated, destroyed, lost or stolen Bonds.

Section 1.4 PERSONS DEEMED OWNERS.

Prior to due presentation for registration of transfer of any Bond, the Issuer, the Indenture Trustee, and any agent of the Issuer or the Indenture Trustee shall treat the Person in whose name any Bond is registered as the owner of that Bond on the related Record Date for the purpose of receiving distributions pursuant to the terms of the applicable Supplemental Indenture and for all other purposes whatsoever. Neither the Issuer, the Indenture Trustee, nor any agent of the Issuer or the Indenture Trustee shall be affected by any notice to the contrary.

Section 1.5 APPOINTMENT OF PAYING AGENT.

The Indenture Trustee shall initially be a paying agent ("PAYING AGENT") for the Bonds. The Issuer may appoint additional Paying Agents and may vary or terminate the appointment of any Paying Agent.

As long as the Bonds of any Class are listed on the Luxembourg Stock Exchange and that stock exchange so requires, the Issuer shall maintain a Paying Agent and transfer agent with a specified office in Luxembourg. The Issuer shall enter into any appropriate agency agreement with a Paying Agent and transfer agent not a party to this Indenture to implement the provisions of this Indenture relating to that agent. The Issuer initially appoints Banque de

Luxembourg, at its office located at 27, Avenue Monterey L-2163 Luxembourg, as Paying Agent and transfer agent for each Series of Bonds listed on the Luxembourg Stock Exchange.

Notice of all changes in the identity or specified office of a Paying Agent shall be delivered promptly to the Bondholders by the Issuer.

Notwithstanding the foregoing, if the Supplemental Indenture for any Series requires the Indenture Trustee to make payments to Bondholders of such Series from the related Bond Distribution Account, then only the Indenture Trustee shall be authorized to make such payments.

Section 1.6 ACCESS TO LIST OF BONDHOLDERS' NAMES AND ADDRESSES.

(1) The Issuer shall furnish to the Indenture Trustee, any Master Servicer, any Bondholder or any Paying Agent requesting it a list of the names and addresses of the Bondholders within five Business Days after receipt by the Issuer of a written request therefor from that Person.

(2) Every Bondholder, by receiving and holding a Bond, agrees that none of the Issuer, the Indenture Trustee, the Transfer Agent and Registrar and the Master Servicers nor any of their respective agents and employees shall be held accountable for the disclosure of any information as to the names and addresses of the Bondholders, regardless of the sources from which that information was derived.

Section 1.7 CANCELLATION.

All Bonds surrendered for payment, registration of transfer, exchange or redemption shall be delivered to the Indenture Trustee and promptly canceled by it. The Issuer may at any time deliver to the Indenture Trustee for cancellation any Bonds previously authenticated and delivered that the Issuer may have acquired in any lawful manner. All Bonds so delivered shall be promptly canceled by the Indenture Trustee. No Bonds shall be authenticated in lieu of or in exchange for any Bonds canceled as provided in this Section, except as expressly permitted by this Indenture. All canceled Bonds held by the Indenture Trustee shall be destroyed unless the Issuer directs by a timely order that they be returned to it.

Section 1.8 NEW ISSUANCES.

(1) Pursuant to one or more Supplemental Indentures executed after the execution and delivery of the initial Supplemental Indenture and only to the extent permitted by the terms of this Indenture, the Issuer from time to time may direct the Indenture Trustee, on behalf of the Issuer, to authenticate and deliver one or more new Series of Bonds. The Bonds of all outstanding Series shall be equally and ratably entitled to the benefits of this Indenture without preference, priority or distinction under the terms of this Indenture and the applicable Supplemental Indenture except, with respect to any Series or Class, as provided in such Supplemental Inden

ture. Principal, premium and interest on the Bonds of each outstanding Series shall be paid as specified in the related Supplemental Indenture.

(2) On or before the issuance date of any new Series of Bonds, the Issuer and the Indenture Trustee shall execute and deliver a Supplemental Indenture that will specify the principal terms of that Series and its constituent Classes. Any such Supplemental Indenture may, but shall not be required to, specify the principal terms of up to two separate Series of Bonds to be issued on the same date. The terms of such Supplemental Indenture may modify or amend the terms of this Indenture solely as applied to such Series. Other than any such Series issued pursuant to a Supplemental Indenture dated as of the date hereof, the obligation of the Indenture Trustee to authenticate and deliver the Bonds of any Series and to execute and deliver the related Supplemental Indenture is subject to the satisfaction of the following conditions:

(1) on or before the tenth Business Day immediately preceding the issuance date of the new Series, the Issuer shall have given the Indenture Trustee, any provider of Credit Enhancement (which does not include holders of subordinate securities) and the applicable Master Servicer or the applicable Special Servicer (but only if it is not SFI or an Affiliate) written notice of the issuance of such Series and the issuance date thereof. Such notice shall state the designation of such Series (and any Classes within such Series) and (A) the anticipated initial principal amount of each Class of Bonds in such Series, (B) the approximate interest rates of each Class of Bonds in such Series, in the case of a Fixed Rate Series, or the method of calculating the rates, in the case of a Floating Rate Series and (C) if applicable, the provider of any Credit Enhancement for any Classes in such Series;

(2) the Issuer shall have executed and delivered to the Indenture Trustee the related Supplemental Indenture, in a form reasonably satisfactory to the Indenture Trustee and specifying the principal terms of the Bonds of such new Series;

(3) the Issuer shall have delivered to the Indenture Trustee (A) notice of the form of any Credit Enhancement and (B) any related Credit Enhancement Agreement executed by the Issuer and the provider of the Credit Enhancement;

(4) each Rating Agency shall have delivered to the Issuer, the Master Servicer for each outstanding Series, the Special Servicer for each outstanding Series, the Indenture Trustee, and any provider of Credit Enhancement for each outstanding Series Rating Agency Confirmation with respect to each outstanding Series;

(5) the issuance of the new Series will not result in the occurrence of an Indenture Event of Default with respect to any then outstanding Series, and the Issuer shall have delivered to the Indenture Trustee an officer's certificate of the Issuer dated the issuance date of the new Series (upon which the Indenture Trustee shall conclusively

rely) to the effect that the Issuer reasonably believes that such issuance will not result in the occurrence of an Indenture Event of Default with respect to any then outstanding Series;

(6) the principal balance of the Issuer Assets newly pledged as Collateral simultaneously with the issuance of the new Series shall be equal to or exceed the principal amount of such newly-issued Series;

(7) the Issuer shall have delivered to the Indenture Trustee and any provider of Credit Enhancement an Opinion of Counsel to the effect that the issuance of the new Series: (A) has been duly authorized, executed and delivered, and the Issuer is duly organized and in good standing under the laws of the jurisdiction of its organization and is in good standing in any jurisdiction where it is required to be qualified at the time such Series is issued and that the Issuer has the power and authority to execute and deliver the Supplemental Indenture and this Indenture and to issue the Series at the time such Series is issued, (B) will not result in the requirement that any outstanding Bonds not registered under the Securities Act be so registered, (C) will not result in the Issuer being required to be registered as an investment company under the Investment Company Act of 1940 and (D) will not require this Indenture or the related Supplemental Indenture to be qualified under the Trust Indenture Act of 1939;

(8) the Issuer shall have delivered to the Indenture Trustee a Tax Opinion, dated the issuance date of the new Series, with respect to such issuance;

(i) the Issuer shall have delivered to the Indenture Trustee an Officer's Certificate of SFI, dated the issuance date of the new Series, to the effect that (A) the Transaction Documents are in full force and effect and (B) the principal balance of the Issuer Assets pledged as Collateral in connection with the issuance of the new Series is equal to or exceeds the principal amount of such newly-issued Series;

(ii) if applicable, the Bonds representing a Series to be exchanged shall be delivered to the Indenture Trustee for cancellation;

(iii) no other Series shall have been issued within six months prior to the date of issuance of the new Series.

(3) Upon satisfaction of the conditions to issuance, the Issuer shall execute and the Indenture Trustee shall authenticate and deliver the Bonds of the new Series as provided in this Indenture and the applicable Supplemental Indenture. Notwithstanding the provisions of this Section, prior to the execution of any Supplemental Indenture, the Indenture Trustee shall be entitled to receive and rely upon an Opinion of Counsel stating that the execution of such Supplemental Indenture is authorized or permitted by this Indenture and any Supplemental

Indenture relating to any then outstanding Series. The Indenture Trustee may, but shall not be obligated to, enter into any Supplemental Indenture that adversely affects the Indenture Trustee's own rights, duties or immunities under this Indenture.

Section 1.9 BOOK-ENTRY BONDS.

Unless otherwise provided in any related Supplemental Indenture, the Bonds of each Series, upon original issuance, shall be issued in the form of typewritten Bonds delivered to the Clearing Agency specified in the Supplemental Indenture. The Clearing Agency shall hold the deposited Bonds against its delivery of Bonds in book-entry form.

The Bonds of each Series shall, unless otherwise provided in the related Supplemental Indenture, initially be registered in the Bond Register in the name of the nominee of the Clearing Agency for the Bonds delivered in book-entry form. The Clearing Agency may direct that the Bonds be held by the Indenture Trustee (or the Indenture Trustee's agent) as custodian for the Clearing Agency.

Unless otherwise provided in any related Supplemental Indenture or unless and until Definitive Bonds are issued under the limited circumstances described in SECTION 2.14, no holder of a book-entry Bond shall be entitled to receive a Definitive Bond representing that holder's interest. Unless and until Definitive Bonds have been issued pursuant to SECTION 2.14:

(1) the provisions of this Section shall be in full force and effect with respect to each Series;

(2) the Indenture Trustee shall be entitled to deal with the Clearing Agency for all purposes of this Indenture as the authorized representative of the holders of book-entry Bonds (including the payment of principal of and interest on the Bonds of each Series);

(3) to the extent that the provisions of this Section conflict with any other provisions of this Indenture, the provisions of this Section shall control; and

(4) the rights of holders of book-entry Bonds shall be exercised only through the Clearing Agency. Pursuant to the depository agreement applicable to a Series, unless and until Definitive Bonds of that Series are issued pursuant to SECTION 2.14, the initial Clearing Agency shall make book-entry transfers among its participants and receive and transmit payments of principal and interest on the Bonds to its participants.

Section 1.10 NOTICES TO CLEARING AGENCY.

Whenever a notice or other communication to the Bondholders is required under this Indenture, unless and until Definitive Bonds have been issued pursuant to SECTION 2.14,

the Indenture Trustee shall give all notices and communications to be given to Bondholders to the Clearing Agency.

Section 1.11 DEFINITIVE BONDS.

If:

(1) (i) the Issuer advises the Indenture Trustee in writing that the Clearing Agency is no longer willing or able to discharge its responsibilities as Clearing Agency for the Bonds of a given Class and (ii) the Issuer is unable to locate, or reach an agreement on satisfactory terms with, a qualified successor,

(2) the Issuer, at its option, advises the Indenture Trustee in writing that it elects to terminate the book-entry system through the Clearing Agency for a given Class, or

(3) after the occurrence of a default by the Master Servicer or the Special Servicer under the Servicing Agreement for a Series and the expiration of any applicable cure or grace period, or an Indenture Event of Default with respect to the Bonds of such Series, Holders of book-entry Bonds of any Class of such Series representing not less than 50 percent of the initial Principal Amount of the Class advise the Indenture Trustee and the applicable Clearing Agency in writing that the continuation of a book-entry system is no longer in the best interests of the Holders of book-entry Bonds of that Class of such Series,

then the Indenture Trustee shall notify all Holders of book-entry Bonds of that Class of such Series of the occurrence of the event and of the availability of Definitive Bonds to holders of book-entry Bonds of that Class requesting the same. Upon surrender to the Indenture Trustee of the book-entry Bonds of that Class (unless the Indenture Trustee is already holding them on behalf of the Clearing Agency), accompanied by registration instructions from the Clearing Agency, the Issuer shall execute and the Indenture Trustee shall authenticate Definitive Bonds of that Class and shall recognize the registered holders of those Definitive Bonds as Bondholders under this Indenture. Neither the Issuer nor the Indenture Trustee shall be liable for any delay in delivery of such instructions, and the Issuer and the Indenture Trustee may conclusively rely on, and shall be protected in relying on, such instructions. Upon the issuance of Definitive Bonds, all references in this Indenture to obligations of the Clearing Agency shall be obligations of the Indenture Trustee, to the extent applicable to the Definitive Bonds, and the Indenture Trustee shall recognize the registered holders of the Definitive Bonds as Bondholders. Definitive Bonds will be transferable and exchangeable at the offices of the Transfer Agent and Registrar.

Section 1.12 ARRANGEMENTS WITH SUBSTANTIALLY SIMILAR ISSUERS.

The Issuer may enter into agreements with other issuers of mortgage-backed securities pursuant to which the Issuer will assign, pledge, transfer or otherwise convey to such

other issuers the right to receive Shared Funds with respect to any Series, if (i) such other issuers are Affiliates of SFI having substantially similar form and purpose as the Issuer, (ii) such agreements are to be executed in connection with the issuance by such other issuers of mortgage-backed securities which are substantially similar to the Bonds, (iii) prior to entering into any such agreements the Issuer, the Indenture Trustee, and any provider of Credit Enhancement for each outstanding Series entitled to receive such Shared Funds shall have obtained Rating Agency Confirmation from each Rating Agency then rating any such Series; (iv) the entering into of such agreement will not result in the occurrence of an Indenture Event of Default with respect to any outstanding Series, and the Issuer shall have delivered to the Indenture Trustee an officer's certificate of the Issuer dated the issuance date of the new Series (upon which the Indenture Trustee shall conclusively rely) to the effect that the Issuer reasonably believes that such the transaction contemplated by such agreement will not result in the occurrence of an Indenture Event of Default with respect to any outstanding Series; and (v) the principal balance of the collateral for the series of mortgage-backed securities entitled to such Shared Funds pursuant to the agreement shall be equal to or exceed the principal amount of such securities. Nothing in this SECTION 2.15 shall limit the ability of the Issuer to assign, pledge, convey or otherwise transfer Released Shared Funds.

ARTICLE III

REPRESENTATIONS AND COVENANTS OF THE ISSUER

Section 1.13 PAYMENT OF PRINCIPAL AND INTEREST.

(1) The Issuer shall duly and punctually pay principal of, premium (if any) and interest on the Bonds in accordance with the terms of the Bonds and the related Supplemental Indenture.

(2) The Bondholders of a Series as of any Record Date shall be entitled to the interest accrued and payable, the premium (if any) and the principal payable on the related Payment Date as specified in the related Supplemental Indenture. All payment obligations under a Bond are discharged to the extent payments are made to the Bondholder of record.

(3) The obligations of the Issuer under this Indenture are recourse obligations of the Issuer.

Section 1.18 MAINTENANCE OF OFFICE OR AGENCY.

The Issuer shall maintain an office or agency within the Borough of Manhattan, The City of New York where Bonds may be presented or surrendered for payment, where Bonds may be surrendered for registration of transfer or exchange, and where notices and demands to the Issuer regarding the Bonds and this Indenture may be served. The Issuer initially appoints

SFI, currently located at 1114 Avenue of the Americas, 27th Floor, New York, NY 10036 to serve as its agent for these purposes. The Issuer will give prompt written notice to the Indenture Trustee and the Bondholders of the location, and of any change in the location, of this office or agency. If the Issuer ever fails to maintain this office or agency or fails to furnish the Indenture Trustee with its address, then presentations, surrenders, notices and demands may be made or served at the Indenture Trustee Office. The Issuer appoints the Indenture Trustee at its principal corporate trust office as its agent to receive any presentations, surrenders, notices and demands.

