

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 8-K

CURRENT REPORT
Pursuant to Section 13 or 15(d)
of the Securities Exchange Act of 1934

Date of Report (Date of earliest event reported): August 12, 2003

Encore Capital Group, Inc.

(Exact Name of Registrant as Specified in its Charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

000-26489
(Commission File Number)

48-1090909
(I.R.S Employer
Identification No.)

5775 Roscoe Court
San Diego, California 92123
(Address of Principal Executive Offices) (Zip Code)

(877) 445-4581
(Registrant's Telephone Number, Including Area Code)

Item 7. Financial Statements and Exhibits.

(c) Exhibits:

- 3.1 Bylaws, as amended.
- 10.1 First Amendment, dated as of June 26, 2003, to the Credit Agreement by and between MRC Receivables Corporation, as borrower, and CFSC Capital Corp. VIII, as lender, dated as of December 20, 2000.
- 10.2 Loan and Security Agreement between Midland Funding NCC-1 Corporation and Patriot Capital Markets, LLC, dated as of July 25, 2003 (the "Secured Loan").
- 10.3 Servicing Agreement relating to the Secured Loan, dated as of July 25, 2003.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

ENCORE CAPITAL GROUP, INC.

Date: August 12, 2003

By /s/ Barry R. Barkley
Barry R. Barkley
Executive Vice President,
Chief Financial Officer and Treasurer

EXHIBIT INDEX

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BYLAWS
OF
ENCORE CAPITAL GROUP, INC.
As amended through June 16, 2003

I. REFERENCES TO CERTAIN TERMS AND CONSTRUCTION

1.01. Certain References. Any reference herein made to law will be deemed to refer to the law of the State of Delaware, including any applicable provision of Chapter 1 of Title 8 of the Delaware Code, or any successor statutes, as from time to time amended and in effect (sometimes referred to herein as the "Delaware General Corporation Law"). Any reference herein made to the corporation's Certificate will be deemed to refer to its Certificate of Incorporation and all amendments thereto as at any given time on file with the Delaware Secretary of State (any reference herein to that office being intended to include any successor to the incorporating and related functions being performed by that office at the date of the initial adoption of these Bylaws). Except as otherwise required by law, the term "stockholder" as used herein shall mean one who is a holder of record of shares of the corporation.

1.02. Seniority. The law and the Certificate (in that order of precedence) will in all respects be considered senior and superior to these Bylaws, with any inconsistency to be resolved in favor of the law and such Certificate (in that order of precedence), and with these Bylaws to be deemed automatically amended from time to time to eliminate any such inconsistency which may then exist.

1.03. Computation of Time. The time during which an act is required to be done, including the time for the giving of any required notice herein, shall be computed by excluding the first day or hour, as the case may be, and including the last day or hour.

II. OFFICES

2.01. Principal Office. The principal office or place of business of the corporation in the State of Delaware shall be the registered office of the corporation in the State of Delaware. The corporation may change its registered office from time to time in accordance with the relevant provisions of the Delaware General Corporation Law. The corporation may have such other offices, either within or without the State of Delaware, as the Board of Directors may designate or as the business of the corporation may require from time to time.

III. STOCKHOLDERS

3.01. Annual Stockholder Meeting. The annual meeting of stockholders shall be held on such date and at such time as shall be designated from time to time by the Board of Directors and stated in the notice of the meeting, at which meetings the stockholders shall elect by a plurality vote members of the Board of Directors and transact such other business as may properly be brought before the meeting.

3.02. Special Stockholder Meetings. Unless otherwise prescribed by law or by the Certificate of Incorporation, special meetings of stockholders, for any purpose or purposes, may be called by the Chairman of the Board or the President, and shall be called by the President or the Secretary upon a written request signed by at least three members of the Board of Directors, or of the holders of at least a majority of the issued and outstanding shares of capital stock entitled to vote thereat. Any such written request by stockholders shall state the purpose or purposes of the proposed meeting, and business to be transacted at any such meeting shall be confined to the purposes stated in the notice thereof and to such additional matters as the chairman of the meeting may rule to be germane to such purposes.

3.03. Notice of Stockholders Meetings.

(a) Required Notice. Except as otherwise allowed or required by law, written notice stating the place, day and hour of any annual or special stockholders meeting shall be given not less than ten (10) nor more than sixty (60) days before the date of the meeting to each stockholder entitled to vote at such meeting and to any other stockholder entitled to receive notice of the meeting by law or the Certificate. Such notice may be given either personally or by sending a copy thereof through the mail, by telegraph, by private delivery service (including overnight courier), or by facsimile transmission, charges prepaid, to each stockholder at his/her address as it appears on the records of the corporation. If the notice is sent by mail, by telegraph or by private delivery service, it shall be deemed to have been given to the person entitled thereto when deposited in the United States mail or with

a telegraph office or private delivery service for transmission to such person. If the notice is sent by facsimile transmission, it shall be deemed to have been given upon transmission, if transmission occurs on a business day before 5:00 p.m. at the place of receipt, and upon the business day following transmission, if transmission occurs after 5:00 p.m.

(b) Adjourned Meeting. If any stockholders meeting is adjourned to a different date, time, or place, notice need not be given of the new date, time, and place, if the new date, time, and place are announced at the meeting at which the adjournment is taken. But if the adjournment is for more than thirty (30) days, or if after the adjournment a new record date is fixed for the adjourned meeting, then notice of the adjourned meeting shall be given to each stockholder of record entitled to such notice pursuant to Section 3.03(a) above.

(c) Waiver of Notice. Any stockholder may waive notice of a meeting (or any notice of any other action required to be given by the Delaware General Corporation Law, the corporation's Certificate, or these Bylaws), at any time before, during, or after the meeting or other action, by a writing signed by the stockholder entitled to the notice. Each such waiver shall be delivered to the corporation for inclusion in the minutes or filing with the corporate

records. Attendance of a stockholder at a meeting shall constitute a waiver of notice of the meeting, except when the stockholder attends a meeting for the express purpose of objecting, at the beginning of the meeting, to the transaction of any business because the meeting is not lawfully called or convened.

(d) Contents of Notice. The notice of each special stockholders meeting shall include a description of the purpose or purposes for which the meeting is called. Except as required by law or the corporation's Certificate, the notice of an annual stockholders meeting need not include a description of the purpose or purposes for which the meeting is called.

3.04. Fixing of Record Date. For the purpose of determining stockholders entitled to notice of or to vote at any meeting of stockholders or any adjournment thereof, or in order to make a determination of stockholders for any other proper purpose, the Board of Directors may fix a date as the record date, which record date shall not precede the date upon which the resolution fixing the record date is adopted by the Board of Directors. In the case of determining stockholders entitled to notice of or to vote at any meeting of stockholders or any adjournment thereof, such record date shall not be more than sixty (60) days nor less than ten (10) days prior to the date of such meeting. In the case of determining stockholders entitled to consent to corporate action in writing without a meeting, the record date shall not be more than ten (10) days after the date upon which the resolution fixing the record date is adopted by the Board of Directors. In the case of determining stockholders entitled to receive payment of any dividend or other distribution or allotment of any rights or the stockholders entitled to exercise any rights in respect of any change, conversion or exchange of stock, or for the purpose of any other lawful action, the record date shall be not more than sixty (60) days prior to such action. If no record date is so fixed by the Board of Directors, the record date for the determination of stockholders shall be as provided in the Delaware General Corporation Law.

When a determination of stockholders entitled to notice of or to vote at any meeting of stockholders has been made as provided in this Section, such determination shall apply to any adjournment thereof, unless the Board of Directors fixes a new record date.

3.05. Stockholder List. The officer who has charge of the stock ledger of the corporation shall make, at least ten (10) days before every meeting of stockholders, a complete list of the stockholders entitled to vote at the meeting, arranged in alphabetical order, and showing the address and the number of shares held by each. The stockholder list shall be available for inspection by any stockholder, for any purpose germane to the meeting, during ordinary business hours, for a period of at least ten (10) days prior to the meeting at a place within the city where the meeting is to be held, which place shall be specified in the meeting notice, or, if not so specified, at the place where the meeting is to be held. The list shall also be produced and kept at the time and place of the meeting during the whole time thereof, and may be inspected by any stockholder who is present. Except as otherwise provided by law, failure to comply with this section shall not affect the validity of any action taken at the meeting.

3.06. Stockholder Quorum and Voting Requirements. Unless otherwise provided in the Certificate or these Bylaws or required by law,

(a) a majority of the shares entitled to vote, present in person or represented by proxy, shall constitute a quorum at a meeting of stockholders;

(b) in all matters other than the election of directors, the affirmative vote of the majority of shares voting for or against the subject matter shall be the act of the stockholders;

(c) directors shall be elected by a plurality of the votes cast at the meeting; and

(d) where a separate vote by a class or classes is required, a majority of the outstanding shares of such class or classes, present in person or represented by proxy, shall constitute a quorum entitled to take action with respect to that vote on that matter and the affirmative vote of the majority of shares of such class or classes present in person or represented by proxy at the meeting shall be the act of such class.

Except as provided below, voting will be by ballot on any question as to which a ballot vote is demanded prior to the time the voting begins by any person entitled to vote on such question; otherwise, a voice vote will suffice. Unless otherwise provided in the Certificate, all elections of directors will be by written ballot. No ballot or change of vote will be accepted after the polls have been declared closed following the ending of the announced time for voting.