Section 1.19 ESTABLISHMENT OF COLLECTION ACCOUNTS.

(1) Pursuant to a Servicing Agreement executed in connection with each Series of Bonds, there shall be established and there shall be maintained for such Series of Bonds a Primary Collection Account and a Secondary Collection Account in the name of the Indenture Trustee until the Principal Amount of the Bonds of such Series has been reduced to zero, and thereafter in the name of the Issuer. Each of the Collection Accounts shall be under the sole dominion and control of the Indenture Trustee until the Principal Amount of the Bonds of such Series has been reduced to zero, and thereafter under the dominion and control of the Issuer; provided, that the related Master Servicer may make deposits to, and make withdrawals from, either of the Collection Accounts in accordance with the related Servicing Agreement, this Indenture and, if applicable, the related Supplemental Indenture. All deposits to and withdrawals from the Collection Accounts shall be made only upon the terms and conditions of the related Transaction Documents.

(2) Any amounts on deposit in the Collection Accounts shall be invested as provided in such Servicing Agreements until the Principal Amount of the Bonds of each Series has been reduced to zero, and thereafter by the Issuer, only in Permitted Investments. No such investment shall be sold prior to maturity. All investment earnings on amounts deposited to either of the Collection Accounts, including any proceeds thereof, shall be credited to such Collection Account, and losses, if any, and investment expenses resulting from Permitted Investments in either of the Collection Accounts shall be charged to such Collection Account. All such investment income shall be reported for federal income tax purposes as earned by the Issuer. The authority of the applicable Master Servicer to make deposits to and withdrawals from each of the Collection Accounts is revocable at any time by the Indenture Trustee until the Principal Amount of the Senior Bonds has been reduced to zero, and thereafter by the Owner Trustee. If any Collection Account ceases to be an Eligible Account, then the applicable Master Servicer shall be required under the related Master Servicing Agreement to re-establish such Collection Account as an Eligible Account within 10 Business Days (or such longer period not to exceed 30 calendar days as to which a Rating Agency Confirmation shall have been received).

Section 1.20 ESTABLISHMENT OF BOND DISTRIBUTION ACCOUNTS.

On or prior to the date of issuance of any Series, the Indenture Trustee shall establish and maintain a Bond Distribution Account for such Series in the name of the Indenture Trustee in trust for the benefit of the Bondholders of such Series, all in such manner and in such circumstances as are specified in the related Supplemental Indenture. Funds on deposit in any Bond Distribution Account shall not be invested.

Section 1.21 ESTABLISHMENT OF CERTIFICATE DISTRIBUTION ACCOUNT.

(1) On or prior to the Closing Date, the Indenture Trustee shall establish and maintain the Certificate Distribution Account as an Eligible Account in the name of the Indenture Trustee for the benefit of the Certificateholders of all Series until the Principal Amount of the Bonds of all Series has been reduced to zero, and thereafter the Issuer may establish such account in the name of the Issuer. The Certificate Distribution Account shall be under the sole dominion and control of the Indenture Trustee until the Principal Amount of the Bonds of all Series has been reduced to zero, and thereafter under the dominion and control of the Issuer. All deposits to and withdrawals from the Certificate Distribution Account shall be made only upon the terms and conditions of the Transaction Documents and, except as provided therein, the Indenture Trustee shall not be permitted to withdraw any other amounts from the Certificate Distribution Account other than (i) to withdraw any amount deposited into the Certificate Distribution Account that was not required to be deposited therein and (ii) to clear and terminate the Certificate Distribution Accounts upon the termination of this Indenture.

(2) Funds on deposit in the Certificate Distribution Account shall not be invested. If the Certificate Distribution Account ceases to be an Eligible Account, then the Indenture Trustee shall reestablish the Certificate Distribution Account as an Eligible Account within 10 Business Days (or such longer period not to exceed 30 calendar days as to which a Rating Agency Confirmation shall have been received).

Section 1.22 MONEY FOR BOND PAYMENTS TO BE HELD IN TRUST.

All payments of amounts due and payable on the Bonds of any Series that are to be made from amounts withdrawn from the Secondary Collection Account shall be made on behalf of the Issuer by the Indenture Trustee or by another Paying Agent, and no amounts so withdrawn from the Secondary Collection Account shall be paid at the direction of the Issuer except as provided in this SECTION 3.06 and in the related Supplemental Indenture.

No later than 10:00 a.m. on the Business Day prior to each Remittance Date, the Issuer shall cause the Master Servicer with respect to any outstanding Series to withdraw from the Secondary Collection Account for such Series and to deposit in the Bond Distribution Account for such Series a sum sufficient to pay the amounts then becoming due under the Bonds of such Series. This sum shall be held in trust for the benefit of the Persons entitled to it. Unless

the Paying Agent for such Series is the Indenture Trustee, the Issuer shall promptly notify the Indenture Trustee in writing of its action or failure so to act.

The Issuer shall cause each Paying Agent other than the Indenture Trustee to execute and deliver to the Indenture Trustee an instrument in which that Paying Agent agrees with the Indenture Trustee that it will, and the Indenture Trustee hereby agrees in its capacity as Paying Agent, subject to the provisions of this Section, that it will:

(1) hold all sums held by it for the payment of amounts due on the Bonds in trust for the benefit of the Persons entitled to them until those sums are paid to the Persons entitled to them or otherwise disposed of as provided in this Indenture, and pay those sums to the Persons entitled to them as provided in this Indenture;

(2) give the Indenture Trustee notice of any default by the Issuer (or any other obligor upon the Bonds) in the making of any payment required to be made on the Bonds of which it has actual knowledge;

(3) at any time during the continuance of any payment default on the Bonds, upon the written request of the Indenture Trustee, forthwith pay to the Indenture Trustee all sums held in trust by it for the payment of Bonds;

(4) immediately resign as a Paying Agent and forthwith pay to the Indenture Trustee all sums held by it in trust for the payment of Bonds if at any time it ceases to meet the standards required to be met by a Paying Agent at the time of its appointment; and

(5) comply with all requirements of the Internal Revenue Code of 1986 for the withholding from any payments made by it on any Bonds of any applicable withholding taxes imposed on them and comply with any applicable withholding reporting requirements.

To obtain the satisfaction and discharge of this Indenture or for any other purpose, the Issuer may at any time in writing direct any Paying Agent to pay to the Indenture Trustee all sums held in trust by the Paying Agent. Those sums shall be held by the Indenture Trustee upon the same trusts as those upon which they were held by the Paying Agent. Upon that payment by any Paying Agent to the Indenture Trustee, that Paying Agent shall be released from all further liability regarding that money.

Section 1.23 ALLOCATION OF COLLECTIONS.

(1) Collections shall be allocated to each Series based on the Available Series Funds of such Series as specified in the related Supplemental Indenture. Available Series Funds of each

Series shall not be available to make payments of interest and principal on the Bonds of any other Series except as Shared Funds to the extent specifically set forth in this Indenture and in the related Supplemental Indenture.

(2) Unless otherwise specified in the related Supplemental Indenture, Available Series Funds and Shared Funds allocable to any Series pursuant to the related Supplemental Indenture shall be allocated sequentially to each Class of such Series in alphabetical order commencing with the Class designated as "CLASS A."

(3) All Shared Funds for any Series shall be allocated sequentially to other Series entitled to receive Shared Funds from prior-issued Series in chronological order of issuance commencing with the first Series issued subsequent to the Series from which Shared Funds are available. The extent to which each Series is entitled to receive Shared Funds from prior issued Series shall be set forth in the Supplemental Indenture for such Series. Shared Funds allocated to any Series shall be applied to make the payments specified in the related Supplemental Indenture.

(4) On or prior to each Determination Date, the Issuer shall determine with respect to each Series whether such Series is an Interest Deficit Series, an Interest Surplus Series, a Principal Deficit Series or a Principal Surplus Series with respect to the related Collection Period. The Supplemental Indenture with respect to each Series shall identify each prior issued Series with respect to which such Series shall be an Eligible Interest Deficit Series and each prior issued Series with respect to which such Series shall be an Eligible Principal Deficit Series. On or prior to each Determination Date, the Issuer shall determine (and deliver to the Indenture Trustee a certificate stating) with respect to (i) each Interest Deficit Series, (a) each prior issued Interest Surplus Series with respect to which such Interest Deficit Series is an Eligible Interest Deficit Series, (b) each prior issued Principal Surplus Series with respect to which such Interest Deficit Series is an Eligible Interest Deficit Series, and (ii) each Principal Deficit Series (a) each prior issued Interest Surplus Series with respect to which such Principal Deficit Series is an Eligible Principal Deficit Series and (b) each prior issued Principal Surplus Series with respect to which such Principal Deficit Series is an Eligible Principal Deficit Series.

(5) On each Payment Date, Shared Funds shall be allocated in accordance with SECTION 3.07(c) to reduce Interest Deficit Amounts of Eligible Interest Deficit Series in the following order of priority:

- (i) FIRST, SHARED INTEREST FUNDS SHALL BE APPLIED TO REDUCE THE INTEREST DEFICIT AMOUNTS OF ELIGIBLE INTEREST DEFICIT SERIES ON SUCH PAYMENT DATE. Shared Interest Funds shall be applied to the first issued Interest Deficit Series on such Payment Date to which Shared Interest Funds have not been applied to reduce the Interest Deficit Amount of such Interest Deficit Series on such

Payment Date, in an amount equal to the Allocated Interest/Interest Funds Amount from each Interest Surplus Series in respect of which such Interest Deficit Series is an Eligible Interest Deficit Series on such Payment Date.

- (ii) SECOND, SHARED PRINCIPAL FUNDS SHALL BE APPLIED TO REDUCE ANY INTEREST DEFICIT AMOUNTS OF ELIGIBLE INTEREST DEFICIT SERIES REMAINING AFTER APPLICATION OF SHARED INTEREST FUNDS PURSUANT TO SECTION 3.07(e) (i) ON SUCH PAYMENT DATE. Shared Principal Funds shall be applied to the first issued Interest Deficit Series on such Payment Date to which Shared Principal Funds have not been applied to reduce the Interest Deficit Amount of such Interest Deficit Series on such Payment Date, in an amount equal to the Allocated Principal/Interest Funds Amount from each Principal Surplus Series in respect of which such Interest Deficit Series is an Eligible Interest Deficit Series on such Payment Date, without duplication of any amounts paid pursuant to SECTION 3.07(e) (i) on such Payment Date.

(6) On each Payment Date, Shared Funds remaining after application pursuant to SECTION 3.07(e) shall be allocated in accordance with SECTION 3.07(c) in the following order of priority:

- (i) FIRST, SHARED PRINCIPAL FUNDS REMAINING AFTER APPLICATION THEREOF TO REDUCE INTEREST DEFICIT AMOUNTS ON SUCH PAYMENT DATE SHALL BE APPLIED TO REDUCE PRINCIPAL DEFICIT AMOUNTS OF ELIGIBLE PRINCIPAL DEFICIT SERIES ON SUCH PAYMENT DATE. Shared Principal Funds shall be applied to the first issued Principal Deficit Series on such Payment Date to which Shared Principal Funds have not been applied to reduce the Principal Deficit Amount of such Principal Deficit Series on such Payment Date, in an amount equal to the Allocated Principal/Principal Funds Amount from each Principal Surplus Series in respect of which such Principal Deficit Series is an Eligible Principal Deficit Series on such Payment Date.
- (ii) SECOND, SHARED INTEREST FUNDS REMAINING AFTER APPLICATION THEREOF TO REDUCE INTEREST DEFICIT AMOUNTS ON SUCH PAYMENT DATE SHALL BE APPLIED TO REDUCE ANY PRINCIPAL DEFICIT AMOUNTS OF ELIGIBLE PRINCIPAL DEFICIT SERIES REMAINING AFTER APPLICATION OF SHARED INTEREST FUNDS PURSUANT TO SECTION 3.07(f) (i) ON SUCH PAYMENT DATE. Shared Interest Funds shall be applied to the first issued Principal Deficit Series on such Payment Date to which Shared Interest Funds have not been applied to reduce the Principal Deficit Amount of such Principal Deficit Series on such Payment Date, in an amount equal to the Allocated Interest/Principal Funds Amount from each Interest Surplus Series in respect of which such Principal Deficit Series is an Eligible Principal Deficit Series on such Payment Date, without dupli

cation of any amounts paid pursuant to SECTION 3.07(f) (i) on such Payment Date.

(7) The Indenture Trustee hereby irrevocably agrees to release to the Issuer free from the Lien of this Indenture any Shared Funds from any Series remaining on each Payment Date after application thereof to the provisions of, and in accordance with, this Indenture and the related Supplemental Indenture (any such amount, "RELEASED SHARED FUNDS"). The Indenture Trustee hereby releases to the Issuer all of its right, title and interest in, to and under all Released Shared Funds immediately upon identification thereof, which release shall be automatic and shall require no further act by the Indenture Trustee, PROVIDED, that the Indenture Trustee shall execute and deliver to, or to the order of, the Issuer such instruments of release and assignment, or otherwise confirm the foregoing release of any Released Shared Funds, as may reasonably be requested by the Issuer. The Issuer shall prepare and deliver to the Indenture Trustee the necessary forms of release and assignment. Upon such release of Released Shared Funds, such Released Shared Funds shall not constitute and shall not be included in the Collateral, and shall be paid to the Issuer in accordance with the terms of the related Supplemental Indenture.

(a) If any withholding tax is imposed on the Issuer's payment (or allocations of income) to the Bondholders of any Series, that withholding tax shall reduce the amount otherwise distributable to the Bondholders of that Series in accordance with this Section. The Indenture Trustee is hereby authorized and directed upon receiving notification in writing that any withholding tax is due to retain from amounts otherwise distributable to the Bondholders sufficient funds for the payment of any withholding tax that is legally owed by the Issuer. This authorization shall not prevent the Indenture Trustee from contesting any tax in appropriate proceedings and withholding payment of the tax, if permitted by law, pending the outcome of the proceedings. The amount of any withholding tax imposed on any distributions shall be treated as cash distributed to the Bondholder at the time it is withheld by the Issuer and remitted to the appropriate taxing authority. If withholding tax might be payable on a distribution to a non-U.S. Bondholder, the Indenture Trustee may in its sole discretion withhold an appropriate amount to cover that possibility.

Section 1.24 UNCLAIMED FUNDS.

Subject to abandoned property laws, on the request of the Issuer, any money deposited with the Indenture Trustee or any Paying Agent, or then held by the Issuer, in trust for the payment of the principal of or interest on any Bond and remaining unclaimed for three years after it has become due and payable shall be discharged from the trust and paid to the Issuer. The Holder of the Bond on which payment was due shall thereafter look only to the Issuer for payment as an unsecured general creditor. All liability of the Indenture Trustee or the Paying Agent regarding that trust money to the extent so paid to the Issuer shall thereupon cease. The Indenture Trustee or the Paying Agent, before being required to make any payment, may at the expense of the Issuer cause to be published once, in a newspaper of general circulation published in the English language and customarily published on each Business Day in The City of New York and

in the city in which the principal corporate trust office of the Indenture Trustee is located, notice that such money remains unclaimed and that, after a date specified therein, which shall be not less than 30 days from the date of the publication, any unclaimed balance of that money then remaining will be repaid to the Issuer. The Indenture Trustee may also adopt and employ, at the expense of the Issuer, any other reasonable means of notification of a release of payment (including, mailing notice of the release to Bondholders whose Bonds have been called but have not been surrendered for redemption or whose right to monies payable but not claimed is determinable from the records of any Paying Agent, at the last address of record of the Holder).

Section 1.25 EXISTENCE.

The Issuer shall keep in full effect its existence, rights and franchises as a business trust under the laws of the State of Delaware (unless it or any successor becomes organized under the laws of any other state or of the United States of America, in which case the Issuer will keep in full effect its existence, rights and franchises under the laws of that other jurisdiction) and will obtain and preserve its qualification to do business in each jurisdiction in which qualification to do business is necessary to protect the validity and enforceability of this Indenture, the Transaction Documents executed in connection with each Series, the Bonds and the Collateral and each other related instrument or agreement.

Section 1.22 PROTECTION OF ISSUER.

Subject to the provisions of this Indenture, the Issuer will prepare, execute and deliver any supplements and amendments to this Indenture and any financing statements, continuation statements, instruments of further assurance and other instruments, and will take any other action advisable:

- (1) to Grant more effectively all or any portion of the Collateral as security for the Bonds;
- (2) to maintain or preserve the Lien (and the priority of the Lien) of this Indenture or to carry out more effectively the purposes of this Indenture;
- (3) to perfect, publish notice of, or protect the validity of any Grant made or to be made by this Indenture; or
- (4) to preserve and defend title to the Collateral and the rights of the Indenture Trustee and the Bondholders in the Collateral against the claims of all persons and parties.

The Issuer hereby designates the Indenture Trustee its agent and attorney-in-fact to execute any financing statement, continuation statement or other instrument required pursuant to this Section, provided that such designation shall not impose upon the Indenture Trustee any duty to execute any such instruments except as directed in writing by the Issuer.

The Issuer shall pay or cause to be paid any taxes levied on all or any part of the Collateral.

Section 1.26 PERFORMANCE OF OBLIGATIONS; SERVICING OF ISSUER ASSETS.

(1) The Issuer shall not take any action (and shall use its best efforts to prevent others from taking any action) that would release any Person from any of that Person's material covenants or obligations under any instrument or agreement included in the Issuer Assets or that would result in the amendment, hypothecation, subordination, termination or discharge of, or impair the validity or effectiveness of, any instrument or agreement included in the Issuer Assets, except as expressly provided in this Indenture, the related Supplemental Indenture, the Servicing Agreement or other instrument or agreement included in the Issuer Assets.

(2) The Issuer may contract with other Persons to assist it in performing its duties under this Indenture, and any performance of its duties by a Person identified to the Indenture Trustee in an Officer's Certificate of the Issuer shall be action taken by the Issuer.

(3) The Issuer shall punctually perform and observe all of its obligations and agreements contained in this Indenture, the Transaction Documents, and in the instruments and agreements relating to the Issuer Assets, including properly filing all UCC financing statements and continuation statements required to be filed by the terms of this Indenture and the Servicing Agreement.

(4) If the Issuer has actual knowledge of the occurrence of a default by the Master Servicer or the Special Servicer under the Servicing Agreement for an outstanding Series, the Issuer shall notify the Indenture Trustee of such default and the actions being taken by the Issuer with respect thereto, shall instruct the Indenture Trustee to notify the Rating Agencies promptly of the default and shall cause the Indenture Trustee to specify in the notice any action being taken by the Issuer (as reported by it) or the Indenture Trustee about the default. If a default by a Master Servicer or a Special Servicer arises because the Master Servicer or the Special Servicer fails to perform any of their respective duties or obligations under the Servicing Agreement for the related Series regarding the related Series Issuer Assets, the Issuer shall take all reasonable steps available to it to remedy the failure.

(5) The Issuer agrees (i) that it will not, without the prior written consent of the Indenture Trustee, waive timely performance or observance by any Master Servicer or SFI under the related Company Purchase Agreement or the related Servicing Agreement (except to the extent otherwise provided in such Servicing Agreement or Company Purchase Agreement) and (ii) that any amendment of a Transaction Documents shall not (A) increase or reduce in any manner the amount of, or accelerate or delay the timing of, payments that are required to be made for the benefit of the Bondholders of the related Series or (B) reduce the percentage of the Bonds of any Series that is required to consent to any amendment, without the consent of the Holders of

all the outstanding Bonds of such Series. If any amendment, modification, supplement, or waiver of the Issuer Assets or the Transaction Documents is consented to by the Indenture Trustee and the required number of Bondholders of each outstanding Series, the Issuer agrees, promptly following a request by the Indenture Trustee to do so, to execute and deliver, in its own name and at its own expense, such agreements, instruments, consents, and other documents as the Indenture Trustee may deem appropriate in the circumstances.

In the case of any amendment, modification, supplement or waiver of the Issuer Assets or any Transaction Document requested by a Master Servicer, as to which the consent of the Indenture Trustee or the Bondholders of the related Series is not required by the terms of this Indenture or the related Supplemental Indenture, the Issuer shall execute any such amendment, modification, supplement or waiver upon delivery to the Issuer by such Master Servicer of a certificate stating that no such consent is required.

Section 1.28 NEGATIVE COVENANTS.

The Issuer shall not:

(1) sell, transfer, exchange, pledge or otherwise dispose of any part of the Collateral for any Series except as expressly permitted by the Basic Documents for such Series;

(2) claim any credit on, or make any deduction from, the principal and interest payable on the Bonds of any Series due to the payment of any taxes levied or assessed upon any part of the Collateral;

(3) incur, assume, or guarantee any direct or contingent indebtedness other than as permitted by this Indenture or incurred pursuant to the Transaction Documents;

(4) (A) permit the validity or effectiveness of this Indenture to be impaired, or permit the Lien of this Indenture to be amended, hypothecated, subordinated, terminated or discharged, or permit any Person to be released from any covenants or obligations relating to the Bonds under this Indenture except as may be expressly permitted by this Indenture, (B) permit any Lien, charge, excise, claim, security interest, mortgage or other encumbrance (other than the Lien of this Indenture and other liens arising by operation of law and without the consent of the Issuer) to exist relating to any part of the Collateral or (C) permit the Lien of this Indenture not to constitute a valid first priority security interest (other than with respect to a tax, mechanics' or similar Lien) in the Collateral;

(5) voluntarily file a petition for bankruptcy or reorganization, make an assignment for the benefit of creditors or commence any similar proceeding;

(6) act or fail to act in a manner that would endanger its status as a REIT under Section 856(i) of the Code;

(7) dissolve or liquidate in whole or in part; or

(8) with respect to any Series, take any other action that is prohibited under the Basic Documents for such Series.

Section 1.25 ISSUER MAY CONSOLIDATE, ETC., ONLY ON CERTAIN Terms.

(1) The Issuer shall not consolidate or merge with or into any other Person, or transfer its assets substantially as an entirety to any Person, unless:

(2) the Person (if other than the Issuer) formed by or surviving the consolidation or merger or that acquires the assets of the Issuer substantially as an entirety is organized under the laws of the United States or any state or the District of Columbia, is treated as a REIT or QRS (as defined in Section 856(i) of the Code), and expressly assumes the due and punctual payment of the principal of and interest on all of the Bonds and the performance of the terms of this Indenture and the Transaction Documents to which it is a party on the part of the Issuer to be performed, by a Supplemental Indenture, executed and delivered to the Indenture Trustee, in form and substance satisfactory to the Indenture Trustee;

(3) no Indenture Event of Default has occurred and is continuing prior to or after giving effect to such merger or consolidation;

(4) the Issuer has delivered to the Indenture Trustee (A) an Officer's Certificate stating that (1) the consolidation, merger or transfer and the Supplemental Indenture described in clause (i) above comply with this Section, (2) all conditions precedent in this Section have been complied with and (3) the Supplemental Indenture described in clause (i) above is duly authorized, executed, and delivered and is valid, binding and enforceable against the successor entity, and (B) an Opinion of Counsel with respect to subclause (3) above;

(5) each Rating Agency has delivered a Rating Agency Confirmation prior to the consummation of the transaction;

(6) the Issuer has received a tax opinion dated the date of the consolidation, merger, or transfer (and has delivered copies of it to the Indenture Trustee) to the effect that the transaction will not have any material adverse tax consequence to the successor entity or the Bondholders of any Series; and

(7) any action that is necessary to maintain the Lien and security interest created by this Indenture has been taken.

(2) Except as permitted by the Transaction Documents, the Issuer shall not transfer any of its assets to any Person unless:

(1) the Person that acquires assets of the Issuer (A) is a United States citizen or a Person organized and existing under the laws of the United States of America or any state, (B) expressly assumes the due and punctual payment of the principal of and interest on all of the Bonds and the performance of the terms of this Indenture on the part of the Issuer to be performed by a Supplemental Indenture, executed and delivered to the Indenture Trustee, in form and substance satisfactory to the Indenture Trustee, (C) expressly agrees in that Supplemental Indenture that all right, title and interest transferred to it shall be subject and subordinate to the rights of Holders of the Bonds, (D) expressly agrees to indemnify the Issuer against any loss, liability or expense related to this Indenture and the Bonds, and (E) expressly agrees in that Supplemental Indenture that it shall make all filings with the Securities and Exchange Commission (and any other appropriate Person) required by the Securities Exchange Act of 1934 in connection with the Bonds;

(2) no Indenture Event of Default has occurred and is continuing prior to or after giving effect to such transfer;

(3) each Rating Agency has delivered a Rating Agency Confirmation prior to the consummation of the transaction;

(4) the Issuer has received a tax opinion (and has delivered copies of it to the Indenture Trustee) to the effect that such transfer will not have any material adverse tax consequence to the transferee or any Bondholder;

(5) any action that is necessary to maintain the Lien and security interest created by this Indenture has been taken;

(6) the Issuer has delivered to the Indenture Trustee (A) an Officer's Certificate stating that (1) the transfer and the Supplemental Indenture comply with this Section, (2) that all conditions precedent in this Section have been complied with, and (3) such Supplemental Indenture is duly authorized, executed and delivered and is valid, binding and enforceable against the transferee, and (B) an Opinion of Counsel to the effect of the matters discussed in subclause (3) above.

Section 1.26 SUCCESSOR SUBSTITUTED.

Upon any consolidation or merger or any transfer of the assets of the Issuer substantially as an entirety complying with SECTION 3.13(a), the Person formed by or surviving the consolidation or merger (if other than the Issuer) or the Person to which the transfer is made shall succeed to, and be substituted for, and may exercise every right and power of, the Issuer under this Indenture with the same effect as if that Person had been named as the Issuer. Upon any transfer complying with SECTION 3.13, the entity that was the Issuer prior to the transfer shall

be released from its obligations under this Indenture as Issuer immediately upon the effectiveness of the transfer but shall not be released from any obligations or liabilities to the Indenture Trustee or the Bondholders arising prior to such effectiveness.

Section 1.31 NO OTHER BUSINESS.

The Issuer shall not engage in any business other than financing, purchasing, owning, selling, and managing the Collateral in the manner contemplated by this Indenture and the other Transaction Documents and all activities incidental thereto.

Section 1.32 NO BORROWING.

Except as contemplated by this Indenture, the Issuer shall not issue, incur, assume, guarantee or otherwise become liable, directly or indirectly, for any indebtedness except for the Bonds and the obligation to reimburse each Master Servicer, the Indenture Trustee and the Fiscal Agent for Advances, to pay accrued Advance Interest on such Advances and for the obligations of the Issuer under the Transaction Documents.

Section 1.33 GUARANTEES, LOANS, ADVANCES AND OTHER LIABILITIES.

Except as contemplated by this Indenture, the Issuer shall not make any loan or advance or credit to, or guarantee (directly or indirectly or by an instrument having the effect of assuring another's payment or performance on any obligation or capability of so doing or otherwise), endorse or otherwise become contingently liable, directly or indirectly, in connection with the obligations, stocks or dividends of, or own (or agree contingently to acquire) any stock, obligations, assets or securities of, or any other interest in, or make any capital contribution to, any other Person other than in connection with the issuance of Bonds pursuant to a Supplemental Indenture.\

Section 1.34 CAPITAL EXPENDITURES.

The Issuer shall not make any expenditure (by long-term or operating lease or otherwise) for capital assets (either realty or personally). The Issuer may repurchase Bonds from any Bondholder, including any Affiliate of SFI, provided that immediately upon any such purchase, the Issuer shall submit such Bond to the Indenture Trustee for cancellation.

Section 1.35 RESTRICTED PAYMENTS.

The Issuer shall not, directly or indirectly: (i) pay any dividend or make any distribution, whether in cash, property, securities, or a combination of them, to any Person because of any ownership interest in the Issuer; (ii) redeem, purchase, retire, or otherwise acquire for value any ownership interest in the Issuer; or (iii) set aside any amounts for any such purpose. Notwithstanding the foregoing, the Issuer may make any distributions contemplated by, and to the extent funds are available for such purpose under, the Servicing Agreement or the Trust

Agreement. The Issuer will not, directly or indirectly, make payments to or distributions from either of the Collection Accounts except in accordance with this Indenture, the related Supplemental Indenture and the Servicing Agreement.

Section 1.36 FURTHER INSTRUMENTS AND ACTS.

Upon request of the Indenture Trustee, the Issuer shall execute and deliver any further instruments and do any further acts that may be appropriate to carry out more effectively the purpose of this Indenture.

ARTICLE IV

SATISFACTION AND DISCHARGE

Section 1.37 SATISFACTION AND DISCHARGE OF THIS INDENTURE.

With respect to any Series, except as to (a) rights of registration of transfer and exchange of the Bonds of such Series, (b) substitution of mutilated, destroyed, lost or stolen Bonds of such Series, (c) the rights of Bondholders of such Series to receive payments of principal of and interest on such Bonds as provided in this Article, (d) SECTIONS 3.03, 3.06, 3.07, 3.09, 3.10 and 3.13 and this SECTION 4.01, (e) the rights and immunities of the Indenture Trustee under this Indenture with respect to such Series, including the rights of the Indenture Trustee under SECTION 6.07 and the obligations of the Indenture Trustee under SECTION 4.02, and (f) the rights of Bondholders of such Series as beneficiaries of this Indenture regarding property deposited under SECTION 4.02 with the Indenture Trustee and payable to any of them, this Indenture shall cease to be of further effect with respect to the Bonds of that Series, and, if provided in the related Supplemental Indenture, the Indenture Trustee shall execute proper instruments delivered to it acknowledging satisfaction and discharge of this Indenture with respect to those Bonds, on demand of and at the expense of the Issuer, when either:

(1) all Bonds of that Series and, if so provided in any applicable Supplemental Indenture(s), the Bonds of any other outstanding Series entitled to receive Shared Funds from the aforementioned Series theretofore authenticated and delivered have been delivered to the Indenture Trustee for cancellation in accordance with the terms hereof (other than (A) Bonds that have been destroyed, lost, or stolen and that have been replaced or paid as provided in SECTION 2.06 and (B) Bonds for whose full payment money has theretofore been deposited in trust or segregated and held in trust by the Indenture Trustee and thereafter repaid to the Issuer or discharged from such trust, as provided in SECTION 3.06); or

(2) The Bonds of that Series have become due and payable or are to be called for redemption in full on the immediately succeeding Payment Date and (A) the Issuer has deposited or caused to be deposited with the Indenture Trustee cash in the amount of all sums payable under the Indenture by the Issuer with respect to the Bonds of that Series and, if so provided in any applicable Supplemental Indenture(s), the Bonds of any other outstanding Series entitled to receive Shared Funds from the aforementioned Series; and

(B) the Issuer has delivered to the Indenture Trustee an Officer's Certificate of the Issuer stating that all amounts payable under this Indenture to the Holders of Bonds of such Series have been paid.

Notwithstanding the satisfaction and discharge of this Indenture or of any Series, the obligations of the Issuer to the Indenture Trustee under SECTION 6.07 and of the Indenture Trustee to the Bondholders under SECTION 4.02 shall survive.

Section 1.38 APPLICATION OF TRUST MONEY.