3.07. Proxies. At all meetings of stockholders, a stockholder may vote in person or by proxy duly executed in writing by the stockholder or the stockholder's duly authorized attorney-in-fact. Such proxy shall comply with law and shall be filed with the Secretary of the corporation or other person authorized to tabulate votes before or at the time of the meeting. No proxy shall be valid after three (3) years from the date of its execution unless otherwise provided in the proxy. The burden of proving the validity of any undated, irrevocable, or otherwise contested proxy at a meeting of the stockholders will rest with the person seeking to exercise the same. A facsimile appearing to have been transmitted by a stockholder or by such stockholder's duly authorized attorney-in-fact may be accepted as a sufficiently written and executed proxy.

3.08. Voting of Shares. Unless otherwise provided in the Certificate or the Delaware General Corporation Law, each outstanding share entitled to vote shall be entitled to one (1) vote upon each matter submitted to a vote at a meeting of stockholders.

3.09. Election Inspectors. The Board of Directors, in advance of any meeting of the stockholders, may appoint an election inspector or inspectors to act at such meeting (and at any adjournment thereof). If an election inspector or inspectors are not so appointed, the chairman of the meeting may, or upon request of any person entitled to vote at the meeting will, make such appointment. If any person appointed as an inspector fails to appear or to act, a substitute may be appointed by the chairman of the meeting. If appointed, the election inspector or inspectors (acting through a majority of them if there be more than one) will determine the number of shares outstanding, the authenticity, validity, and effect of proxies, the credentials of persons purporting to be stockholders or persons named or referred to in proxies, and the number of shares represented at the meeting in person and by proxy; will receive and count votes, ballots, and consents and announce the results thereof; will hear and determine all challenges and questions pertaining to proxies and voting; and, in general, will perform such acts as may be proper to conduct elections and voting with complete fairness to all stockholders. No such election inspector need be a stockholder of the corporation.

3.10. Organization and Conduct of Meetings. Each meeting of the stockholders will be called to order and thereafter chaired by the Chairman of the Board of Directors if there is one, or, if not, or if the Chairman of the Board is absent or so requests, then by the President, or if both the Chairman of the Board and the President are unavailable, then by such other officer of the corporation or such stockholder as may be appointed by the Board of Directors. The corporation's Secretary or in his or her absence, an Assistant Secretary will act as secretary of each meeting of the stockholders. If neither the Secretary nor an Assistant Secretary is in attendance, the chairman of the meeting may appoint any person (whether a stockholder or not) to act as secretary for the meeting. After calling a meeting to order, the chairman thereof may require the registration of all stockholders intending to vote in person and the filing of all proxies with the election inspector or inspectors, if one or more have been appointed (or, if not, with the secretary of the meeting). After the announced time for such filing of proxies has ended, no further proxies or changes, substitutions, or revocations of proxies will be accepted. If directors are to be elected, a tabulation of the proxies so filed will, if any person entitled to vote in such election so requests, be announced

at the meeting (or adjournment thereof) prior to the closing of the election polls. Absent a showing of bad faith on his or her part, the chairman of a meeting will, among other things, have absolute authority to fix the period of time allowed for the registration of stockholders and the filing of proxies, to determine the order of business to be conducted at such meeting, and to establish reasonable rules for expediting the business of the meeting and preserving the orderly conduct thereof (including any informal, or question and answer portions thereof).

3.11. Stockholder Approval or Ratification. The Board of Directors may submit any contract or act for approval or ratification of the stockholders at a duly constituted meeting of the stockholders. Except as otherwise required by law, if any contract or act so submitted is approved or ratified by a majority of the votes cast thereon at such meeting, the same will be valid and as binding upon the corporation and all of its stockholders as it would be if it were the act of its stockholders.

3.12. Informalities and Irregularities. All informalities or irregularities in any call or notice of a meeting of the stockholders or in the areas of credentials, proxies, quorums, voting, and similar matters, will be deemed waived if no objection is made at the meeting.

3.13. Stockholder Action by Written Consent. Any action required or permitted to be taken at a meeting of the stockholders may be taken without a meeting if one (1) or more consents in writing, setting forth the action so taken, shall be signed by the holders of outstanding stock having not less than the minimum number of votes that would be necessary to authorize or take such action at a meeting at which all shares entitled to vote thereon were present and voted. Each consent shall bear the date of signature of each stockholder who signs the consent. The consents shall be delivered to the corporation in accordance with law for inclusion in the minutes or filing with the corporate record. Prompt notice of the taking of corporate action without a meeting by less than unanimous written consent shall be given to those stockholders who have not consented to the action.

3.14. Nomination of Directors. Only persons who are nominated in accordance with the following procedures shall be eligible for election as directors of the corporation. Nominations of persons for election to the Board of Directors may be made at any annual meeting of stockholders (a) by or at the direction of the Board of Directors (or any duly authorized committee thereof) or (b) by any stockholder of the corporation (i) who is a stockholder of record on the date of the giving of the notice provided for in this Section 3.14 and on the record date for the determination of stockholders entitled to vote at such annual meeting and (ii) who complies with the notice procedures set forth in this Section 3.14.

In addition to any other applicable requirements, for a nomination to be made by a stockholder, such stockholder must have given timely notice thereof in proper written form to the Secretary of the corporation, as prescribed below.

No person shall be elected to the Board of Directors of this corporation at an annual meeting of the stockholders, or at a special meeting called for that purpose, unless, with respect to a person nominated by a stockholder of the corporation, a written notice of nomination of such person by the stockholder shall have been received by the Secretary of the corporation not earlier than one hundred and twenty (120) days and not later than ninety (90) days prior to the anniversary date of the immediately preceding annual meeting if an annual meeting, or seven (7) days after notice of the meeting is mailed to stockholders if a special meeting. Each such notice shall set forth: (a) the name and address of the stockholder who intends to make the nomination and of the person or persons to be nominated; (b) a representation that the stockholder is a holder of record of stock of the corporation entitled to vote at such meeting (including the number of shares of stock of the corporation owned beneficially or of record by such stockholder and the nominee or nominees) and intends to appear in person or by proxy at the meeting to nominate the person or persons specified in the notice; (c) a description of all arrangements or understandings between the stockholders and each nominee and any other person or persons (naming such person or persons) pursuant to which the nomination or nominations are to be made by the stockholder; (d) such other information regarding each nominee proposed by such stockholder as would have been required to be included in a proxy statement filed pursuant to the proxy rules of the Securities and Exchange Commission had each nominee been nominated, or intended to be nominated, by the Board of Directors; and (e) the consent of each nominee to serve as a director of the corporation if so elected.

No person shall be eligible for election as a director of the corporation unless nominated in accordance with the procedures set forth in this Section 3.14. If the Chairman of the meeting determines that a nomination was not made in accordance with the foregoing procedures, the Chairman shall declare to the meeting that the nomination was defective and such defective nomination shall be disregarded.

Notwithstanding compliance with the foregoing provisions, the Board of Directors shall not be obligated to include information as to any stockholder nominee for director in any proxy statement or other communication sent to stockholders.

3.15. Business at Annual Meetings. No business may be transacted at an annual meeting of stockholders, other than business that is either (a) specified in the notice of meeting (or any supplement thereto) given by or at the direction of the Board of Directors (or any duly authorized committee thereof), (b) otherwise properly brought before the annual meeting by or at the direction of the Board of Directors (or any duly authorized committee thereof) or (c) otherwise properly brought before the annual meeting by any stockholder of the corporation (i) who is a stock holder of record on the date of the giving of the notice provided for in this Section 3.15 and on the record date for the determination of stockholders entitled to vote at such annual meeting and (ii) who complies with the notice procedures set forth in this Section 3.15.

In addition to any other applicable requirements, for business to be properly brought before an annual meeting by a stockholder, such stockholder must have given timely notice thereof in proper written form to the Secretary of the corporation.

To be timely, a stockholder's notice to the Secretary must be delivered to or mailed and received at the principal executive offices of the Company not earlier than one hundred and twenty (120) days and not later than ninety (90) days prior to the anniversary date of the immediately preceding annual meeting of stockholders; provided, however, that in the event that the annual meeting is called for a date that is not within thirty (30) days before or after such anniversary date, notice by the stockholder in order to be timely must be so received not later than the close of business on the tenth day following the day on which such notice of the date of the annual meeting was mailed or such public disclosure of the date of the annual meeting was made, whichever first occurs.

To be in proper written form, a stockholder's notice to the Secretary must set forth as to each matter such stockholder proposes to bring before the annual meeting (i) a brief description of the business desired to be brought before the annual meeting and the reasons for conducting such business at the annual meeting, (ii) the name and record address of such stockholder, (iii) the class or series and number of shares of capital stock of the corporation that are owned beneficially or of record by such stockholder, (iv) a description of all arrangements or understandings between such stockholder and any other person or persons (including their names) in connection with the proposal of such business by such stockholder and any material interest of such stockholder in such business

and (v) a representation that such stockholder intends to appear in person or by proxy at the annual meeting to bring such business before the meeting.

No business shall be conducted at the annual meeting of stockholders except business brought before the annual meeting in accordance with the procedures set forth in this Section 3.15, provided, however, that, once business has been properly brought before the annual meeting in accordance with such procedures, nothing in this Section 3.15 shall be deemed to preclude discussion by any stockholder of any such business. If the Chairman of an annual meeting determines that business was not properly brought before the annual meeting in accordance with the foregoing procedures, the Chairman shall declare to the meeting that the business was not properly brought before the meeting and such business shall not be transacted.

IV. BOARD OF DIRECTORS

4.01. General Powers. The business and affairs of the corporation shall be managed by or under the direction of the Board of Directors.

4.02. Number, Tenure, and Qualification of Directors. Unless otherwise provided in the Certificate, the authorized number of directors shall be not less than one nor more than nine. The number of directors in office from time to time shall be within the limits specified above, as prescribed initially in the Certificate, or by the incorporator or incorporators of the corporation, or by the initial director or directors of the corporation and thereafter as prescribed from time to time by resolution adopted by either the stockholders or by the Board of Directors upon the affirmative vote of a majority of the directors then in office. The Board of Directors, upon the affirmative vote of a majority of the directors then in office, shall have the power to increase or

decrease its size within the aforesaid limits and to fill any vacancies that may occur in its membership, whether resulting from an increase in the size of the Board or otherwise. Each director shall hold office until his or her successor shall have been duly elected and qualified or until his or her earlier resignation or removal. Unless required by the Certificate, directors do not need to be residents of the State of Delaware or stockholders of the corporation.

4.03. Regular Meetings of the Board of Directors. A regular annual meeting of the Board of Directors is to be held as soon as practicable after the adjournment of each annual meeting of the stockholders, either at the place of the stockholders meeting or at such other place as the directors elected at the stockholders meeting may have been informed of at or prior to the time of their election. Additional regular meetings may be held at regular intervals at such places and at such times as the Board of Directors may determine.

4.04. Special Meetings of the Board of Directors. Special meetings of the Board of Directors may be held whenever and wherever called for by the Chairman of the Board, the President, or the number of directors that would be required to constitute a quorum.

4.05. Notice of, and Waiver of Notice for, Directors Meetings. No notice need be given of regular meetings of the Board of Directors. Notice of the time and place (but not necessarily the purpose or all of the purposes) of any special meeting will be given to each director in person or by telephone, or via mail or facsimile transmission or electronic transmission (which shall include electronic e-mail via the internet). Notice to any director of any such special meeting will be deemed given sufficiently in advance when (i), if given by mail, the same is deposited in the United States mail at least four (4) days before the meeting date, with postage thereon prepaid, (ii), if given by facsimile or electronic transmission, the same is transmitted at least 24 hours prior to the convening of the meeting, or (iii), if personally delivered (including by overnight courier) or given by telephone, the same is handed, or the substance thereof is communicated over the telephone to the director or to an adult member of his or her office staff or household, at least 24 hours prior to the convening of the meeting. Any director may waive notice of any meeting and any adjournment thereof at any time before, during, or after it is held, as provided by law. Except as provided in the next sentence below, the waiver must be (a) in writing, signed by the director entitled to the notice, and filed with the minutes or corporate records, or (b) by electronic transmission identifying the party waiving notice, and printed out in paper form and filed with the minutes or corporate records. The attendance of a director at a meeting shall constitute a waiver of notice of such meeting, except when the person attends a meeting for the express purpose of objecting, at the beginning of the meeting, to the transaction of any business because the meeting is not lawfully called or convened.

4.06. Director Quorum. A majority of the total number of directors then in office shall constitute a quorum for the transaction of business at any meeting of the Board of Directors, unless the Certificate requires a greater number.

4.07. Directors, Manner of Acting.

(a) The affirmative vote of a majority of the directors present at a meeting at which a quorum is present shall be the act of the Board of Directors unless the Certificate or these Bylaws require a greater percentage and except as otherwise required by law.

(b) Unless the Certificate provides otherwise, any or all directors may participate in a regular or special meeting by, or conduct the meeting through the use of, conference telephone or similar communications equipment by means of which all persons participating in the meeting may hear each other, in which case any required notice of such meeting may generally describe the arrangements (rather than or in addition to the place) for the holding thereof. A director participating in a meeting by this means is deemed to be present in person at the meeting.

(c) A director who is present at a meeting of the Board of Directors or a committee of the Board of Directors when corporate action is taken is deemed to have assented to the action taken unless: (1) the director objects at the beginning of the meeting (or promptly upon his/her arrival) to holding it or transacting business at the meeting; or (2) his/her dissent or abstention from the action taken is entered in the minutes of the meeting; or (3) he/she delivers written notice of his/her dissent or abstention to the presiding officer of the meeting before its adjournment or to the corporation before 5:00 p.m. on the next business day after the meeting. The right of dissent or abstention is not available to a director who votes in favor of the action taken.

4.08. Director Action Without a Meeting. Unless the Certificate provides otherwise, any action required or permitted to be taken by the Board of Directors at a meeting may be taken without a meeting if the action is taken by

unanimous written consent of the Board of Directors as evidenced by one (1) or more written consents describing the action taken, signed by each director and filed with the minutes or proceedings of the Board of Directors.

4.09. Removal of Directors by Stockholders. Except as limited by law, to the extent provided in the Certificate, any director or the entire Board of Directors may be removed, with or without cause, by the holders of two-thirds of the shares entitled to vote at an election of directors.

4.10. Board of Director Vacancies. Unless the Certificates provides otherwise and except as otherwise provided by law, any vacancy or newly created directorship may be filled by a majority of the directors then in office, although less than a quorum, or by a sole remaining director.

4.11. Director Compensation. Unless otherwise provided in the Certificate, by resolution of the Board of Directors, each director may be paid his/her expenses, if any, of attendance at each meeting of the Board of Directors or any committee thereof, and may be paid a stated salary as director or a fixed sum for attendance at each meeting of the Board of Directors or any committee thereof, or both. No such payment shall preclude any director from serving the corporation in any capacity and receiving compensation therefor.

4.12. Director Committees.

(a) Creation of Committees. Unless the Certificate provides otherwise, the Board of Directors may create one (1) or more committees and appoint members of the Board of Directors to serve on them. Each committee shall have one (1) or more members, who serve at the pleasure of the Board of Directors.

(b) Selection of Members. The creation of a committee and appointment of members to it shall be approved by the greater of (1) two-thirds of all the directors in office when the action is taken or (2) the number of directors required by the Certificate to take such action. The Board of Directors may designate one or more directors as alternate members of any committee, who may replace any absent or disqualified member at any meeting of the committee. In the absence or disqualification of any member of a committee, the member or members thereof present at any meeting and not disqualified from voting, whether or not he/she or they constitute a quorum, may unanimously appoint another member of the Board of Directors to act at the meeting in the place of any such absent or disqualified member.

(c) Required Procedures. Sections 4.03 through 4.08 of this Article IV, which govern meetings, action without meetings, notice and waiver of notice, and quorum and voting requirements of the Board of Directors, apply to committees and their members.

(d) Authority. Unless limited by the Certificate and except to the extent limited by law, each committee may exercise those aspects of the authority of the Board of Directors which the Board of Directors confers upon such committee in the resolution creating the committee.

4.13. Director Resignations. Any director or committee member may resign from his or her office at any time by written notice delivered to the corporation as required by law. Any such resignation will be effective upon its receipt unless some later time is therein fixed, and then from that time. The acceptance of a resignation will not be required to make it effective.

4.14. Interested Directors. No contract or transaction between the corporation and one or more of its directors or officers, or between the corporation and any other corporation, partnership, association, or other organization in which one or more of its directors or officers are directors or officers, or have a financial interest, shall be void or voidable solely for this reason, or solely because the director or officer is present at or participates in the meeting of the Board of Directors or committee thereof which authorizes the contract or transaction, or solely because such director's vote is counted for such purpose if (i) the material facts as to such director's relationship or interest and as to the contract or transaction are disclosed or are known to the Board of Directors or the committee, and the Board of Directors or committee in good faith authorizes the contract or transaction by the affirmative votes of a majority of the disinterested directors, even though the disinterested directors be less than a quorum; or (ii) the material facts as to such director's relationship or interest and as to the contract or transaction are disclosed or are known to the stockholders entitled to vote thereon, and the contract or transaction is specifically approved in good faith by vote of the stockholders; or (iii) the contract or transaction is fair as to the corporation

as of the time it is authorized, approved or ratified, by the Board of Directors, a committee thereof or the stockholders. Interested directors may be counted in determining the presence of a quorum at a meeting of the Board of Directors or of a committee which authorizes the contract or transaction.

V. OFFICERS

5.01. Number of Officers. The officers of the corporation shall be a President, a Secretary, and a Treasurer, each of whom shall be appointed by the Board of Directors. Such other officers and assistant officers as may be deemed necessary, including any Vice Presidents, may be appointed by the Board of Directors. If specifically authorized by the Board of Directors, an officer may appoint one (1) or more other officers or assistant officers. The same individual may simultaneously hold more than one (1) office in the corporation.

5.02. Appointment and Term of Office. The officers of the corporation shall be appointed by the Board of Directors for a term as determined by the Board of Directors. The designation of a specified term grants to the officer no contract rights, and the Board of Directors can remove the officer at any time prior to the termination of such term. If no term is specified, an officer of the corporation shall hold office until he or she resigns, dies, or until he or she is removed in the manner provided by law or in Section 5.03 of this Article V. The regular election or appointment of officers will take place at each annual meeting of the Board of Directors, but elections of officers may be held at any other meeting of the Board.