All monies deposited with the Indenture Trustee pursuant to SECTION 4.01 shall be held in trust and applied by it to the payment of all sums due and to become due on the Bonds for principal and interest to the Bondholders for whose payment the monies have been deposited with the Indenture Trustee. These payments may be made either directly or through any Paying Agent, as the Indenture Trustee may determine. These monies need not be segregated from other funds except to the extent required herein or in the Servicing Agreement.

ARTICLE V
DEFAULTS AND REMEDIES

Section 1.39 INDENTURE EVENTS OF DEFAULT.

For all Series, "Indenture Events of Default" shall include any voluntary or involuntary event of bankruptcy, insolvency, reorganization or similar proceedings with respect to the Issuer. Such Indenture Event of Default shall be referred to as an "Automatic Indenture Event of Default." Indenture Events of Default with respect to specific Series of Bonds shall be defined in the related Supplemental Indenture. Such Indenture Events of Default shall be defined as "Series Indenture Event of Default" in the related Supplemental Indenture.

Section 1.40 CONTROLLING HOLDER.

(1) If an Indenture Event of Default shall occur and for so long as it is continuing with respect to any Series (unless rescinded pursuant to SECTION 5.04(c) or SECTION 5.04(d) hereof or waived pursuant to SECTION 5.13 hereof), the Company shall cease to be the Controlling

Holder of such Series, and shall no longer be afforded the opportunity to direct the related Master Servicer and the related Special Servicer with respect to the servicing and administration of the related Series Issuer Assets as provided in the Servicing Agreement for such Series.

Section 1.41 COLLECTION OF INDEBTEDNESS AND SUITS FOR ENFORCEMENT BY
 INDENTURE TRUSTEE.

The Issuer covenants that upon the acceleration of the maturity of the Bonds of any Series pursuant to SECTION 5.04 and the demand of the Indenture Trustee, the Issuer will immediately pay to the Indenture Trustee for the benefit of the Bondholders of such Series the whole amount then due and payable on the Bonds of such Series for principal, premium (if any), interest and Yield Maintenance Premiums, if any, with interest upon the overdue principal and, to the extent that payments of such interest shall be legally enforceable, upon overdue installments of interest, in the order set forth in the applicable Supplemental Indenture and, in addition thereto, any further amount necessary to cover the costs and expenses of collection, including the reasonable compensation, expenses, disbursements and advances of the Indenture Trustee, its agents and counsel.

If the Issuer fails to pay these amounts forthwith upon the demand of the Indenture Trustee, the Indenture Trustee, in its own name and as Indenture Trustee of an express trust, may institute a proceeding for the collection of the sums so due and unpaid, and may prosecute the proceeding to judgment or final decree, and may enforce the same against the Issuer and collect the monies adjudged or decreed to be payable in the manner provided by law.

If an Indenture Event of Default occurs and is continuing as to any Series, the Indenture Trustee may, subject to the provisions of SECTION 5.02, SECTION 5.12 and SECTION 6.01, proceed to protect and enforce its rights and the rights of the Bondholders of such Series under this Indenture by whatever appropriate proceedings the Indenture Trustee deems most effectual to protect and enforce any of those rights, whether for the specific enforcement of any covenant or agreement contained in this Indenture or in aid of the exercise of any power granted in this Indenture or to enforce any other proper remedy or legal or equitable right vested in the Indenture Trustee by this Indenture or by law.

If proceedings relating to the Issuer under Title 11 of the United States Code or any other applicable federal or state bankruptcy, insolvency or other similar law are pending, or if a receiver, assignee, or trustee in bankruptcy or reorganization, liquidator, sequestrator or similar official has been appointed for or taken possession of the Issuer or its property, or if any other comparable judicial proceedings relating to the Issuer or the creditors or property of the Issuer are pending, then the Indenture Trustee shall be entitled and empowered, by intervention in the proceedings or otherwise:

(1) to file and prove a claim for the whole amount of principal and interest owing and unpaid on the Bonds of such Series, and to file any other papers or documents and take any other action, including participating as a member of any committee of creditors, that the Indenture

Trustee may deem appropriate to have the claims of the Indenture Trustee and of the Bondholders of such Series allowed in any proceedings relating to the Issuer upon the Bonds of such Series, or to the creditors or property of the Issuer,

(2) to vote on behalf of the Bondholders of such Series in any election of a trustee or a standby trustee in any arrangement, reorganization, liquidation or other bankruptcy or insolvency proceedings or in any election of any Person performing similar functions in comparable proceedings, and

(3) to collect any monies or other property payable or deliverable on any such claims, and to distribute all amounts received on the claims of the Bondholders of such Series and of the Indenture Trustee on their behalf, and any trustee, receiver, liquidator, custodian or other similar official is authorized by each Bondholder to make payments to the Indenture Trustee, and, if the Indenture Trustee consents to payments going directly to the Bondholders, to pay to the Indenture Trustee such amounts as shall be sufficient to cover reasonable compensation to the Indenture Trustee, each predecessor Indenture Trustee and their respective agents, attorneys and counsel, and all other expenses and liabilities incurred, and all advances made, by the Indenture Trustee and each predecessor Indenture Trustee except as a result of negligence or bad faith.

Nothing herein contained shall be deemed to authorize the Indenture Trustee to authorize or consent to or vote for or accept or adopt on behalf of any Bondholders any plan of reorganization, arrangement, adjustment or composition affecting the Bonds or the rights of any Bondholder, or to authorize the Indenture Trustee to vote regarding the claim of any Bondholder in any such proceeding except, as aforesaid, to vote for the election of a trustee in bankruptcy or Person performing similar functions.

In any proceedings involving this Indenture or the Bonds the Indenture Trustee shall represent all the Bondholders, and it shall not be necessary to make any Bondholders parties to the proceedings.

Section 1.42 REMEDIES; RESCISSION OF ACCELERATION.

(1) Upon the occurrence of any Indenture Event of Default as to any Series (a "Defaulted Series"), the Issuer shall promptly give written notice of that Indenture Event of Default to the Indenture Trustee. The Indenture Trustee shall within five (5) Business Days of its receipt of such notice or of obtaining actual knowledge of the occurrence of an Indenture Event of Default, send a notice of such Indenture Event of Default to the Bondholders of each Series, the Master Servicer with respect to the Defaulted Series, the Special Servicer of the Defaulted Series and each Rating Agency.

(2) If an Indenture Event of Default has occurred with respect to any Series and is continuing and the maturity of the Bonds of the Defaulted Series has been accelerated, the

Indenture Trustee shall do one or more of the following with respect to such Defaulted Series only:

(1) institute proceedings in its own name, as trustee for an express trust, or in both such capacities, for the collection of all amounts then payable on the Bonds of the Defaulted Series (whether by declaration or otherwise), prosecute such proceedings, enforce any judgment obtained, and collect amounts adjudged due from the collateral for that Series;

(2) at the written direction of at least 66% of the Bondholders of the Outstanding Bonds of the Defaulted Series voting as a single class, sell or cause the sale of all or a portion of the Series Issuer Assets of the Defaulted Series pursuant to SECTION 5.16 at one or more public or private sales called and conducted in any manner permitted by law;

(3) institute proceedings from time to time for the complete or partial foreclosure of this Indenture with respect to the collateral for the Defaulted Series;

(4) exercise any remedies of a secured party under the UCC, maintain possession of the collateral for that Series and collect or otherwise receive in accordance with the related Servicing Agreement any money or property at any time payable or receivable on account of or in exchange for the collateral of that Series and take any other appropriate action to protect and enforce the rights and remedies of the Indenture Trustee or the Bondholders of the Defaulted Series under this Indenture; or

(5) take any other appropriate action to protect and enforce the rights and remedies of the Indenture Trustee hereunder.

(3) In the case of a Series Indenture Event of Default, upon the written direction of at least a Majority in Interest of the Bondholders of the Defaulted Series (voting as a single class), the Indenture Trustee shall accelerate the maturity of the Bonds of such Defaulted Series unless, within ten (10) Business Days of the date of the notice given to Bondholders, the Indenture Trustee receives written instructions from Bondholders of the requisite amount of Outstanding Bonds of the Defaulted Series, as specified in the related Supplemental Indenture of such Defaulted Series, rescinding the acceleration of the maturity of Bonds of the Defaulted Series; PROVIDED, that no acceleration of the maturity of the Bonds of a Defaulted Series, which occurred as a result of a default (i) in the payment of the principal or interest on any Bond of the Defaulted Series, or (ii) with respect to any of the provisions under SECTION 9.02 that cannot be modified or amended without the consent of the Bondholder of each Outstanding Bond of the Defaulted Series, may be rescinded without the consent of each Bondholder of the Defaulted Series affected by such default. Following any declaration of acceleration of a Series of Bonds in connection with a Series Indenture Event of Default, the Indenture Trustee or its designee shall solicit bids

for the related Series Issuer Assets and provide the Bondholders of the Defaulted Series with an estimate of the anticipated proceeds of a sale of such Issuer Assets, and Bondholders of the Outstanding Bonds of the Defaulted Series representing at least 66% of the Principal Amount of the Bonds of the Defaulted Series may direct the Indenture Trustee to, and if so directed the Indenture Trustee shall, sell the related Series Issuer Assets. The proceeds of the sale or other liquidation of the Series Issuer Assets of such Defaulted Series shall be deposited into the Primary Collection Account established with respect to the Defaulted Series and shall be treated as Available Series Funds and shall be applied in accordance with SECTION 5.05 hereof and the related Supplemental Indenture.

(4) In the case of an Automatic Indenture Event of Default, the Indenture Trustee shall, immediately and without seeking direction from the Bondholders, accelerate the maturity of the Bonds of all Series unless, within ten (10) Business Days of the date of the notice given to Bondholders, the Indenture Trustee receives written instructions from a Majority in Interest of any Series of Bonds (voting as a single class) rescinding the acceleration of the maturity of Bonds of such Series; PROVIDED, that no acceleration of the maturity of the Bonds of a Defaulted Series, which occurred as a result of a default (i) in the payment of the principal or interest on any Bond, or (ii) with respect to any of the provisions under SECTION 9.02 that cannot be modified or amended without the consent of the Bondholders of each Outstanding Bond affected, may be rescinded without the consent of each Bondholder affected by such default. Following an acceleration of all Series of Bonds in connection with an Automatic Indenture Event of Default, the Indenture Trustee or its designee shall solicit bids for the Series Issuer Assets related to each outstanding Series and provide the Bondholders of each such Defaulted Series with an estimate of the anticipated proceeds of a sale of such Issuer Assets, and the Bondholders of the Outstanding Bonds of each Defaulted Series representing at least 66% of the Principal Amount of the Bonds of the Defaulted Series may direct the Indenture Trustee, and if so directed the Indenture Trustee shall, sell the related Series Issuer Assets of such Defaulted Series. The proceeds of the sale or other liquidation of the Series Issuer Assets of each Defaulted Series shall be deposited into the Primary Collection Account with respect to such Defaulted Series, shall be used solely for making payments on the Bonds of that Defaulted Series and shall be treated as Available Series Funds and shall be applied in accordance with SECTION 5.05 hereof and the related Supplemental Indenture.

(5) The Bondholders of any Series will be entitled to participate in any vote required in connection with an Indenture Event of Default to direct actions and resolve matters with respect to such Series only and not with respect to any other Series of Bonds. Without limiting the generality of the foregoing, upon the occurrence of an Indenture Event of Default, whether a Series Indenture Event of Default or an Automatic Indenture Event of Default, the Bondholders of a Defaulted Series shall not be entitled to direct the Indenture Trustee to, and the Indenture Trustee shall not, exercise any remedy provided for in this Indenture or in the Supplemental Indenture for such Defaulted Series with respect to the Series Issuer Assets of any other Series.

(6) The Indenture Trustee may fix a record date and payment date for any payment to Bondholders pursuant to this Section. At least 15 days before that record date, the Indenture Trustee shall mail to each Bondholder of a Defaulted Series and the Issuer a notice that states the record date, the payment date, and the amount to be paid.

Section 1.43 ALLOCATION OF AVAILABLE SERIES FUNDS.

Upon liquidation of the Series Issuer Assets following an Indenture Event of Default, the proceeds thereof shall be applied to each Class of the related Series of Bonds in the same priority as is specified for such Series in the related Supplemental Indenture, except that in each case where a payment in reduction of the principal of any such Class of Bonds is required in accordance with the terms of such Supplemental Indenture, the outstanding principal amount of such Class must be paid in full before any further payments may be made on any Class of Bonds of such Series having a later alphabetical designation or of any other Series entitled to Shared Funds from such Series.

Section 1.44 INDENTURE TRUSTEE MAY ENFORCE CLAIMS WITHOUT POSSESSION OF BONDS.

All rights of action and claims under this Indenture or the Bonds may be prosecuted and enforced by the Indenture Trustee without the possession of any of the Bonds or their production in any proceeding relating to them. Any recovery of judgment shall, after provision for the payment of the reasonable compensation, expenses, disbursements and advances of the Indenture Trustee, its agents and counsel, be for the ratable benefit of the Bondholders of the Defaulted Series and any other parties entitled thereto pursuant to the applicable Supplemental Indenture upon which the judgment has been obtained.

Section 1.45 LIMITATION ON SUITS.

No Bondholder of a Defaulted Series shall have any right to institute any proceedings, judicial or other, regarding this Indenture, or for the appointment of a receiver or trustee, or for any other remedy under this Indenture, unless:

(1) the Bondholders of not less than 25% of the Principal Amount of the Outstanding Bonds of the Defaulted Series have made written request to the Indenture Trustee to institute the proceeding in its own name as Indenture Trustee;

(2) those Bondholders have previously given written notice to the Indenture Trustee of a continuing Indenture Event of Default;

(3) those Bondholders have offered to the Indenture Trustee reasonable indemnity against the costs, expenses and liabilities to be incurred in compliance with their request;

(4) the Indenture Trustee for 60 days after its receipt of that notice, request and offer of indemnity has failed to institute appropriate proceedings; and

(5) no direction inconsistent with the written request has been given to the Indenture Trustee during the 60-day period by a Majority in Interest of the Defaulted Series.

No one or more Bondholders may in any manner whatever under any provision of this Indenture affect, disturb or prejudice the rights of any other Bondholder or obtain or seek to obtain priority or preference over any other Bondholder or enforce any right under this Indenture, except in the manner provided in this Indenture and in the Supplemental Indenture related to the Series of Bonds held by such Bondholder.

If the Indenture Trustee receives conflicting or inconsistent requests and indemnity from two or more groups of Bondholders, each representing less than a Majority in Interest of the related Series, the Indenture Trustee in its sole discretion may determine what action, if any, shall be taken, notwithstanding any other provisions of this Indenture and shall have no liability for taking such action or for taking no action.

Section 1.46 UNCONDITIONAL RIGHTS OF BONDHOLDERS TO RECEIVE PRINCIPAL AND INTEREST.

Notwithstanding any other provision in this Indenture, each Bondholder shall have the absolute and unconditional right to receive payment of the principal, of premium (if any) and interest on its Bond, as such amounts become due and payable and to institute suit for the enforcement of that payment. This right shall not be impaired without the consent of the affected Bondholder.

Section 1.47 RESTORATION OF RIGHTS AND REMEDIES.

If the Indenture Trustee or any Bondholder has instituted any proceeding to enforce any right or remedy under this Indenture and that proceeding has been discontinued or abandoned, or has been determined adversely to the Indenture Trustee or to the Bondholder, then the Issuer, the Indenture Trustee and the Bondholder shall, subject to any determination in that proceeding, be restored to their former positions under this Indenture, and thereafter all rights and remedies of the Indenture Trustee and the Bondholders shall continue as though no proceeding had been instituted.

Section 1.48 RIGHTS AND REMEDIES CUMULATIVE.