5.03. Resignation and Removal of Officers. An officer may resign at any time by delivering written notice to the corporation. A resignation is effective when the notice is delivered unless the notice specifies a later effective date or event. Any officer may be removed by the Board of Directors at any time, with or without cause. Such removal shall be without prejudice to the contract rights, if any, of the person so removed. Appointment of an officer shall not of itself create contract rights.

5.04. Duties of Officers. Officers of the corporation shall have authority to perform such duties as may be prescribed from time to time by law, in these Bylaws, or by the Board of Directors, the President, or the superior officer of any such officer. Each officer of the corporation (in the order designated herein or by the Board) will be vested with all of the powers and charged with all of the duties of his or her superior officer in the event of such superior officer's absence, death, or disability.

5.05. Bonds and Other Requirements. The Board of Directors may require any officer to give bond to the corporation (with sufficient surety and conditioned for the faithful performance of the duties of his or her office) and to comply with such other conditions as may from time to time be required of him or her by the Board of Directors.

5.06. President. Unless otherwise specified by resolution of the Board of Directors, the President shall be the principal executive officer of the corporation and, subject to the control of the Board of Directors, shall supervise and control all of the business and affairs of the corporation and the performance by all of its other officers of their respective duties and in general shall perform all duties incident to the office of President and such other duties as may be prescribed by the Board of Directors from time to time. The President shall, when present, and in the absence of a Chairman of the Board, preside at all meetings of the stockholders and of the Board of Directors. The President will be a proper officer to sign on behalf of the corporation any deed, bill of sale, assignment, option, mortgage, pledge, note, bond, evidence of indebtedness, application, consent (to service of process or otherwise), agreement, indenture, contract, or other instrument, except in each such case where the signing and execution thereof shall be expressly delegated by the Board of Directors or by these Bylaws to some other officer or agent of the corporation, or shall be required by law to be otherwise signed or executed. The President may represent the corporation at any meeting of the stockholders or members of any other corporation, association, partnership, joint venture, or other entity in which the corporation then holds shares of capital stock or has an interest, and may vote such shares of capital stock or other interest in person or by proxy appointed by him or her, provided that the Board of Directors may from time to time confer the foregoing authority upon any other person or persons.

5.07. The Vice-President. If appointed, in the absence of the President or in the event of his/her death or disability, the Vice-President (or in the event there be more than one Vice-President, the Vice-Presidents in the order designated at the time of their election, or in the absence of any such designation, then in the order of their appointment) shall perform the duties of the President, and when so acting, shall have all the powers of and be subject to all the restrictions upon the President. If there is no Vice-President or in the event of the death or disability of all Vice-Presidents, then the Treasurer shall perform such duties of the President in the event of his or her absence, death, or disability. Each Vice-President will be a proper officer to sign on behalf of the corporation any deed, bill of sale, assignment, option, mortgage,

pledge, note, bond, evidence of indebtedness, application, consent (to service of process or otherwise), agreement, indenture, contract, or other instrument, except in each such case where the signing and execution thereof shall be expressly delegated by the Board of Directors or by these Bylaws to some other officer or agent of the corporation, or shall be required by law to be otherwise signed or executed. Any Vice-President may represent the corporation at any meeting of the stockholders or members of any other corporation, association, partnership, joint venture, or other entity in which the corporation then holds shares of capital stock or has an interest, and may vote such shares of capital stock or other interest in person or by proxy appointed by him or her, provided that the Board of Directors may from time to time confer the foregoing authority upon any other person or persons. A Vice-President shall perform such other duties as from time to time may be assigned to him/her by the President or by the Board of Directors.

5.08. The Secretary. The Secretary shall: (a) keep the minutes of the proceedings of the stockholders and of the Board of Directors and any committee of the Board of Directors and all unanimous written consents of the stockholders, Board of Directors, and any committee of the Board of Directors in one (1) or more books provided for that purpose; (b) see that all notices are duly given in accordance with the provisions of these Bylaws or as required by law; (c) be custodian of the corporate records and of any seal of the corporation; (d) when requested or required, authenticate any records of the corporation; (e) keep a register of the address of each stockholder which shall be furnished to the Secretary by such stockholder; and (f) in general perform all duties incident to the office of Secretary and such other duties as from time to time may be assigned to him/her by the President or by the Board of Directors. Except as may otherwise be specifically provided in a resolution of the Board of Directors, the Secretary will be a proper officer to take charge of the corporation's stock transfer books and to compile the voting record pursuant to Section 3.05 above, and to impress the corporation's seal, if any, on any instrument signed by the President, any Vice President, or any other duly authorized person, and to attest to the same. In the absence of the Secretary, a secretary pro tempore may be chosen by the directors or stockholders as appropriate to perform the duties of the Secretary.

5.09. The Treasurer. The Treasurer shall: (a) have charge and custody of and be responsible for all funds and securities of the corporation; (b) receive and give receipts for moneys due and payable to the corporation from any source whatsoever, and deposit all such moneys in the name of the corporation in such bank, trust companies, or other depositories as shall be selected by the Board of Directors or any proper officer; (c) keep full and accurate accounts of receipts and disbursements in books and records of the corporation; and (d) in general perform all of the duties incident to the office of Treasurer and such other duties as from time to time may be assigned to him/her by the President or by the Board of Directors. The Treasurer will render to the President, the directors, and the stockholders at proper times an account of all his or her transactions as Treasurer and of the financial condition of the corporation. The Treasurer shall be responsible for preparing and filing such financial reports, financial statements, and returns as may be required by law.

5.10. Assistant Secretaries and Assistant Treasurers. The Assistant Secretaries and the Assistant Treasurers, when authorized by the Board of Directors, may sign with the President or a Vice-President certificates for shares of the corporation, the issuance of which shall have been authorized by a resolution of the Board of Directors. The Assistant Secretaries and Assistant Treasurers, in general, shall perform such duties as shall be assigned to them by the Secretary or the Treasurer, respectively, or by the President or the Board of Directors.

5.11. Chairman of the Board. The Board of Directors may appoint a Chairman, who shall not be an executive officer of the corporation unless specifically designated as the chief executive officer of the corporation by the Board of Directors. If appointed, the Chairman will preside at all meetings of the Board of Directors and be vested with such other powers and duties as the Board of Directors may from time to time delegate to him or her.

5.12. Salaries. The salaries of the officers of the corporation may be fixed from time to time by the Board of Directors or (except as to the President's own) left to the discretion of the President. No officer will be prevented from receiving a salary by reason of the fact that he or she is also a director of the corporation.

5.13. Additional Appointments. In addition to the officers contemplated in this Article V, the Board of Directors may appoint other agents

of the corporation with such authority to perform such duties as may be prescribed from time to time by the Board of Directors.

VI. CERTIFICATES FOR SHARES AND THEIR TRANSFER

6.01. Certificates for Shares.

(a) Content. Certificates representing shares of the corporation shall, at a minimum, state on their face the name of the issuing corporation and that it is formed under the laws of the State of Delaware, the name of the person to whom issued, and the number and class of shares and the designation of the series, if any, the certificate represents. Such certificates shall be signed (either manually or by facsimile to the extent allowable by law) by any of the Chairman of the Board, the President, or any Vice-President and by the Secretary or any assistant secretary or the Treasurer or any assistant treasurer of the corporation, and may be sealed with a corporate seal or a facsimile thereof. Each certificate for shares shall be consecutively numbered or otherwise identified and will exhibit such information as may be required by law. If a supply of unissued certificates bearing the facsimile signature of a person remains when that person ceases to hold the office of the corporation indicated on such certificates or ceases to be the transfer agent or registrar of the corporation, they may still be issued by the corporation and countersigned, registered, issued, and delivered by the corporation's transfer agent and/or registrar thereafter, as though such person had continued to hold the office indicated on such certificate.

(b) Legend as to Class or Series. If the corporation is authorized to issue different classes of shares or different series within a class, the powers, designations, preferences, and relative, participating, optional, or other special rights applicable to each class or series and the qualifications, limitations, or restrictions of such preference and/or rights shall be set forth in full or summarized on the front or back of each certificate as required by law. Alternatively, each certificate may state on its front or back that the corporation will furnish a stockholder this information on request and without charge.

(c) Stockholder List. The name and address of the person to whom shares are issued, with the number of shares and date of issue, shall be entered on the stock transfer books of the corporation.

(d) Lost Certificates. In the event of the loss, theft, or destruction of any certificate representing shares of the corporation or of any predecessor corporation, the corporation may issue (or, in the case of any such shares as to which a transfer agent and/or registrar have been appointed, may direct such transfer agent and/or registrar to countersign, register, and issue) a new certificate, and cause the same to be delivered to the registered owner of the shares represented thereby; provided that such owner shall have submitted such evidence showing the circumstances of the alleged loss, theft, or destruction, and his, her, or its ownership of the certificate, as the corporation considers satisfactory, together with any other facts that the corporation considers pertinent; and further provided that, if so required by the corporation, the owner shall provide a bond or other indemnity in form and amount satisfactory to the corporation (and to its transfer agent and/or registrar, if applicable).