No right, remedy, power or privilege herein conferred upon or reserved to the Indenture Trustee or to the Bondholders is intended to be exclusive of any other right, remedy, power or privilege. Every right, remedy, power or privilege shall be cumulative and in addition to every other right, remedy, power or privilege given under this Indenture or now or hereafter existing at law or in equity or otherwise. The assertion or exercise of any right, remedy, power

or privilege shall not preclude any other further assertion or the exercise of any other appropriate right, remedy, power or privilege.

Section 1.49 DELAY OR OMISSION NOT WAIVER.

No failure to exercise and no delay in exercising, on the part of the Indenture Trustee or any Bondholder or other Person, any right, remedy, power or privilege upon any Indenture Event of Default shall impair that right, remedy, power or privilege or constitute a waiver of it or of the Indenture Event of Default or an acquiescence in the Indenture Event of Default. Every right, remedy, power or privilege given by this Article or by law to the Indenture Trustee or to the Bondholders may be exercised as often as may be deemed expedient by the Indenture Trustee or by the Bondholders, as the case may be.

Section 1.50 RIGHTS OF BONDHOLDERS TO DIRECT INDENTURE TRUSTEE.

A Majority in Interest of the Outstanding Bonds of each outstanding Series may direct the time, method and place of conducting any proceeding for any remedy available to the Indenture Trustee regarding the Bonds of that Series or exercising any trust or power conferred on the Indenture Trustee regarding the Bonds of that Series.

Notwithstanding the foregoing and subject to SECTION 6.01:

(1) the Indenture Trustee may decline any direction if the Indenture Trustee, after being advised by counsel, determines that the action so directed is in conflict with any rule of law or with this Indenture; and

(2) the Indenture Trustee may decline any direction if the Indenture Trustee in good faith, by a Responsible Officer of the Indenture Trustee, determines that the proceedings so directed would be illegal or involve the Indenture Trustee in personal liability or be unjustly prejudicial to Bondholders of the same Series who are not parties to that direction.

Section 1.51 WAIVER OF PAST DEFAULTS.

At any time prior to or following the declaration of the acceleration of the maturity of the Bonds and before a judgment or decree for the payment of the money due in respect of the Bonds of any Defaulted Series has been obtained by the Indenture Trustee following any Series Indenture Event of Default, 66% of the Holders (by Principal Amount) of the Outstanding Bonds of such Series (voting as a single class) may, after payment to Indenture Trustee of all expenses of the Indenture Trustee incurred in connection with such default and prior to its waiver, on behalf of all the Bondholders of such Series only, waive in writing any such Series Indenture Event of Default or rescind or annul the declaration of acceleration. However, no Series Indenture Event of Default due to a default in the payment of the principal or

interest on any Class of Bonds may be waived without the consent of each Bondholder of such Class and no Automatic Indenture Event of Default may be waived without the consent of all of the Bondholders of all Series.

Upon any written waiver of, or recession of, a declaration of acceleration by the Bondholders of the Defaulted Series, the default shall cease to exist as to such Series, and any Indenture Event of Default as to such Series arising from it shall be deemed to have been cured for every purpose of this Indenture. No such waiver shall extend to any subsequent or other default or impair any right consequent to it.

Section 1.52 UNDERTAKING FOR COSTS.

All parties to this Indenture agree, and each Bondholder by its acceptance of a Bond shall be deemed to have agreed, that in any suit for the enforcement of any right or remedy under this Indenture, or in any suit against the Indenture Trustee for any action taken, suffered or omitted by it as Indenture Trustee, any court may in its discretion require the filing by any party litigant in the suit of an undertaking to pay the costs of the suit, and that the court may in its discretion assess reasonable costs, including reasonable attorneys' fees, against any party litigant in the suit, having due regard to the merits and good faith of the claims or defenses made by that party litigant. The provisions of this Section shall not apply to any suit instituted by the Indenture Trustee, to any suit instituted by any Bondholders (in compliance with SECTION 5.07) holding in the aggregate more than 10% of the principal balance of the outstanding Bonds of any Series, or to any suit instituted by any Bondholder for the enforcement of the payment of the principal or interest on any Bond on or after the Payment Date on which the principal or interest was due (or, in the case of redemption, on or after the applicable redemption date).

Section 1.53 WAIVER OF STAY OR EXTENSION LAWS.

The Issuer covenants (to the extent that it may lawfully do so) that it will not at any time insist upon, or plead, or in any manner whatsoever claim or take the benefit or advantage of, any stay or extension law wherever enacted, now or at any time hereafter in force, that may adversely affect the covenants or the performance of this Indenture. The Issuer (to the extent that it may lawfully do so) hereby expressly waives all benefit or advantage of any such law, and covenants that it will not hinder, delay or impede the execution of any power herein granted to the Indenture Trustee, but will suffer and permit the execution of every such power as though no such law had been enacted.

Section 1.54 SALE OF ISSUER ASSETS.

(1) The method, manner, time, place and terms of any sale of all or any portion of the Issuer Assets pursuant to SECTION 5.04 shall be commercially reasonable. The Indenture Trustee may from time to time postpone any sale by public announcement made at the time and place of

the sale. The Indenture Trustee hereby expressly waives its right to any amount fixed by law as compensation for any sale.

(2) In any sale of all or any portion of the Issuer Assets, any Bondholder may bid for and purchase the property offered for sale, and upon compliance with the terms of the sale may hold, retain and possess and dispose of the property, without further accountability, and may, in paying the purchase money for the property, deliver any outstanding Bonds of such Series or claims for interest on the Bonds of such Series in lieu of cash up to the amount that shall, upon distribution of the net proceeds of the sale, be payable thereon, and those Bonds of such Series, if the amounts so payable are less than the amount due on the Bonds of such Series, shall be returned to the Bondholder after being appropriately stamped to show partial payment.

(3) The Indenture Trustee may bid for and acquire any portion of the Issuer Assets securing the Bonds of such Series in a public sale, and may pay all or part of the purchase price by crediting against amounts owing to the Indenture Trustee under this Indenture, including, without limitation, the costs, charges and expenses incurred by the Indenture Trustee in connection with the sale notwithstanding the provisions of SECTION 6.07.

(4) The Indenture Trustee shall execute and deliver an appropriate instrument of conveyance transferring its interest in any portion of the collateral for any Series upon its sale. In addition, the Indenture Trustee is hereby irrevocably appointed the agent and attorney-in-fact of the Issuer to transfer and convey its interest in any portion of the collateral for that Series upon its sale, and to take all action necessary to effect its sale. No purchaser or transferee of any portion of the Issuer's interest in the collateral for that Series shall be bound to ascertain the Indenture Trustee's authority, inquire into the satisfaction of any conditions precedent, or see to the application of any monies.

Section 1.55 ACTION ON BONDS.

The Indenture Trustee's right to seek and recover judgment on the Bonds of any Series or under this Indenture shall not be affected by the seeking or obtaining of or application for any other relief under this Indenture. Neither the Lien of this Indenture nor any rights or remedies of the Indenture Trustee or the Bondholders of such Series shall be impaired by the recovery of any judgment by the Indenture Trustee against the Issuer or by the levy of any execution under that judgment upon any portion of the Collateral. Any money or property collected by the Indenture Trustee shall be applied as specified in the applicable Supplemental Indenture.

ARTICLE VI

THE INDENTURE TRUSTEE

(1) If an Indenture Event of Default has occurred and is continuing and a Responsible Officer of the Indenture Trustee has actual knowledge or written notice of that Indenture Event of Default, the Indenture Trustee shall, before receiving written direction from at least 66% of the Bondholders of the Outstanding Bonds of the Defaulted Series pursuant to SECTION 5.04(c), in the case of a Series Event of Default, or at least 66% of the Outstanding Bonds of the Bondholders of all Series voting as a single class pursuant to SECTION 5.04(d), in the case of an Automatic Indenture Event of Default, exercise the rights and powers vested in it by this Indenture and use the same degree of care and skill in their exercise as a prudent person would exercise or use under the circumstances in the conduct of his own affairs.

(2) Except during the continuance of an Indenture Event of Default,

(1) the Indenture Trustee undertakes to perform such duties and only such duties as are specifically set forth in this Indenture, and no implied covenants or obligations shall be read into this Indenture against the Indenture Trustee; and

(2) in the absence of bad faith or negligence on its part, the Indenture Trustee may conclusively rely (as to their truth and correctness) upon certificates or opinions furnished to the Indenture Trustee and conforming to the requirements of this Indenture.

(3) The Indenture Trustee, upon receipt of any resolutions, certificates, statements, opinions, reports, documents, orders or other instruments furnished to the Indenture Trustee that are specifically required to be furnished pursuant to any provision of this Indenture, shall examine them to determine whether they substantially conform to the requirements of this Indenture. The Indenture Trustee shall give prompt written notice to the Bondholders and each Rating Agency of any material lack of conformity of any such instrument to the applicable requirements of this Indenture discovered by the Indenture Trustee that would entitle a Majority in Interest of the Bondholders to take any action pursuant to this Indenture.

(4) No provision of this Indenture shall be construed to relieve the Indenture Trustee from liability for its own negligent action, its own negligent failure to act, or its own willful misconduct, except that:

(1) this Subsection shall not be construed to limit the effect of Subsection (b) of this Section;

(2) the Indenture Trustee shall not be liable for any error of judgment made in good faith by a Responsible Officer of the Indenture Trustee absent proof that the Indenture Trustee was negligent in ascertaining the pertinent facts; and

(3) the Indenture Trustee shall not be liable for any action taken, suffered or omitted to be taken by it in good faith in accordance with the Indenture or at the direction of the Bondholders of the requisite amount of Outstanding Bonds, as specified in the related Supplemental Indenture of each outstanding Series of Bonds relating to the time, method and place of conducting any proceeding for any remedy available to the Indenture Trustee, or for exercising any trust or power conferred upon the Indenture Trustee, under this Indenture. The Indenture Trustee shall not be liable for any action taken, suffered or omitted to be taken by it in good faith at the direction of a Master Servicer or a Special Servicer if such action is authorized under the applicable Servicing Agreement. In connection with any such direction, the Master Servicer or the Special Servicer, as the case may be, shall execute and deliver to the Indenture Trustee a certificate expressly stating that such action is authorized pursuant to the applicable Servicing Agreement, and the Indenture Trustee may conclusively rely on such certificate.

(5) No provision of this Indenture shall require the Indenture Trustee to expend or risk its own funds or otherwise incur any financial liability in the performance of any of its duties under this Indenture or in the exercise of any of its rights or powers if it has reasonable grounds for believing that repayment of its funds or adequate indemnity against any risk or liability is not reasonably assured to it.

(6) Every provision of this Indenture that in any way relates to the Indenture Trustee is subject to Subsections (a), (b), (d) and (e) of this Section.

(7) The Indenture Trustee shall have no responsibility or liability for investment losses on Eligible Investments.

(8) The Indenture Trustee shall notify each Rating Agency immediately of the occurrence of any Indenture Event of Default of which the Indenture Trustee has actual knowledge or has actual notice from the Master Servicer or the Special Servicer.

(9) The Indenture Trustee shall hold directly, or through a custodian, any Loans delivered to it that are evidenced by any "instruments" within the meaning of any applicable enactment of the UCC and may release any such Issuer Asset to the Master Servicer, the Special Servicer or as otherwise provided in the Servicing Agreement at its written request.

(10) For all purposes under this Indenture, the Indenture Trustee shall not be deemed to have notice or knowledge of any Indenture Event of Default or default by the Master Servicer or the Special Servicer under the Servicing Agreement, unless a Responsible Officer of the Indenture Trustee has actual knowledge of the event or has received written notice of it. For the purposes of determining the Indenture Trustee's responsibility and liability under this Indenture, any reference to an Indenture Event of Default or default by the Master Servicer or the Special

Servicer under the Servicing Agreement, shall be construed to refer only to such event of which the Indenture Trustee is deemed to have notice as described in this Subsection.

(11) The Indenture Trustee shall not be responsible for the actions or omission of the Master Servicer or the Special Servicer.

Section 1.57 NOTICE OF INDENTURE EVENT OF DEFAULT.

Upon the occurrence of any Indenture Event of Default of which a Responsible Officer of the Indenture Trustee has actual knowledge or has received written notice, the Indenture Trustee shall transmit by mail to the Rating Agencies and to the Bondholders of all Series as their names and addresses appear on the Bond Register, notice of the Indenture Event of Default within 30 days after it receives notice or obtains actual knowledge of the event.

Section 1.58 RIGHTS OF INDENTURE TRUSTEE.

Except as otherwise provided in SECTION 6.01:

(1) the Indenture Trustee may conclusively rely and shall fully be protected in acting or refraining from acting upon any resolution, certificate, statement, instrument, opinion, report, notice, request, direction, consent, order, bond, note or other document reasonably believed by it to be genuine and to have been signed or presented by the proper party or parties;

(2) whenever in the administration of this Indenture the Indenture Trustee deems it desirable that a matter be proved or established prior to taking, suffering or omitting any action, the Indenture Trustee (unless other evidence is specifically prescribed) may, in the absence of bad faith on its part, rely upon an Officer's Certificate of the Issuer;

(3) as a condition to the taking, suffering or omitting of any action by it, the Indenture Trustee may consult with counsel, and the advice of counsel or any opinion of counsel shall be full and complete authorization and protection in respect of any action taken, suffered or omitted by it in good faith and in reliance thereon;

(4) the Indenture Trustee shall be under no obligation to exercise any of the rights or powers vested in it by this Indenture or to honor the request or direction of any of the Bondholders of any Series pursuant to this Indenture, unless the Bondholders of such Series shall have offered to the Indenture Trustee reasonable security or indemnity against the costs, expenses and liabilities that might be incurred by it in compliance with the request or direction;

(5) the Indenture Trustee shall not be bound to make any investigation into the matters stated in any resolution, certificate, statement, instrument, opinion, report, notice, request, direction, consent, order, bond, note or other document, but the Indenture Trustee, in its

discretion, may make any further inquiry or investigation into those matters that it deems appropriate, and, if the Indenture Trustee determines to inquire further, it shall be entitled to examine the books, records and premises of the Issuer, any Master Servicer and any Special Servicer, personally or by agent or attorney;

(6) the Indenture Trustee may execute any of the trusts or powers under this Indenture or perform any duties under this Indenture either directly or through agents, attorneys, custodians, or nominees and the Indenture Trustee shall not be responsible for (i) any misconduct or negligence on the part of any agent, attorney, custodians, or nominees appointed with due care by it or (ii) the supervision of those agents, attorneys, custodians or nominees appointed with due care;

(7) the Indenture Trustee shall not be liable for any actions taken, suffered, or omitted by it in good faith and believed by it to be authorized or within the discretion or rights conferred upon the Indenture Trustee by this Indenture; and

(8) if the Indenture Trustee is also acting as Paying Agent and as Transfer Agent and Registrar, the rights and protections afforded to the Indenture Trustee pursuant to this Article shall also be afforded to it as Paying Agent and as Transfer Agent and Registrar.

Section 1.59 NOT RESPONSIBLE FOR RECITALS OR ISSUANCE OF BONDS.

The recitals contained in this Indenture and in the Bonds, except the certificate of authentication of the Indenture Trustee, shall be taken as the statements of the Issuer, and the Indenture Trustee assumes no responsibility for their correctness. The Indenture Trustee makes no representation as to the validity or sufficiency of this Indenture, the Bonds or any related document. The Indenture Trustee shall not be accountable for the use or application by the Issuer of the proceeds from the Bonds.

Section 1.60 MAY HOLD BONDS.

The Indenture Trustee, any Paying Agent, any Transfer Agent and Registrar or any other agent of the Issuer, in its individual or any other capacity, may become the owner or pledgee of Bonds and may otherwise deal with the Issuer with the same rights it would have if it were not Indenture Trustee, Paying Agent, Transfer Agent and Registrar, or other agent.

Section 1.61 MONEY HELD IN TRUST.

Any money held by the Indenture Trustee in trust under this Indenture need not be segregated from any other funds held by the Indenture Trustee in trust under this Indenture except to the extent required by this Indenture. The Indenture Trustee shall be under no liability for interest on any money received by it under this Indenture except as otherwise agreed upon in writing by the Indenture Trustee.

Section 1.62 COMPENSATION, REIMBURSEMENT, AND INDEMNIFICATION.

(1) The Issuer agrees:

(1) to pay the Indenture Trustee (no less frequently than each Payment Date) the compensation required under the Supplemental Indenture for each Series (which compensation shall not be limited by any provision of law regarding the compensation of a trustee of an express trust);

(2) except as otherwise expressly provided in this Indenture, to reimburse the Indenture Trustee and the Fiscal Agent upon its request for all reasonable expenses, disbursements and advances incurred or made by the Indenture Trustee pursuant to this Indenture and any Transaction Document (including all costs and expenses incurred by the Indenture Trustee and the Fiscal Agent exercising any remedies under this Indenture and the reasonable compensation and the expenses and disbursements of its agents and counsel, except any such expense, disbursement or advance that may be attributable to its negligence or bad faith); and

(3) to indemnify the Indenture Trustee, the Fiscal Agent and their respective officers, directors, employees and agents against any loss, liability, expense, damage or injury suffered or sustained without negligence or bad faith on its part, arising in connection with the acceptance or administration of this trust, including (x) the costs and expenses of defending itself against any claim or liability from the exercise or performance of any of its powers or duties under this Indenture and the Transaction Documents and (y) to the extent such Person has not been indemnified therefor under any other Transaction Document, the maintenance and administration of any account.

(2) If, on any date when a fee is payable to the Indenture Trustee pursuant to this Indenture, sufficient funds are not available for its payment, any portion of a fee not paid shall be deferred and payable, together with compensatory interest (at a rate not to exceed the federal funds rate), on the next date on which a fee is payable and sufficient funds are available.

(3) Amounts payable or reimburseable to the Indenture Trustee by the Issuer shall not be funded from the collateral for any Series other than the Series in respect of which such losses, costs or expenses were incurred.

Section 1.63 REPLACEMENT OF INDENTURE TRUSTEE.

No resignation or removal of the Indenture Trustee and no appointment of a successor Indenture Trustee shall become effective until the acceptance of appointment by the successor Indenture Trustee pursuant to this Section. The Indenture Trustee may resign at any

time upon 30 days' written notice to the Issuer. Holders of a Majority in Interest of all outstanding Series, voting in the aggregate, may remove the Indenture Trustee by so notifying the Indenture Trustee and may appoint a successor Indenture Trustee. The removal or resignation of the Indenture Trustee shall be deemed to be the simultaneous removal or resignation of the Fiscal Agent. The Issuer shall remove the Indenture Trustee, if:

- (1) the Indenture Trustee fails to satisfy SECTION 6.11;
- (2) the Indenture Trustee is adjudged a bankrupt or insolvent, or a receiver of the Indenture Trustee or of its property shall be appointed, or any public officer takes charge of the Indenture Trustee or its property or its affairs for the purpose of rehabilitation, conservation or liquidation; or
- (3) the Indenture Trustee otherwise becomes legally unable to act.

If the Indenture Trustee resigns or is removed or if a vacancy exists in the office of Indenture Trustee for any reason (the Indenture Trustee in such event being referred to as the retiring Indenture Trustee), the Issuer shall promptly appoint a successor Indenture Trustee and obtain a Rating Agency Confirmation from each Rating Agency in connection therewith.

A successor Indenture Trustee shall deliver a written acceptance of its appointment to the retiring Indenture Trustee and to the Issuer. Thereupon the resignation or removal of the retiring Indenture Trustee shall become effective, and the successor Indenture Trustee shall have all the rights, powers and duties of the Indenture Trustee under this Indenture. The successor Indenture Trustee shall mail a notice of its succession to the Bondholders of all Series. The retiring Indenture Trustee shall promptly transfer all property held by it as Indenture Trustee to the successor Indenture Trustee.

If a successor Indenture Trustee does not take office within 60 days after the retiring Indenture Trustee resigns or is removed, the retiring Indenture Trustee, the Issuer or a Majority in Interest of all outstanding Series may petition any court of competent jurisdiction for the appointment of a successor Indenture Trustee.

If the Indenture Trustee fails to satisfy SECTION 6.11, any Bondholder may petition any court of competent jurisdiction for the removal of the Indenture Trustee and the appointment of a successor Indenture Trustee.

Notwithstanding the replacement of the Indenture Trustee pursuant to this Section, the Issuer's obligations under SECTION 6.07 shall continue for the benefit of the retiring Indenture Trustee and the retiring Fiscal Agent.

In the event of the Indenture Trustee's removal without cause, all expenses incurred by the Indenture Trustee and the Fiscal Agent in connection with such removal shall be

reimbursed to the Indenture Trustee and the Fiscal Agent, as applicable, from the Primary Collection Account.

In connection with the appointment of a successor Indenture Trustee, the Issuer shall deliver an Opinion of Counsel to such successor Indenture Trustee and each Rating Agency to the effect that such successor Indenture Trustee shall have a perfected security interest of first priority in the Issuer Assets.

Section 1.64 SUCCESSOR INDENTURE TRUSTEE BY MERGER.

If the Indenture Trustee consolidates with, merges or converts into, or transfers all or substantially all its corporate trust business or assets to, another corporation or banking association, the resulting, surviving or transferee corporation without any further act shall be the successor Indenture Trustee if that corporation or banking association is otherwise qualified and eligible under SECTION 6.11. The Indenture Trustee shall provide the Rating Agencies written notice of any such transaction and obtain a Rating Agency Confirmation in connection with such transaction.

If any Bonds have been authenticated but not delivered at the time a successor to the Indenture Trustee by merger, conversion, consolidation or transfer succeeds to the trusts created by this Indenture, the successor to the Indenture Trustee may adopt the certificate of authentication of the predecessor Indenture Trustee and deliver the Bonds so authenticated.

Any successor to the Indenture Trustee may authenticate Bonds in the name of either the predecessor Indenture Trustee or the successor Indenture Trustee and those certificates of authentication shall have the full force that it is anywhere provided in the Bonds or in this Indenture that certificates of authentication of the Indenture Trustee shall have.

Section 1.65 APPOINTMENT OF CO-INDENTURE TRUSTEE OR SEPARATE
 INDENTURE TRUSTEE.

(1) Notwithstanding any other provisions of this Indenture, at any time, for the purpose of meeting any legal requirement of any jurisdiction in which any part of the Collateral may at the time be located, the Indenture Trustee may execute and deliver all instruments to appoint one or more Persons to act as a co-trustee or co-trustees, or separate trustee or separate trustees, of any part of the Issuer Assets, and to vest in those Persons, in such capacity and for the benefit of the Bondholders, title to any part of the Issuer Assets and, subject to the other provisions of this Section, the powers, duties, obligations, rights and trusts that the Indenture Trustee considers appropriate. No co-trustee or separate trustee under this Indenture shall be required to meet the terms of eligibility as a successor trustee under SECTION 6.11 and no notice to Bondholders of the appointment of any co-trustee or separate trustee shall be required under SECTION 6.08.

(2) Every separate trustee and co-trustee shall be appointed and act subject to the following provisions and conditions:

(1) all rights, powers, duties and obligations conferred or imposed upon the Indenture Trustee shall be conferred or imposed upon and exercised or performed by the Indenture Trustee and the separate trustee or co-trustee jointly (the separate trustee or co-trustee is not authorized to act separately without the Indenture Trustee joining in the act), except to the extent that under any law of any jurisdiction in which any particular acts are to be performed the Indenture Trustee is incompetent or unqualified to act, in which event the rights, powers, duties and obligations shall be performed singly by the separate trustee or co-trustee, but solely at the direction of the Indenture Trustee;

(2) no trustee under this Indenture shall be personally liable by reason of any act or omission of any other trustee under this Indenture; and

(3) the Indenture Trustee may at any time accept the resignation of or remove any separate trustee or co-trustee.

(3) Any notice, request or other writing given to the Indenture Trustee shall be deemed to have been given to each of the then separate trustees and co-trustees, as effectively as if given to each of them. Every instrument appointing any separate trustee or co-trustee shall refer to this Indenture and the conditions of this Article. Each separate trustee and co-trustee, upon its acceptance of the trusts conferred, shall be vested with the estates or property specified in its instrument of appointment, either jointly with the Indenture Trustee or separately, as may be provided therein, subject to all the provisions of this Indenture, specifically including every provision of this Indenture relating to the conduct of, affecting the liability of, or affording protection to, the Indenture Trustee. Every instrument of appointment shall be filed with the Indenture Trustee.

(4) Any separate trustee or co-trustee may at any time constitute the Indenture Trustee its agent or attorney-in-fact with full power and authority to do any lawful act under this Indenture on its behalf and in its name. If any separate trustee or co-trustee shall die, become incapable of acting, resign or be removed, all of its estates, properties, rights, remedies and trusts shall vest in and be exercised by the Indenture Trustee, without the appointment of a new or successor trustee.

Section 1.66 ELIGIBILITY; DISQUALIFICATION.

The Indenture Trustee shall have a combined capital and surplus of at least \$50,000,000 as set forth in its most recent published annual report of condition, and the long term unsecured debt ratings of the Indenture Trustee shall be rated at least "AA" by S&P, "A2"

by Moody's and "AA" by Fitch or the long term unsecured debt ratings of the Fiscal Agent shall be rated at least "AA" by S&P, "Aa3" by Moody's and "AA" by Fitch.

Section 1.67 REPRESENTATIONS AND COVENANTS OF THE INDENTURE TRUSTEE.

The Indenture Trustee represents, warrants, and covenants that:

- (1) It is duly organized and validly existing as a national banking association;
- (2) It has full power and authority to deliver and perform this Indenture and has taken all necessary action to authorize the execution, delivery and performance by it of this Indenture and the other Transaction Documents to which it is a party; and
- (3) Each of this Indenture and the other Transaction Documents to which it is a party has been duly executed and delivered by the Indenture Trustee and constitutes its valid and legal binding obligation enforceable in accordance with its terms.

ARTICLE VII

BONDHOLDERS' LIST AND REPORTS BY
INDENTURE TRUSTEE AND ISSUER

Section 1.68 ISSUER TO FURNISH INDENTURE TRUSTEE NAMES AND ADDRESSES OF BONDHOLDERS.

Within five days after each Record Date, the Issuer will cause to be furnished to the Indenture Trustee a list, in such form as the Indenture Trustee may reasonably require, of the names, addresses and taxpayer identification numbers of the Bondholders as they appear on the Bond Register as of that Record Date. At any other time, the Indenture Trustee may request the Issuer to furnish, on ten days' written notice, a list of similar form and content as of a date not more than 10 days prior to the time the list is furnished. So long as the Indenture Trustee is the Transfer Agent and Registrar, the Issuer shall not be required to furnish those lists and the Indenture Trustee shall furnish to the Issuer such list upon ten days' written request.

Section 1.69 PRESERVATION OF INFORMATION; COMMUNICATIONS TO BONDHOLDERS.

(1) The Indenture Trustee shall preserve, in as current a form as is reasonably practicable, the names, addresses and taxpayer identification numbers of the Bondholders contained in the most recent list furnished to the Indenture Trustee under SECTION 7.01 and the names, addresses and taxpayer identification numbers of the Bondholders received by the Indenture Trustee in its capacity as Transfer Agent and Registrar. The Indenture Trustee may destroy any list furnished to it under SECTION 7.01 upon receipt of a new list so furnished.

(2) If any Bondholder applies in writing to the Indenture Trustee stating that it desires to communicate with other Bondholders regarding their rights under this Indenture or under the Bonds, then the Indenture Trustee shall, within five Business Days after the receipt of the application, afford that Bondholder access to the information preserved at the time by the Indenture Trustee in accordance with Subsection (a) of this Section. The Indenture Trustee shall have no liability for releasing any such information to any Bondholder. The requesting Bondholder shall be responsible for any expense incurred by the Indenture Trustee in connection with obtaining a securities position listing from DTC.

(3) If any Bondholder applies in writing to the Indenture Trustee stating that it desires a copy of the annual certificate of the Master Servicer of the related Series or the Special Servicer of the related Series prepared under the related Servicing Agreement or a copy of the annual servicing report of independent public accountants with respect to the Master Servicer of the related Series or the Special Servicer of the related Series prepared under the related Servicing Agreement, the Indenture Trustee shall furnish that Bondholder with a copy of such report to the extent such report is in the possession of the Indenture Trustee.

ARTICLE VIII

ACCOUNTING AND RELEASES

Section 1.70 COLLECTION OF MONEY.

Except as otherwise expressly provided in this Indenture, the Indenture Trustee may demand payment or delivery of, and receive and collect, directly and without intervention or assistance of any fiscal agent or other intermediary, all money and other property payable to or receivable by the Indenture Trustee pursuant to this Indenture. The Indenture Trustee shall hold all such money and property received by it in trust for the Bondholders and shall apply it as provided in this Indenture.

Section 1.71 RELEASE OF COLLATERAL.

(1) The Indenture Trustee may, and when required by this Indenture shall, execute instruments to release property from the Lien of this Indenture, or convey the Indenture Trustee's interest in the same, in a manner and under circumstances that are not inconsistent with the provisions of this Indenture. No party relying upon an instrument executed by the Indenture Trustee as provided in this Article shall be bound to ascertain the Indenture Trustee's authority, inquire into the satisfaction of any conditions precedent or see to the application of any monies.

(2) To facilitate the servicing of the Series Issuer Assets by the related Master Servicer and the related Special Servicer, the Indenture Trustee by written direction of a Responsible Officer of such Master Servicer or Special Servicer shall deliver to such Master Servicer or Special Servicer, as applicable, such powers of attorney as the Master Servicer or the Special Servicer may request authorizing the Master Servicer or the Special Servicer, as applicable, to execute in the name of the Indenture Trustee instruments of satisfaction or cancellation, or of partial or full release or discharge, and other comparable instruments regarding the Series Issuer Assets, subject to the obligations of the Master Servicer and the Special Servicer under the Servicing Agreement for that Series.

(3) Upon written direction of a Responsible Officer of the Issuer, the Indenture Trustee shall, at such time as there are no Bonds outstanding, release and transfer, without recourse, all of the Collateral that secured the Bonds (other than any cash held for the payment of the Bonds pursuant to SECTION 4.02 hereof).

(4) While the Bonds or Trust Certificates of any Series remain outstanding, the Issuer may, upon written direction of a Responsible Officer, request the Indenture Trustee to release any Issuer Asset from the Lien of this Indenture. Any such release shall be, if and as specified in the related Supplemental Indenture, conditioned upon satisfaction of the following conditions:

(1) if the Issuer Asset to be released is not in default, the Issuer shall have deposited into the Primary Collection Account for the related Series, an amount equal to the sum of (1) the principal balance of such Issuer Asset, (2) any accrued and unpaid interest on such Issuer Asset, (3) the Yield Maintenance Premiums, if any, due with respect to the applicable Series in respect of the Principal Amount of the Bonds of such Series paid as a result of such prepayment and (4) any related expenses, including Bond Interest Advances and Protective Advances together with any accrued and unpaid Advance Interest, in each case as of the date of release;

(2) if the Issuer Asset to be released is in default, the Issuer shall have deposited into the Primary Collection Account for the related Series, an amount equal to the sum of (1) the principal amount of such Issuer Asset, (2) any accrued and unpaid interest on such Issuer Asset and (3) any related expenses, including Bond Interest Advances and Protective Advances together with any accrued and unpaid Advance Interest, in each case as of the date of release; and

(3) such additional conditions as may be specified in the Supplemental Indenture pursuant to which such Issuer Asset was made subject to the Lien of the Indenture.