6.02. Registration of the Transfer of Shares. Registration of the transfer of shares of the corporation shall be made only on the stock transfer books of the corporation. In order to register a transfer, the record owner shall surrender the shares to the corporation for cancellation, properly endorsed by the appropriate person or persons with reasonable assurances that the endorsements are genuine and effective. Unless the corporation has established a procedure by which a beneficial owner of shares held by a nominee is to be recognized by the corporation as the owner, the corporation will be entitled to treat the registered owner of any share of the capital stock of the corporation as the absolute owner thereof and, accordingly, will not be bound to recognize any beneficial, equitable, or other claim to, or interest in, such share on the part of any other person, whether or not it has notice thereof, except as may expressly be provided by applicable law, including as may be contemplated by Title 6, Subtitle I, Article 8 of the Delaware code (or any comparable successor statutes), as in effect from time to time.

6.03. Shares Without Certificates. The Board of Directors may authorize the issuance of uncertificated shares by the corporation and may prescribe procedures for the issuance and registration of transfer thereof and with respect to such other matters as the Board of Directors shall deem necessary or appropriate.

VII. DISTRIBUTIONS

7.01. Distributions. Subject to such restrictions or requirements as may be imposed by applicable law or the corporation's Certificate or as may otherwise be binding upon the corporation, the Board of Directors may from time

to time declare, and the corporation may pay or make, dividends or other distributions to its stockholders.

VIII. CORPORATE SEAL

8.01. Corporate Seal. The Board of Directors may provide for a corporate seal of the corporation that will have inscribed thereon any designation including the name of the corporation, Delaware as the state of incorporation, the year of incorporation, and the words "Corporate Seal."

IX. AMENDMENTS

9.01. Amendments. If the Certificate so provides, the corporation's Board of Directors may amend or repeal the corporation's Bylaws unless the Certificate or the Delaware General Corporation Law reserve any particular exercise of this power exclusively to the stockholders in whole or part; provided, that any amendment of the corporation's Bylaws that revises the requirement in Section 4.02 and/or Section 4.12 for an affirmative vote of at least two-thirds of the corporation's directors then in office shall require the affirmative vote of at least two-thirds of the corporation's directors then in office. The corporation's stockholders may amend or repeal the corporation's Bylaws by the affirmative vote of the holders of at least two-thirds of the issued and outstanding capital stock of the corporation entitled to vote thereon, even though the Bylaws may also be amended or repealed by its Board of Directors.

FIRST AMENDMENT TO CREDIT AGREEMENT

THIS FIRST AMENDMENT TO CREDIT AGREEMENT is made as of June 26, 2003, by and between MRC RECEIVABLES CORPORATION, a Delaware corporation (the "Borrower"), and CFSC CAPITAL CORP. VIII, a Delaware corporation (the "Lender").

Recitals

WHEREAS, the Borrower and the Lender have entered into a Credit Agreement dated as of December 20, 2000 (the "Credit Agreement"), pursuant to which the Lender agreed to consider making financing available to the Borrower from time to time to finance the Borrower's purchase of pools of charged off credit card accounts and other delinquent or deficiency consumer obligations.

WHEREAS, the Borrower has requested that the Lender enter into this First Amendment to Credit Agreement (the "First Amendment") to (i) permit the Borrower to withhold from Asset Pool Proceeds (as defined in the Credit Agreement) prior to the deposit of Asset Pool Proceeds in the Collateral Account all amounts due and payable to it pursuant to Sections 2.8(f), (j) and (l) of the Credit Agreement, and (ii) permit the Servicer (as defined in the Credit Agreement) to withhold its Servicing Fees (as defined in the Credit Agreement) and Legal Outsourcing Management Fees (as defined in that certain Second Amendment to Servicing Agreement among the Servicer, the Borrower and the Lender dated as of the date hereof (the "Servicing Amendment")) from Asset Pool Proceeds prior to the deposit of Asset Pool Proceeds in the Collateral Account.

WHEREAS, the Lender has agreed to permit such netting of amounts payable to the Borrower and of Servicing Fees and Legal Outsourcing Management Fees pursuant to the terms and subject to the conditions set forth in the Credit Agreement and this First Amendment and the Servicing Amendment.

NOW, THEREFORE, in consideration of the premises and the mutual covenants and agreements hereinafter set forth, the Lender and the Borrower hereby agree as follows:

1. Definitions. The terms defined in the preamble hereto shall have the meanings therein assigned to them, and all other defined terms used in this First Amendment shall have the meanings assigned to them in the Credit Agreement, unless otherwise specified herein. Section 1.1 of the Credit Amendment shall be amended by adding the following defined term:

"Borrower Payments" shall mean all sums due and payable to the Borrower pursuant to Section 2.8(f), (j) and (l).

"Legal Outsourcing Management Fees" shall have the meaning designated in the Servicing Amendment.

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2. Netting of Servicing Fees and Legal Outsourcing Management Fees. So long as no Default, Event of Default, Asset Pool Shortfall or Termination Event has occurred, until the Lender delivers to the Servicer written notice withdrawing the consent granted pursuant to the Servicing Amendment, no Servicing Fees or Legal Outsourcing Management Fees shall be payable to the Servicer pursuant to Section 2.8 of the Credit Agreement but shall instead be payable to the Servicer in accordance with the Servicing Amendment.

3. Netting of Borrower Payments. So long as no Default, Event of Default, Asset Pool Shortfall or Termination Event has occurred, until the Lender delivers to the Borrower written notice withdrawing the consent hereby granted, the Borrower may, with respect to a particular Asset Pool and otherwise in accordance with the terms and provisions of the Credit Agreement, without further authorization from the Lender and prior to the deposit of Asset Pool Proceeds in the Collateral Account, pay directly to itself (and the Servicer is hereby authorized to make such disbursement) from the Servicer's Collection Account all Borrower Payments earned with respect to that Asset Pool that are due and payable to the Borrower; provided, however, that Asset Pool Proceeds collected with respect to a particular Asset Pool shall be used only to pay Borrower Payments earned with respect to that Asset Pool and shall not be used to pay Borrower Payments earned with respect to any other Asset Pool.

4. Accounting for Borrower Payments. The Borrower shall cause the Servicer to provide to the Lender on each Distribution Date, for each Asset Pool, a separate detailed accounting of all Borrower Payments actually incurred and paid to the Borrower for the immediately preceding Distribution Period, which accounting shall be certified by the signature of a duly authorized officer of each of the Borrower and the Servicer. In the event that the amounts paid exceed or fall short of the Borrower Payments actually due and payable pursuant to the Credit Agreement for such preceding Distribution Period, an appropriate adjustment shall be made by disbursements approved in writing by the Lender pursuant to Section 2.8 of the Credit Agreement.

5. Withdrawal of Consent. The Lender may withdraw its consent granted pursuant to this First Amendment for any reason or for no reason, at its sole discretion. Such consent shall be deemed withdrawn immediately upon the delivery of written notice thereof by telecopier as provided pursuant to Section 7.2 of the Servicing Agreement or Section 9.4 of the Credit Agreement, as applicable. From and after delivery of such a withdrawal notice, the Servicing Fees, Legal Outsourcing Management Fees and Borrower Payments shall be due and payable only pursuant to a Distribution Request duly approved by the Lender in accordance with Section 2.8 of the Credit Agreement, it being hereby agreed that all Legal Outsourcing Management Fees shall then be paid pursuant to Section 2.8 of the Credit Agreement pari passu with all Servicing Fees.

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6. Representations and Warranties; No Default; Authority. The Borrower represents and warrants to the Lender that all of the representations and warranties of the Borrower in the Credit Agreement are true as of the date of this First Amendment and that no Default has occurred pursuant to the Credit Agreement or any Loan Document. The Borrower has full authority to enter into this First Amendment. This First Amendment will not violate the terms and provisions of any other contract to which the Borrower or any of its Affiliated Parties is a party.

7. No Waiver; Effect of Amendment. The terms and provisions of the Credit Agreement, as amended hereby, shall remain in full force and effect, and the parties hereto agree that this First Amendment shall not be and is not intended to constitute a waiver of any of the terms and provisions of the Credit Agreement.

8. Governing Law. This First Amendment shall be governed by and construed in accordance with the laws of the State of Minnesota.

9. Counterpart Signatures. This First Amendment may be executed in counterpart originals, all of which, when combined, shall constitute one document binding on all of the parties hereto.

IN WITNESS WHEREOF, the parties hereto have executed this First Amendment effective as of the date first above written.

MRC RECEIVABLES CORPORATION (Borrower)

By: /s/ Carl C. Gregory, III
Name: Carl C. Gregory, III
Title: President & CEO

CFSC CAPITAL CORP. VIII (Lender)

By: /s/ Jeffrey Parker
Name: Jeffrey Parker
Title: President

[Signature Page to First Amendment to Credit Agreement]

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LOAN AND SECURITY AGREEMENT

This LOAN AND SECURITY AGREEMENT ("this Agreement") is made as of July 25, 2003, by and between Patriot Capital Markets, LLC, a Delaware limited liability company ("Lender"), with an address at 28 Thorndal Circle, Darien, CT 06820, and Midland Funding NCC-1 Corporation, a Delaware corporation (the "Borrower"), with an address at 5775 Roscoe Court, San Diego, CA 92123. The Lender and the Borrower (sometimes singularly referred to as a "Party" and collectively referred to as "Parties") agree as follows:

RECITALS

A. The Borrower has entered into certain Purchase Agreements listed on the attached Exhibit B (collectively, the "Purchase Agreements"), pursuant to which the Borrower has purchased from the selling financial institutions identified on Exhibit B (collectively, the "Sellers") the pools of Receivables listed on the attached Exhibit C (collectively, the "Purchased Receivables").