(5) The Indenture Trustee shall release property from the Lien of this Indenture pursuant to this SECTION 8.02 only upon receipt of a request from the Issuer accompanied by an

Officers' Certificate and a letter from the Credit Enhancer of the applicable Series, if any, stating that the Credit Enhancer has no objection to such request from the Issuer.

ARTICLE IX

SUPPLEMENTAL INDENTURES

Section 1.72 SUPPLEMENTAL INDENTURES WITHOUT CONSENT OF BONDHOLDERS.

(1) Without the consent of the Bondholders, the Issuer and the Indenture Trustee may enter into one or more Supplemental Indentures, in form satisfactory to the Indenture Trustee, or may amend any Supplemental Indenture, for any of the following purposes:

(1) to cure any ambiguity, to correct or supplement any provision herein that may be inconsistent with any other provision herein;

(2) to make any other provisions regarding matters arising under this Indenture so long as the interests of the Bondholders of any Class or Series are not materially adversely affected thereby;

(3) to convey, transfer, assign, mortgage or pledge any property to or with the Indenture Trustee, so long as the interests of the Bondholders are not materially adversely affected thereby;

(4) to correct or amplify the description of any property subject to the Lien of this Indenture, or better to assure, convey and confirm to the Indenture Trustee any property required to be subjected to the Lien of this Indenture, or to subject to the Lien of this Indenture additional property;

(5) to modify the terms of this Indenture as required or made necessary by any change in applicable law, so long as the interests of the Bondholders are not materially adversely affected thereby;

(6) to add to the covenants of the Issuer, for the benefit of the Bondholders, or to surrender any right or power herein conferred upon the Issuer;

(7) to add additional Events of Default, so long as the interests of the Bondholders are not materially adversely affected thereby;

(8) to evidence the succession, in compliance with SECTION 3.13, of another person to the Issuer, and the assumption by the successor of the covenants of the Issuer herein and in the Bonds;

(9) to evidence the acceptance of the appointment under this Indenture of a successor trustee and to add to or change any of the provisions of this Indenture necessary to facilitate the administration of the trusts under this Indenture by more than one trustee, pursuant to the requirements of Article VI;

(10) to provide for the issuance of one or more new Series of Bonds in accordance with the provisions of SECTION 2.11, including the designation of the Issuer Assets that will secure such Series;

(11) to cause the Supplemental Indenture to conform to the Offering Memorandum prepared in connection with the related Series of Bonds; or

(12) to provide for the termination of any Credit Enhancement in accordance with the provisions of the related Supplemental Indenture.

The Indenture Trustee is authorized to join in the execution of any such Supplemental Indenture and to make any further appropriate agreements and stipulations that may be therein contained.

Notwithstanding the foregoing, the Issuer and the Indenture Trustee shall not enter into any Supplemental Indenture or amendment to any Supplemental Indenture for the purposes described in (x) the foregoing clauses (ii) through (x) and (xii) unless each Rating Agency shall have delivered to the Indenture Trustee a Rating Agency Confirmation with respect thereto or (y) the foregoing clause (xi) unless the Issuer shall have delivered to each Rating Agency copies of the proposed amendment not less than 10 days prior to the execution thereof.

(2) The Issuer and the Indenture Trustee (when authorized by a written direction of a Responsible Officer of the Issuer) may also, without the consent of any Bondholders but with prior notice to the Rating Agencies and delivery to the Indenture Trustee by each Rating Agency of a Rating Agency Confirmation regarding the Bonds of all Series, enter into a Supplemental Indenture for the purpose of adding any provisions to, or changing in any manner or eliminating any of the provisions of, this Indenture or of modifying in any manner the rights of the Bondholders under this Indenture, provided such action will not, as evidenced by an Opinion of Counsel of the Issuer, delivered and acceptable to the Indenture Trustee, adversely affect in any material respect the interests of any Bondholder.

(3) The issuance of an additional Series pursuant to SECTION 2.11 and any amendments regarding the addition or removal of Issuer Assets from the Issuer pursuant to Section 3.28

of the Servicing Agreement will not be considered an amendment requiring Bondholder consent under the provisions of this Indenture.

Section 1.73 SUPPLEMENTAL INDENTURES WITH CONSENT OF BONDHOLDERS.

The Issuer and the Indenture Trustee (when authorized by a written direction of a Responsible Officer of the Issuer) also may, with the consent of a Majority in Interest of each adversely affected Series, enter into a Supplemental Indenture for the purpose of adding any provisions to, changing in any manner or eliminating any of the provisions of this Indenture or of modifying in any manner the rights of those Bondholders under this Indenture. However, no such Supplemental Indenture shall, without the consent of each Bondholder adversely affected thereby:

- (1) change the Payment Date of any principal, interest or other amount due of any Bond;
- (2) reduce the Principal Amount, Interest Rate or the redemption price of any Bond;
- (3) change any place of payment where, or the coin or currency in which, any Bond or any interest thereon is payable;
- (4) impair the right to institute suit for the enforcement of any payment on the Bonds, as provided in the Indenture, on or after the respective due dates thereof;
- (5) reduce the percentage of the aggregate Principal Amount of the Bonds of any Class, the consent of whose holders is required for such amendment, or for any waiver of defaults under the Indenture;
- (6) reduce the percentage of the aggregate Principal Amount of the Bonds of any Class, the consent of whose holders is required to direct the Indenture Trustee to sell or liquidate the Collateral;
- (7) decrease the percentage of the aggregate Principal Amount of the Bonds required to amend the sections of the Indenture that specify the applicable percentage of the aggregate principal amount of the Bonds necessary to amend the Indenture, as well as those sections of the Transaction Documents that require such consent for a similar amendment;
- (8) modify or alter the provisions of the Indenture regarding the voting of Bonds held by the Issuer, SFI, the Company or any Affiliate thereof; or
- (9) permit the creation of any lien ranking prior to or on a parity with the lien of the Indenture on any part of the Collateral for the Bonds or, except as otherwise permitted or

contemplated therein, terminate the lien of the Indenture on any Collateral at any time subject to the Indenture or deprive any Bondholder of the security provided by the lien of the Indenture.

The Indenture Trustee may in its discretion determine whether or not any Bonds would be affected by any Supplemental Indenture and any such determination shall be conclusive upon the Bondholders, whether theretofore or thereafter authenticated and delivered hereunder. The Indenture Trustee shall not be liable for any such determination made in good faith.

Notwithstanding the foregoing, the Issuer and the Indenture Trustee shall not enter into any Supplemental Indenture or amendment to any Supplemental Indenture for the purposes described in this SECTION 9.02 unless each Rating Agency shall have delivered to the Indenture Trustee a Rating Agency Confirmation with respect thereto.

It shall not be necessary for any Act of Bondholders under this Section to approve the particular form of any proposed Supplemental Indenture, but it shall be sufficient if that Act shall approve the substance thereof.

Promptly after the execution by the Issuer and the Indenture Trustee of any Supplemental Indenture pursuant to this Section, the Indenture Trustee shall mail to the Bondholders to which such Supplemental Indenture relates written notice setting forth in general terms the substance of such Supplemental Indenture. The failure of the Indenture Trustee to mail any such notice, or any defect therein, shall not in any way impair or affect the validity of such Supplemental Indenture.

Section 1.74 EXECUTION OF SUPPLEMENTAL INDENTURES.

In executing, or accepting the additional trusts created by, any Supplemental Indenture permitted by this Article or the modification thereby of the trusts created by this Indenture, the Indenture Trustee shall be entitled to receive, and (subject to SECTIONS 6.01 and 6.02) shall be fully protected in relying upon, an Opinion of Counsel stating that the execution of such Supplemental Indenture is authorized or permitted by this Indenture. The Indenture Trustee may, but shall not be obligated to, enter into any Supplemental Indenture that affects the Indenture Trustee's own rights, duties, liabilities or immunities under this Indenture or otherwise.

Section 1.75 EFFECT OF SUPPLEMENTAL INDENTURE.

Upon the execution of any Supplemental Indenture under this Article, this Indenture shall be modified in accordance therewith, and such Supplemental Indenture shall form a part of this Indenture for all purposes, and every Holder of Bonds theretofore or thereafter authenticated and delivered hereunder shall be bound thereby.

Section 1.76 REFERENCE IN BONDS TO SUPPLEMENTAL INDENTURES.

Bonds authenticated and delivered after the execution of any Supplemental Indenture pursuant to this Article may, and if required by the Indenture Trustee shall, bear a notation in form approved by the Indenture Trustee (which approval shall not be unreasonably withheld) as to any matter provided for in such Supplemental Indenture. If the Issuer so determines, new Bonds so modified as to conform, in the reasonable opinion of the Indenture Trustee and the Issuer, to such Supplemental Indenture may be prepared and executed by the Issuer and authenticated and delivered by the Indenture Trustee in exchange for outstanding Bonds.

Section 1.77 AMENDMENTS IN GENERAL.

No Supplemental Indenture, amendment, or other change in this Indenture may be made without the written consent of SFI.

ARTICLE X

MISCELLANEOUS

Section 1.78 FORM OF DOCUMENTS DELIVERED TO INDENTURE TRUSTEE.

In any case where several matters are required to be certified by, or covered by an opinion of, any specified Person, it is not necessary that all such matters be certified by, or covered by the opinion of, only one such Person, or that they be so certified or covered by only one document, but one such Person may certify or give an opinion with respect to some matters and one or more other such Persons as to other matters, and any such Person may certify or give an opinion as to those matters in one or several documents.

Any certificate or opinion of a Responsible Officer of the Issuer may be based, insofar as it relates to legal matters, upon a certificate or opinion of, or representations by, counsel, unless such officer knows, or in the exercise of reasonable care should know, that the certificate or opinion or representations with respect to the matters upon which such officer's certificate or opinion is based are erroneous. Any such certificate of a Responsible Officer or Opinion of Counsel may be based, insofar as it relates to factual matters, upon a certificate or opinion of, or representations by, an officer or officers of the applicable Master Servicer, the applicable Special Servicer, SFI, the Issuer, or the Administrator, stating that the information with respect to those factual matters is in the possession of such Master Servicer, such Special Servicer, SFI, the Issuer, unless such Responsible Officer or counsel knows, or in the exercise of reasonable care should know, that the certificate or opinion or representations with respect to those matters are erroneous.

Where any Person is required to make, give, or execute two or more applications, requests, consents, certificates, statements, opinions or other instruments under this Indenture, they may, but need not, be consolidated and form one instrument.

Whenever in this Indenture, in connection with any application or certificate or report to the Indenture Trustee, it is provided that the Issuer shall deliver any document as a condition of the granting of such application, or as evidence of the Issuer's compliance with any term hereof, it is intended that the truth and accuracy, at the time of the granting of such application or at the effective date of that certificate or report (as the case may be), of the facts and opinions stated in that document shall in such case be conditions precedent to the right of the Issuer to have that application granted or to the sufficiency of that certificate or report. The foregoing shall not, however, be construed to affect the Indenture Trustee's right to rely upon the truth and accuracy of any statement or opinion contained in any such document as provided in Article Six.

Section 1.79 ACTS OF BONDHOLDERS.

(1) Any request, demand, authorization, direction, notice, consent, waiver or other action provided by this Indenture to be given or taken by Bondholders may be embodied in and evidenced by one or more instruments of substantially similar tenor signed by those Bondholders in person or by agent duly appointed in writing and satisfying any requisite percentages as to minimum number or dollar value of outstanding principal amount represented by those Bondholders. Except as herein otherwise expressly provided, any such action shall become effective when such instrument or instruments are delivered to the Indenture Trustee, and, where it is hereby expressly required, to the Issuer. Such instrument or instruments (and the action embodied therein and evidenced thereby) are herein sometimes referred to as the "ACT" of the Bondholders signing such instrument or instruments. Proof of execution of any such instrument or of a writing appointing any such agent shall be sufficient for any purpose of this Indenture and conclusive in favor of the Indenture Trustee and the Issuer, if made in the manner provided in this Section.

(2) The fact and date of the execution by any Person of any such instrument or writing may be proved in any manner which the Indenture Trustee deems sufficient.

(3) The ownership of Bonds shall be proved by the Bond Register.

(4) Any request, demand, authorization, direction, notice, consent, waiver or other action by any Bondholder shall bind the Holder (and any transferee thereof) of every Bond issued upon the registration thereof in exchange therefor or in lieu thereof, in respect of anything done, omitted or suffered to be done by the Indenture Trustee or the Issuer in reliance thereon, whether or not notation of such action is made upon such Bond.

Section 1.80 NOTICES, ETC. TO INDENTURE TRUSTEE, ISSUER, AND RATING AGENCIES.

(1) Any request, demand, authorization, direction, notice, consent, waiver or Act of Bondholders or other documents provided or permitted by this Indenture to be made upon, given or furnished to, or filed with:

(1) the Indenture Trustee by any Bondholder or by the Issuer shall be sufficient for every purpose hereunder if made, given, furnished or filed in writing to a Responsible Officer of the Indenture Trustee, by facsimile transmission or by other means acceptable to the Indenture Trustee to or with the Indenture Trustee at its principal corporate trust office; or

(2) the Issuer by the Indenture Trustee or by any Bondholder shall be sufficient for every purpose hereunder if in writing and mailed, first-class postage prepaid, to the Issuer addressed to iStar Asset Receivables Trust, c/o Wilmington Trust Company, as Owner Trustee, Rodney Square North, 1100 North Market Street, Wilmington, Delaware 19890, ATTN: Corporate Trust Administration, or at any other address previously furnished in writing to the Indenture Trustee by the Issuer. A copy of each notice to the Issuer shall be sent in writing and mailed, first-class postage prepaid, to iStar Financial Inc., 1114 Avenue of the Americas, 27th Floor, New York, New York 10036, ATTN: Mr. Spencer B. Haber, Chief Financial Officer.

(2) Notices required to be given to the Rating Agencies by the Issuer or the Indenture Trustee shall be in writing, personally delivered or mailed by certified mail, return receipt requested or by overnight courier or facsimile transmission, to: (i) in the case of Moody's, at the following address: Moody's Investors Service, Inc., CLO/CBO Monitoring Department, 99 Church Street, New York, New York 10007; (ii) in the case of S&P, at the following address: Standard & Poor's, a division of The McGraw-Hill Companies, Inc., 55 Water Street, New York, New York 10041, Attention: Asset Backed Surveillance Department; and (iii) in the case of Fitch IBCA, Inc., at the following address: One State Street Plaza, New York, New York 10004, Attention: CMBS Surveillance; or as to each of the foregoing or as to any other Rating Agency, at such other address as shall be designated by written notice to the other parties.

Section 1.81 NOTICES TO BONDHOLDERS; WAIVER.

All notices required to be given by the Issuer to the Bondholders shall, in addition to being given by mail as provided below, be given by publication at least once (i) in one authorized newspaper in the English language in London and (ii) if any Bonds are listed on the Luxembourg Stock Exchange and the rules of that stock exchange shall so require, in one authorized newspaper in Luxembourg. An authorized newspaper is a newspaper of general circulation customarily published on each Business Day, whether or not it is published in Saturday, Sunday or holiday editions. The FINANCIAL TIMES in London and the LUXEMBURGER

WORT in Luxembourg are the initial authorized newspapers. If it becomes impracticable to give notice to the Bondholders in this manner, then notification in lieu thereof by publication approximating the terms and conditions of the required publication insofar as may be practicable shall constitute sufficient notice. Neither the failure to give notice nor any defect in any notice to any particular Bondholder shall affect the sufficiency of any notice to other Bondholders. Notice by publication will be deemed to have been given on the date of publication, or if published on different dates, on the date of the first publication.