B. The Borrower desires to pledge the Purchased Receivables as security for the Loan (the "Loan") made by the Lender of the Loan Amount to the Borrower, subject to the terms and conditions herein set forth, and the Lender has agreed to loan the Loan Amount to the Borrower.

NOW, THEREFORE, in consideration of the premises and agreements herein contained, the Lender and the Borrower hereby agree as follows:

DEFINITIONS

Certain capitalized terms used in this Agreement shall have the respective meanings assigned to them in Appendix A attached hereto. All references herein to "the Agreement" or "this Agreement" are to this Loan and Security Agreement as it may be amended and supplemented from time to time, including the Exhibits hereto.

SECTION 1. THE LOAN.

1.1 The Loan Amount. Subject to satisfaction of the conditions precedent specified in Article 3 of this Agreement, on the Closing Date, the Lender will loan \$1,775,278.65 (the "Loan Amount") to the Borrower.

1.2 Disbursement Procedures. On the terms and subject to the conditions set forth herein, unless the parties agree otherwise in writing, the Lender shall, on the Closing Date, remit \$1,760,278.65, which amount is equal to the Loan Amount less \$15,000 in legal expenses incurred by the Lender in connection with the making of the Loan, by wire transfer of immediately available federal funds to the Borrower's designated account.

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1.3 The Note. The Loan to the Borrower in the Loan Amount shall be evidenced by, and recorded on, a Note substantially in the form attached hereto as Exhibit A. The Lender is hereby authorized to make the appropriate notations on the schedule annexed to the Note for purposes of recording the Loan to the Borrower in the Loan Amount or repayment thereof; provided, however, the failure of the Lender to make, or any error in making, any such notation shall not limit, expand or otherwise affect the obligations of the Borrower hereunder.

1.4 Interest. The Note shall bear interest on the Principal Balance from the Closing Date at the Borrowing Rate. Interest shall accrue and be payable from and after the Closing Date on the basis of actual days elapsed and a year of 365 or 366 days, as applicable and shall be paid as specified in Section 2.2.

1.5 Principal Balance. The Principal Balance of the Note shall be repaid on each Remittance Date as specified in Section 2.2. Except as set forth in this Section 1.5, the Note may not be paid or prepaid from any other funds on any date prior to the Maturity Date without the consent of the Lender; provided, however, that the Note may be paid or prepaid upon the occurrence of either of the following events: (i) the Principal Balance shall have been reduced to 10% or less of the Loan Amount; or (ii) the Lender shall have declared the unpaid Principal Balance and accrued interest on the Note to be immediately due and payable following the occurrence of an Event of Default as provided in Section 7.2 of this Agreement.

SECTION 2. APPLICATION OF PROCEEDS.

2.1 Servicer and Servicing Agreement. Pursuant to the Servicing Agreement, Midland Credit Management, Inc. has agreed to act as the Servicer with respect to the Purchased Receivables. As a condition of this Agreement, the Borrower has assigned for security all of its rights under the Servicing Agreement to Lender. The Servicer's rights and obligations are set forth in the Servicing Agreement.

2.2 Application of Proceeds. On each Remittance Date until such time as all Obligations have been satisfied, or until the Servicer and the Lender shall have determined (which determination shall be made in a commercially reasonable manner) that the Receivables have been exhausted, the Borrower shall cause the Servicer to remit to the Lender from the Remittance Account all Collections in respect of the related Remittance Period and all investment earnings on amounts on deposit in the Remittance Account. On each Monthly Report Date, the Lender shall apply all funds received by it in respect of the collection month to which such Monthly Report Date relates, as set forth on the Monthly Reconciliation Report ("Available Funds"), in the following order, priority and amounts:

first, to the Lender, reimbursement of any assessed and unpaid Obligations other than the Principal Balance and interest thereon;

second, to the Lender, from Available Funds remaining after the application in clause first, interest at the Borrowing Rate on the Principal Balance from and including the preceding Monthly Report Date (or, in the case of the initial Monthly Report Date, the Closing Date) to, but not including, the subject Monthly Report Date;

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third, to the Lender, from Available Funds remaining after the applications in clauses first and second, principal in reduction of the Principal Balance, until the Principal Balance is reduced to zero; and

fourth, any remaining Available Funds to the Borrower.

SECTION 3. CONDITIONS PRECEDENT.

3.1 The Loan. The funding by the Lender of the Loan Amount hereunder is subject to the satisfaction of the following conditions precedent (or to the waiver by the Lender of any of such conditions precedent):

(a) The Financing Documents. The Borrower shall have delivered to the Lender the duly executed Financing Documents and any documents required herein or therein or reasonably requested by the Lender in connection therewith.

(b) Collateral. The Borrower shall have filed, or authorized the Lender to file, such financing statements as the Lender requires in connection with the creation of a perfected security interest in the Collateral and to secure payment in full for all Obligations due hereunder.

(c) Certified Resolutions and Corporate Documents. The Borrower shall have delivered to the Lender certified copies of (i) resolutions of its board of directors, which are reasonably satisfactory to the Lender, authorizing the execution, delivery and performance of this Agreement, the Note, and all other Financing Documents and any documents and instruments delivered hereunder or thereunder and (ii) its Certificate of Incorporation and Bylaws.

(d) Acquisition of Purchased Receivables by the Borrower. The Borrower shall have performed all of its obligations required to be performed on or before the Closing Date under the Purchase Agreements.

(e) Opinion. The Lender shall receive one or more Opinions of Counsel, satisfactory in form and substance to the Lender and from counsel satisfactory to the Lender, with respect to such matters as Lender shall reasonably request.

(f) Representations and Warranties. All representations and warranties in this Agreement and the Financing Documents shall be true and correct on and as of the Closing Date.

(g) No Default. As of the Closing Date, there shall exist or shall have occurred no default by the Borrower in the performance of any of its obligations under any of the Financing Documents.

(h) Documentation and Proceedings. All corporate and legal proceedings and all instruments in connection with the transactions contemplated by this Agreement shall be reasonably satisfactory in form and substance to the Lender and Lender's counsel, and the Lender shall have received all information

and copies of all documents, including records of corporate proceedings and governmental recording and filing offices as the Lender or Lender's counsel, shall have requested, such documents to be certified by proper authorities where appropriate.

SECTION 4. REPRESENTATIONS AND WARRANTIES OF THE BORROWER.

To induce the Lender to enter into this Agreement and to make the Loan provided for herein, the Borrower hereby makes the following representations and warranties:

4.1 Organization and Standing. The Borrower is, and will continue to be, duly organized and a validly existing corporation in good standing under the laws of the State of Delaware, with all requisite power and authority to own and operate its properties and assets, to conduct the businesses in which it is engaged or proposes to engage and to consummate the Borrower's role in the transactions contemplated in the Financing Documents, has been duly qualified as a foreign corporation in each jurisdiction where required by the conduct of its business or its ownership of properties, and has not adopted any resolutions or taken any action leading to liquidation.

4.2 Power and Authority. The Borrower has all requisite power and authority to execute, deliver, and carry out the terms and provisions of the Financing Documents to which the Borrower is a party, and the Borrower has duly and properly taken all necessary action to permit and authorize the Borrower's execution, delivery and performance of the Obligations under the Financing Documents, and the consummation of the Borrower's role in the transactions contemplated herein and therein.

4.3 Binding Obligations. The Financing Documents executed by the Borrower have been duly authorized, executed and delivered by the Borrower and each constitutes a legal, valid and binding obligation of the Borrower, enforceable in accordance with its terms except as enforceability may be limited by bankruptcy, reorganization, insolvency, moratorium or similar laws affecting the enforcement of creditors' rights generally and by general principles of equity, regardless of whether such enforceability is considered in a proceeding in law or in equity.

4.4 Compliance With Other Instruments. The Borrower is not in violation of, or default under, any Requirement of Law, any agreement or instrument to which it is a party or by which it is bound or to which any of its properties or assets are subject, which violation or default would have a material adverse effect on the Borrower or its ability to perform its duties under the Financing Documents or which would affect the legality or enforceability of this Agreement. The execution, delivery and performance on the Closing Date by the Borrower of and in accordance with the Financing Documents, and any document required to be delivered hereunder or thereunder, the consummation of the Borrower's role in the transactions contemplated herein or therein and the compliance with the terms and provisions hereof or thereof will not contravene any Requirement of Law to which the Borrower is subject (including without limitation any applicable consumer credit servicing or bankruptcy laws, statutes, rules or regulations) and will not, in any material respect, violate, conflict with or result in any breach of any of the terms, covenants, conditions or provisions of, or constitute a default under, or result in the creation or imposition of any security interest (other than the security interest in favor of the Lender) upon any of the property or assets of the Borrower pursuant to the terms of, any indenture, mortgage, deed of trust, agreement or other instrument to which the Borrower is a party or by which its properties or assets are bound or may be subject.