Where this Indenture provides for notice to Bondholders of any event, such notice shall be sufficiently given (unless otherwise herein expressly provided) if in writing and mailed by registered or certified mail or first class postage prepaid or national overnight courier service to each Bondholder affected by such event, at the address of that Bondholder as it appears on the Bond Register, not later than the latest date, and not earlier than the earliest date, prescribed for the giving of such notice. In any case where notice to Bondholders is given by mail, neither the failure to mail such notice, nor any defect in any notice so mailed, to any particular Bondholder shall affect the sufficiency of such notice with respect to other Bondholders, and any notice that is mailed in the manner herein provided shall conclusively be presumed to have been duly given.

Where this Indenture provides for notice in any manner, that notice may be waived in writing by any Person entitled to receive such notice, either before or after the event, and any such waiver shall be the equivalent of that notice. Waivers of notice by Bondholders shall be filed with the Indenture Trustee but no such filing shall be a condition precedent to the validity of any action taken in reliance upon any such waiver.

If because of the suspension of regular mail service, it is impractical to mail notice of any event to Bondholders when that notice is required to be given, then any manner of giving that notice that is satisfactory to the Indenture Trustee shall be deemed to be a sufficient giving of that notice.

The Issuer shall give prompt written notice to the Rating Agencies of any of the following occurrences: (a) the appointment of a successor Indenture Trustee, (b) the execution of a Supplemental Indenture pursuant to Article IX, (c) the adoption of any amendment to the Servicing Agreement and (d) the payment of the entire principal of the Bonds. Any such notice shall be sufficient if furnished in writing to the Rating Agencies.

Section 1.82 ADMINISTRATOR TO ACT FOR ISSUER. Any duty or obligation of the Issuer required to be performed under this Indenture or under any Supplemental Indenture may, in the sole discretion of the Issuer, be performed by the Administrator.

Section 1.83 ALTERNATE PAYMENT AND NOTICE PROVISIONS.

Notwithstanding any provision of this Indenture or any of the Bonds to the contrary, the Issuer, with the consent of the Indenture Trustee, may enter into any agreement with any Bondholder providing for a method of payment, or notice by the Indenture Trustee or any Paying Agent to that Bondholder, that is different from the methods provided for in this Indenture for payments or notices. The Issuer will furnish to the Indenture Trustee a copy of each such agreement, and the Indenture Trustee will cause payments to be made and notices to be given in accordance with those agreements.

Section 1.84 EFFECT OF HEADINGS AND TABLE OF CONTENTS.

The Article and Section headings herein and the Table of Contents are for convenience only and shall not affect the construction hereof.

Section 1.85 SUCCESSORS AND ASSIGNS.

All covenants and agreements in this Indenture by the Issuer shall bind its successors and assigns, whether so expressed or not.

Section 1.86 SEPARABILITY.

If any provision in this Indenture or in the Bonds is invalid, illegal or unenforceable, the validity, legality and enforceability of the remaining provisions shall not in any way be affected or impaired thereby.

Section 1.87 BENEFITS OF INDENTURE.

Except as set forth in SECTION 10.13 and subject to SECTIONS 9.01 and 9.02, nothing in this Indenture or in the Bonds, express or implied, shall give to any Person, other than the parties hereto and their successors hereunder, and the Bondholders, any benefit.

Section 1.88 LEGAL HOLIDAYS.

In any case where the date on which any payment is due shall not be a Business Day, then (notwithstanding any other provision of the Bonds or this Indenture) payment need not be made on that date, but may be made on the next succeeding Business Day with the same force and effect as if made on the date on which nominally due, and no interest shall accrue for the period from and after any such nominal date.

Section 1.89 GOVERNING LAW.

THIS INDENTURE AND EACH BOND SHALL BE CONSTRUED IN ACCORDANCE WITH AND GOVERNED BY THE LAWS OF THE STATE OF NEW YORK (OTHER THAN THE CONFLICTS-OF-LAW PRINCIPLES THEREOF) APPLICABLE TO AGREEMENTS MADE AND TO BE PERFORMED THEREIN.

Section 1.90 COUNTERPARTS.

This Indenture may be executed in any number of counterparts, each of which so executed shall be deemed to be an original, but all such counterparts shall together constitute but one and the same instrument.

Section 1.91 ISSUER OBLIGATION.

No recourse may be taken, directly or indirectly, with respect to the obligations of the Issuer or the Indenture Trustee on the Bonds or under this Indenture or any certificate or other writing delivered in connection herewith or therewith, against (i) either the Indenture Trustee or the Fiscal Agent in their respective individual capacities, (ii) any owner of a beneficial interest in the Issuer, or (iii) any partner, owner, beneficiary, agent, officer, director, employee or agent of the Indenture Trustee or the Fiscal Agent in its individual capacity, any holder of a beneficial interest in the Issuer or the Indenture Trustee or of any successor or assign of the Indenture Trustee or the Fiscal Agent in its individual capacity, except as any such Person may have expressly agreed (it being understood that neither the Indenture Trustee nor the Fiscal Agent have any such obligations in their individual capacity).

Section 1.92 NO PETITION.

Each of the Indenture Trustee, LaSalle Bank National Association (in its individual capacity), the Fiscal Agent and ABN AMRO Bank N.V. (in its individual capacity) by entering into this Indenture, and each Bondholder, by accepting a Bond, hereby covenant that they will not, until one year and one day after all Bonds of all Series have been paid in full, institute against the Issuer, or join in any institution against the Issuer, any bankruptcy, reorganization, arrangement, insolvency or liquidation proceedings, or other proceedings under any United States federal or state bankruptcy or similar law in connection with any obligations relating to the Bonds, this Indenture or any of the Transaction Documents.

Section 1.93 LIMITATION OF OWNER TRUSTEE LIABILITY.

It is expressly understood and agreed by the parties that (a) this Indenture is executed and delivered by Wilmington Trust Company, not individually or personally, but solely as Owner Trustee, in the exercise of the powers and authority conferred and vested in it pursuant to the Trust Agreement, (b) the representations, undertakings and agreements herein made on the part of the Issuer are made and intended not as personal representations, undertakings and agreements by Wilmington Trust Company but are made and intended solely for the purpose of binding the Issuer, (c) nothing contained herein shall be construed as creating any liability with

respect to Wilmington Trust Company, individually or personally, to perform any covenant, expressed or implied, contained herein, all such liability, if any, being expressly waived by the parties hereto and by any person claiming by, through or under the parties hereto and (d) under no circumstances shall Wilmington Trust Company be personally liable for the payment of any indebtedness or expenses of the Issuer or be liable for the breach or failure of any obligation, representation, warranty or covenant made or undertaken by the Issuer under this Indenture or any other related documents.

IN WITNESS WHEREOF, the Issuer, the Indenture Trustee and the Fiscal Agent have caused this Indenture to be duly executed by their respective officers thereunto duly authorized and attested, all as of the day and year first above written.

iSTAR ASSET RECEIVABLES TRUST,
Issuer

By: WILMINGTON TRUST COMPANY, not in its individual capacity, but solely as Owner Trustee on behalf of the Issuer

By: -----
Name:
Title:

LASALLE BANK NATIONAL ASSOCIATION,
not in its individual capacity,
but solely as Indenture Trustee

By: -----
Name:
Title:

ABN AMRO BANK N.V.,
not in its individual capacity,
but solely as Fiscal Agent

By: -----
Name:
Title:

By: -----
Name:
Title:

EXHIBIT 12.1

Ratio of EBITDA to interest expense

	Years Ended December 31, 2000		
	2000	1999	1998
EBITDA:			
Total Earnings	\$215,538	\$ 38,927	\$ 59,957
Add back:			
Interest expense	173,891	91,184	44,697
Depreciation and amortization	34,514	10,340	4,287
Total EBITDA	\$423,943	\$140,451	\$108,941
INTEREST EXPENSE:	\$173,891	\$ 91,184	\$ 44,697
EBITDA/INTEREST EXPENSE	2.44 x	1.54 x	2.44 x

EXHIBIT 12.2

Ratio of EBITDA to combined fixed charges

	Years Ended December 31, 2000		
	2000	1999	1998
EBITDA:			
Total Earnings	\$215,538	\$ 38,927	\$ 59,957
Add back:			
Interest expense	173,891	91,184	44,697
Depreciation and amortization	34,514	10,340	4,287
Total EBITDA	\$423,943	\$140,451	\$108,941
COMBINED FIXED CHARGES:			
Interest expense	\$173,891	\$ 91,184	\$ 44,697
Capitalized interest	513	377	--
Preferred dividends	36,908	23,843	944
Total combined fixed charges	\$211,312	\$115,404	\$ 45,641
EBITDA/COMBINED FIXED CHARGES	2.01 x	1.22 x	2.39 x

SUBSIDIARY	STATE OF ORGANIZATION/INCORPORATION	OTHER NAMES USED
767 Star, LLC	Delaware	None
Acre Partners, L.L.C.	Delaware	None
Acre Richfield, LLC	Delaware	None
Acre Simon, L.L.C.	Delaware	None
BM Center, LLC	Delaware	None
Corporate Technology Centre Associates, LLC	California	None
Corporate Technology Centre Associates II, LLC	California	None
CTC Associates I, L.P.	Delaware	None
CTC Associates I Genpar, LLC	Delaware	None
FMAC Star Fund, L.L.P	Connecticut	None
FMAC Starfund Preferred, Inc.	Delaware	None
F/S Subsidiary, L.L.C.	Delaware	None
iStar Asset Receivable Trust	Delaware	None
iStar Asset Services, Inc.	Delaware	None
iStar Cayman Bonds, Inc.	Delaware	None
iStar Cayman Bonds, GP, Inc.	Delaware	None
iStar D.B. Seller, Inc.	Delaware	None
iStar D.C., Inc.	Delaware	None
iStar/Denver Place, LLC	Delaware	None
iStar Direct Holdings, LLC	Delaware	None
iStar Financial Preferred, Inc.	Delaware	None
iStar Merger Co. I	Delaware	None
iStar Merger Co. II	Delaware	None
iStar Poydras, LLC	Delaware	None
iStar Real Estate Services, Inc.	Maryland	None
iStar San Jose, LLC	Delaware	None
iStar Sunnyvale Partners L.P.	Delaware	None
iStar Ventures, LLC	Delaware	None
iStar Walden, LLC	Delaware	None
Newpar, LLC	Delaware	None
Red Lion G.P., Inc.	Delaware	None
RLH Partnership, L.P.	Delaware	None
SFI I, LLC	Delaware	None
SFT I, Inc.	Delaware	Starwood Financial I (CA)
SFT II, Inc.	Delaware	Starwood Financial II (CA)
SFT Bonds A, Inc.	Delaware	None
SFT-Ford City, Inc.	Delaware	None
SFT-Port Charlotte, Inc.	Delaware	None
SFT-Sun Valley, Inc.	Delaware	None
SFT/RLH, Inc.	Delaware	None
SFT Venturer, LLC.	Delaware	None
SFT Whole Loans A, Inc.	Delaware	None
Stars I Corp.	Delaware	None
Starwood Operating, Inc.	Delaware	None
TN-CP Venture One	Texas	None
Trinet Concord Farms I Limited Partnership	Massachusetts	None
Trinet Concord Farms II Limited Partnership	Massachusetts	None
Trinet Concord Farms III Limited Partnership	Massachusetts	None
Trinet Corporate Partners I, L.P.	Delaware	None
Trinet Corporate Partnership II, LP.	Delaware	None
Trinet Corporate Partnership III L.P.	Delaware	None
Trinet Corporate Realty Trust, Inc.	Maryland	None
Trinet Essentials Facilities I, Inc.	Maryland	None
Trinet Essentials Facilities II, Inc.	Maryland	None
Trinet Essentials Facilities III, Inc.	Maryland	None

SUBSIDIARY	STATE OF ORGANIZATION/INCORPORATION	OTHER NAMES USED
Trinet Essentials Facilities IV, Inc.	Maryland	None
Trinet Essentials Facilities V, Inc.	Maryland	None
Trinet Essentials Facilities VI, Inc.	Maryland	None
Trinet Essentials Facilities VV, Inc.	Maryland	None
Trinet Essentials Facilities VIIIr, Inc.	Maryland	None
Trinet Essentials Facilities X, Inc.	Maryland	None
Trinet Essentials Facilities XI, Inc.	Maryland	None
Trinet Essentials Facilities XII, Inc.	Maryland	None
Trinet Essentials Facilities XIII, Inc.	Maryland	None
Trinet Essentials Facilities XIV, Inc.	Maryland	None
Trinet Essentials Facilities XV, Inc.	Maryland	None
Trinet Essentials Facilities XVI, Inc.	Maryland	None
Trinet Essentials Facilities XVIII, Inc.	Maryland	None
Trinet Essentials Facilities XIX, Inc.	Maryland	None
Trinet Essentials Facilities XX, Inc.	Maryland	None
Trinet Essential Facilities XXI, Inc.	Maryland	None
Trinet Essential Facilities XXII, Inc.	Maryland	None
Trinet Essential Facilities XXIII, Inc.	Maryland	None
Trinet Essential Facilities XXIV, Inc.	Maryland	None
Trinet Essential Facilities XXV, Inc.	Maryland	None
Trinet Essential Facilities XXVI, Inc.	Maryland	None
Trinet Essential Facilities XXVII, Inc.	Maryland	None
Trinet Essential Facilities XXVIII, Inc.	Maryland	None
Trinet Essential Facilities XXIX, Inc.	Maryland	None
Trinet Essential Facilities XXX, Inc.	Maryland	None
Trinet Management Operating Company, Inc.	Maryland	None
Trinet Milpitas Associates, LLC	Maryland	None
Trinet Property Partners, LP	Maryland	None
Trinet Realty Capital, Inc.	Maryland	None
Trinet realty investors I, Inc.	Maryland	None
Trinet Realty Investors II, Inc.	Maryland	None
Trinet Realty Investors III, Inc.	Maryland	None
Trinet Realty Investors IV, Inc.	Maryland	None
Trinet Realty Investors V, Inc.	Maryland	None
Trinet Realty Ventures, Inc.	Maryland	None
Trinet Sunnyvale Partners, L.P.	Maryland	None
Trinet XVII Realty Trust	Maryland	None
W9/Trinet Poydras, LLC	Maryland	None

CONSENT OF INDEPENDENT ACCOUNTANTS

We hereby consent to the incorporation by reference in the Registration Statement on Form S-3 (No. 333-55396) of iStar Financial Inc. of our report dated March 2, 2001 relating to the financial statements and financial statement schedules, which appears in the Form 10-K.

PricewaterhouseCoopers LLP

New York, NY
March 28, 2001

CONSENT OF INDEPENDENT ACCOUNTANTS

We hereby consent to the incorporation by reference in the Registration Statement on Form S-3 (No. 333-38486) of iStar Financial Inc. of our report dated March 2, 2001 relating to the financial statements and financial statement schedules, which appears in the Form 10-K.

PricewaterhouseCoopers LLP

New York, NY
March 28, 2001

CONSENT OF INDEPENDENT ACCOUNTANTS

We hereby consent to the incorporation by reference in the Registration Statement on Form S-8 (No. 333-34300) of iStar Financial Inc. of our report dated March 2, 2001 relating to the financial statements and financial statement schedules, which appears in the Form 10-K.

PricewaterhouseCoopers LLP

New York, NY
March 28, 2001