4.5 Litigation. There are no actions, suits, proceedings or investigations pending or, to the Borrower's knowledge, threatened against or affecting the Borrower or its properties or assets, or to which the Borrower or its properties or assets is subject, nor is there any outstanding judgment, order, writ, injunction, decree or award affecting the Borrower or its properties or assets before any court or before any federal, state, municipal or other governmental department, commission, board, bureau or agency, which, either individually or in the aggregate, could reasonably be expected to have a material adverse effect on its business, assets, properties or financial condition, or which in any manner could reasonably be expected to materially impair the Purchased Receivables or which could reasonably be expected to affect the legality or enforceability of this Agreement or the Financing Documents, and

the Borrower does not know of any basis for any such suit, proceeding, or investigation.

4.6 No Material Adverse Laws, Contracts, Etc. The Borrower is not obligated under any contract or agreement or under any law, regulation or decree which materially and adversely affects its ability to perform its obligations under the Financing Documents or which materially and adversely affects the value of the Purchased Receivables or which would affect the legality or enforceability of the Financing Documents.

4.7 Consents by Authority. Except for the filing of financing statements by the Lender, all actions, approvals, consents, waivers, exemptions, variances, franchises, orders, permits, authorizations, rights and licenses required to be taken, given or obtained, as the case may be, by or from any federal, state or other governmental authority or agency, that are necessary in connection with the execution, delivery and performance by the Borrower of its obligations which it was required to perform as of such date under the Financing Documents, have been duly taken, given or obtained, as the case may be, are in full force and effect on the date hereof, are not subject to any pending proceedings or appeals (administrative, judicial or otherwise) and either the time within which any appeal therefrom may be taken or review thereof may be obtained has expired or no review thereof may be obtained or appeal therefrom taken, and are adequate to authorize the consummation by the Borrower of the Borrower's role in the transactions contemplated by the Financing Documents and the performance by the Borrower of its obligations hereunder and thereunder.

4.8 No Finder's or Broker's Fees. Other than broker's fees incurred in connection with the purchase of certain of the Purchased Receivables, all of which have been paid by the Sellers, there are no broker's or finder's fees payable to any Person in connection with this Agreement or the transactions contemplated herein.

4.9 Capabilities. Assuming the Loan proceeds are advanced to the Borrower, the Borrower has or is projected to have or will contract for adequate capital, assets, liquidity, personnel, facilities, equipment, software, systems capability and competence to perform its obligations hereunder and under the other Financing Documents.

4.10 Securities Laws. The Borrower is not required to register as an "investment company" under the Investment Company Act of 1940, as amended, and the execution and delivery of the Note as contemplated hereunder is exempt from the registration requirements of the Securities Act of 1933, as amended, and applicable state securities laws.

4.11 Disclosure. The representations and warranties and other statements of fact made by the Borrower to the Lender in the Financing Documents and in any certificates, exhibits and schedules attached hereto or thereto (including any such documents furnished by electronic medium) or furnished to the Lender or their designee by the Borrower in connection with the Loan, taken as a whole, do not on the date as of which such statements were made contain any material misstatement of fact or omit to state a material fact necessary in order to make the statements contained herein or therein, in the light of the circumstances under which they were made, not misleading in their presentation of the Borrower and its business. The information provided with respect to the Purchased Receivables and the Purchase Agreements by or on behalf of the Borrower, taken as a whole, is, to the Borrower's knowledge, true and correct in all material respects and, to the Borrower's knowledge, does not contain any material omissions which would cause such information to be materially misleading with respect to the Purchased Receivables taken as a whole. Borrower makes no representation or warranty concerning the forecasts, estimates, pro forma information, projections and statements as to anticipated future performance or conditions, and the assumptions on which they were based, except that as of the date made (i) such forecasts, estimates, pro forma information, projections and statements were based on the good faith assumptions of the management of the Borrower and (ii) such assumptions were believed by such management to be reasonable. Such forecasts, estimates, pro forma information, projections and statements, and the assumptions on which they were based, may or may not prove to be correct. There is no fact or condition existing as of the date hereof which materially and adversely affects, or to the Borrower's knowledge, in the future is reasonably anticipated to materially and adversely affect, the condition (financial or otherwise), or prospects, of the Borrower or the Purchased Receivables taken as a whole.

4.12 Foreign Person. The Borrower is not a "foreign person" within the meaning of Section 1445(f)(3) of the Code.

4.13 ERISA. The Borrower has no Plans.

4.14 Margin Stock. The Borrower is not engaged in the business of extending credit for the purpose of purchasing or carrying "margin stock" (as defined in Regulation U of the Board of Governors of the Federal Reserve

System), and no proceeds of the Loan will be used for the purpose, whether immediate, incidental or ultimate, of purchasing or carrying any margin stock or extending credit to others for such purpose.

4.15 Liens and Encumbrances. The Receivables are owned by the Borrower free and clear of any lien other than the security interest in favor of the Lender. All actions (including UCC filings) necessary in any jurisdiction to give the Lender a first priority perfected lien under the UCC in each Receivable acquired by the Borrower have been performed.

4.16 Dealings with Obligor. To the Borrower's actual knowledge, no action or omission on the part of the Sellers would give rise to any right under the FDCPA on the part of any Obligor to bring any action or claim that would result in a material adverse effect on the Borrower or the Purchased Receivables taken as a whole. Neither the Borrower nor any of its Affiliates has knowingly advanced funds to, induced, or solicited any advance of funds from a party other than the Obligor or any co-debtor or guarantor, directly or indirectly, for the payment of any amount required by any Account.

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4.17 Location of Place of Business. The Borrower's primary place of business is located at 5775 Roscoe Court, San Diego, CA 92123.

4.18 Lack of Reliance. Independently and without reliance upon the Lender, the Borrower, to the extent it deems appropriate, has made and shall continue to make its own independent investigation of the merits and risks involved in its role under this Agreement and the other transactions contemplated hereby and the Lender shall not have any duty or responsibility, either initially or on a continuing basis, to provide the Borrower with any information concerning the Servicer.

SECTION 5. COVENANTS OF BORROWER.

The Borrower hereby covenants and agrees that from the date hereof and until payment in full of the principal of and interest on the Note, unless the Lender shall otherwise consent in writing, the Borrower will:

5.1 Payments. Ensure that principal, interest and any other amounts payable are duly and punctually paid in accordance with the priorities set forth in Section 2.2 and as otherwise provided herein.

5.2 Business and Existence. Perform all things necessary to preserve and keep in full force and effect its existence and comply with each Requirement of Law, the non-compliance with which would materially and adversely affect its business or its financial condition. The Borrower shall not engage in any line of business other than pursuit, negotiation, acquisition and ownership of the Receivables and related assets. The Borrower shall notify the Lender not less than 30 days in advance of any change in location of its place of business. Without prior written consent of the Lender, which consent shall not be unreasonably withheld, delayed or conditioned, the Borrower shall not amend its Certificate of Incorporation except for the Restated Certificate pursuant to which Borrower will become a special purpose entity or Bylaws or change its jurisdiction of incorporation. The Borrower shall comply with all of the provisions of its Certificate of Incorporation and Bylaws.

5.3 Indebtedness and Expenses. Not incur, create or suffer to exist any Indebtedness, other than Indebtedness in respect of this Agreement, the Note and the Financing Documents, and pay and discharge all of its indebtedness, obligations and expenses promptly in accordance with this Agreement and the other Financing Documents and normal terms and practices of its business, before the same shall become in default, as well as all lawful claims for labor, materials and supplies which otherwise, if unpaid, might become a material lien upon its properties or assets or any part thereof.

5.4 Payment of Taxes and Assessments. Pay when due all taxes, assessments and other governmental charges or levies which become due and payable by the Borrower to any political entity, subdivision or department thereof under any law now or hereafter in force or effect. The Borrower however, shall not be required to pay any tax, charge, levy or assessment so long as the Borrower shall contest, in good faith and at its cost and expense, in its own name and behalf, the amount or validity thereof, in an appropriate manner or by appropriate proceedings which shall operate during the pendency thereof to prevent the collection of or other realization upon the tax, assessment, levy or charge so contested, provided that no such contest shall subject the Lender to the risk of any liability and that the Borrower shall take appropriate reserves or provide appropriate bond or collateral in respect thereof. Each such contest shall be promptly prosecuted to final conclusion (subject to the right of the Borrower to settle any such contest) and the Borrower will, and will require the Servicer to, promptly after the final determination of such contest or settlement thereof (including any appeals), pay and discharge the amounts which shall be levied, assessed or imposed or determined to be payable therein, together with all penalties, fines, interests, costs and expenses thereon or

incurred in connection therewith. The Borrower shall give, and shall require the Servicer to give, the Lender prompt written notice of any such contest.

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5.5 Notice of Event of Default. At the time of the Borrower's first actual knowledge (with actual knowledge by the Servicer or any officer or employee of the Servicer being deemed knowledge of the Borrower for this purpose) of an Event of Default or a Default, furnish the Lender with prompt written notice of the occurrence of any such event or condition.

5.6 Additional Information; Further Assurances.

(a) Furnish, and require the Servicer to furnish, as applicable, such other information in the possession of or reasonably obtainable by the Borrower or the Servicer regarding the operations, business affairs and financial condition of Borrower or the Servicer or their properties or assets (including but not limited to the Receivables) as the Lender may reasonably request for the purpose of determining compliance with the Financing Documents or the status of the Receivables, including but not limited to true and exact copies of their books of account (related to this Agreement, the Financing Documents and the Receivables) and any audit reports prepared by any governmental agency or authority related to the Borrower or this Agreement, the Financing Documents or the Receivables and all information furnished to any governmental agency or authority related to the Borrower or this Agreement, the Financing Documents or the Receivables; provided, however, that any information provided to the Lender pursuant to this Section 5.6 shall be held confidential by the Lender; and

(b) Take such further actions as the Lender may reasonably request for the purpose of obtaining or preserving the full benefits to the Lender of this Agreement and of the rights and powers herein granted to the Lender, including the filing of any financing or continuation statements under the UCC.

5.7 Right of Inspection/Right of Audit.

(a) Permit, and require the Servicer to permit, at reasonable times and intervals and upon reasonable prior notice, any person who is designated by the Lender to visit and inspect any of the properties, books, systems, procedures, financial reports and records of Borrower and the Servicer (related to this Agreement, the Financing Documents and the Receivables) and to discuss their affairs, finances and accounts as the Lender may reasonably request for the purpose of determining compliance with the Financing Documents or the status of the Receivables. (b) Permit, and require the Servicer to permit, the Lender to, on not less than 15 days' prior notice, or, if an Event of Default has occurred, on not less than one day's prior notice, conduct an audit of the properties, books, systems, procedures, financial reports and records of the business activities and operations conducted by the Borrower and the Servicer in connection with its performance under this Agreement and the other Financing Documents, during regular business hours, at the location the records are then kept by the Borrower and the Servicer.

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5.8 Liens. Not contract, create, incur or suffer to exist, and require the Servicer not to contract, create, incur or suffer to exist, any security interest in any of the Receivables acquired from the Sellers, whether now owned or hereafter acquired, except Permitted Liens.

5.9 Notification of Litigation, Liens, Material Events. Promptly notify, and require the Servicer to promptly notify, the Lender in writing of (i) any litigation or dispute whether pending or threatened, of which the Borrower has actual knowledge which could materially affect the Borrower, and if requested by the Lender, deliver to the Lender copies of all pleadings, unprivileged relevant correspondence and similar documentation relating thereto, (ii) any lien, security interest or attachment asserted against any of the Receivables and (iii) the occurrence of any other event or the discovery of any other information known to Borrower which could reasonably be expected to have a material adverse effect on the aggregate market value of the Purchased Receivables or on the security interests granted with respect thereto.

5.10 Maintenance of First Priority. Take all such action, and require the Servicer to take all such action, as may from time to time be necessary to maintain the ownership interest of the Borrower in the Receivables and of the security interests of the Lender, in the Receivables, including all notices,

waivers and recording, filing, rerecording and refiling of any documents as set forth in the Servicing Agreement to maintain the ownership interest of the Borrower or the security interests of the Lender and the perfection and priority thereof. In addition, the Borrower shall, and shall require the Servicer to, execute and deliver such further documents set forth in the Servicing Agreement and take such further action as the Lender may reasonably request in order to confirm the ownership interest of the Borrower or security interests of the Lender, and to preserve and protect the priority of such security interests, the rights of the Borrower under the Purchase Agreements and the rights of the Lender under this Agreement and any Financing Document.

5.11 Consolidation, Merger, Sale of Assets. Not (i) wind up, liquidate, or dissolve its affairs, enter into any transaction of merger or consolidation, convey or transfer its properties and assets substantially as an entirety, (ii) convey, sell, lease or otherwise dispose of (a) all or substantially all of the Receivables; or (b) any portion of the Receivables; provided, however, that the Borrower may from time to time convey, sell, lease or otherwise dispose of Receivables (y) which are Bankrupt Accounts (as such term is defined in the Servicing Agreement) to a third party who is not an Affiliated Party (as such term is defined in the Servicing Agreement) in an arm's length transaction; provided that any such transaction is in the normal course of business; or (z) pursuant to an agreement in which the purchase price percentage is not less than the applicable purchase price percentage paid by Borrower for the Receivables being sold, in each case as set forth in the applicable Purchase Agreements, (iii) institute any bankruptcy or insolvency proceeding or consent to the institution of the same, or (iv) create any partnership, joint venture or subsidiary, in each case without the prior written consent of Lender, which consent shall not be unreasonably withheld, delayed or conditioned.

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5.12 Other Agreements.

(a) Not enter into any agreement containing any provision which would cause an Event of Default hereunder or which would be violated or breached by the performance of Borrower's obligations under the Financing Documents or under any document or instrument delivered or to be delivered by Borrower hereunder or thereunder.

(b) Enforce the material obligations of the Servicer under the Servicing Agreement and of each of the Sellers under the Purchase Agreements, as applicable, and each other party under any other material agreement to which Borrower is a party, and not grant any material waiver or release or permit any material amendment of any such document without the written consent of the Lender, which consent shall not be unreasonably withheld, delayed or conditioned.

5.13 Capability. Maintain, or contract to maintain, and require the Servicer to maintain, or contract to maintain, adequate capital, assets, liquidity, personnel, facilities, equipment, software, systems capability and competence to perform its obligations hereunder and under the Financing Documents.

5.14 Approvals and Licenses. Maintain, and require the Servicer to maintain, all consents, approvals, authorizations, orders, rights, licenses, franchises, and permits, if any, required by or from any federal, state or other governmental authority or agency, for the conduct of its business and the ownership of its properties, or otherwise obtain a waiver or variance thereof or qualify for an exemption therefrom.

5.15 Change in Accounting Policies. Not change its accounting policies or reporting practices, except as allowable pursuant to GAAP, consistently applied.

5.16 Financial Statements. Cause the Servicer to deliver to the Lender the financial statements specified in Sections 4.2(a) and (b) of the Servicing Agreement.

5.17 Fraudulent Activities; Violations of Law. Not engage in, and no Person under its direct control or direction shall engage in, any fraudulent activity or other activity which would constitute a knowing violation of a Requirement of Law.

5.18 Lender's Reliance. Borrower acknowledges that the Lender is entering into the transactions contemplated by this Agreement in reliance upon Borrower's identity as a legal entity that is separate from the Servicer and that the Lender will be adversely affected if Borrower does not enforce its respective rights under the Servicing Agreement. Therefore, from and after the date of execution and delivery of this Agreement, Borrower shall take all reasonable steps, including, without limitation, all steps that the Lender may from time to time reasonably request, to maintain Borrower's identity as a separate legal entity and to make it manifest to third parties that Borrower is an entity with assets and liabilities distinct from those of the Servicer and any Affiliates thereof and not just a division of Servicer or any other Affiliate. Without

limiting the generality of the foregoing and in addition to the other covenants set forth herein, Borrower shall:

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- (a) maintain its own separate books and records and bank accounts;
 - (b) at all times hold itself out to the public as a legal entity separate from the its Affiliates and any other Person;
 - (c) file its own tax returns, if any, as may be required under applicable law, to the extent not part of a consolidated group filing a consolidated return or returns, and pay any taxes so required to be paid under applicable law;
 - (d) not commingle its assets with assets of any other Person (except as contemplated by the Financing Documents), and maintain the assets in a manner that facilitates their identification and segregation from those of its Affiliates and other Persons;
 - (e) conduct its business in its own name;
 - (f) maintain separate financial statements;
 - (g) ensure that any financial statements of any Affiliate of Borrower which are consolidated to include the Borrower contain detailed notes clearly stating that (a) all of the Borrower's assets are owned by the Borrower, and (b) the Borrower is a separate entity with its own separate creditors that will be entitled to be satisfied out of the Borrower's assets prior to any value in the Borrower becoming available to the Borrower's equity holders;
 - (h) pay its own liabilities only out of its own funds;
 - (i) not permit any Affiliate of Borrower, except an officer of the Borrower, to be, nor to hold itself out to be, responsible for the debts of the Borrower or the decisions or actions in respect of the daily business and affairs of the Borrower;
 - (j) maintain an arm's length relationship with its Affiliates;
 - (k) pay the salaries of its own employees, if any;
 - (l) require that any full-time employees of the Borrower identify themselves as such and not as employees of any Affiliate of Borrower (including without limitation, by means of providing appropriate employees with business or identification cards identifying such employees as the Borrower's employees);
 - (m) not hold out its credit as being available to satisfy the obligations of others;
 - (n) allocate fairly and reasonably with its Affiliates any overhead for shared office space;
 - (o) correct any known misunderstanding regarding its separate identity;

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- (p) ensure that the Borrower's operating expenses will not be borne by any Affiliate of Borrower;
 - (q) use separate stationery, invoices and checks;
 - (r) not pledge its assets for the benefit of any other Person;
 - (s) maintain adequate capital in light of its contemplated business purposes, cash flow and the financing contemplated by the Financing Documents;
 - (t) ensure that no Affiliate of Borrower shall, directly or indirectly, name the Borrower or enter into any agreement to name the Borrower as a direct or contingent beneficiary or loss payee of any insurance policy with respect to property of any Affiliate;
 - (u) cause the Board of Directors to meet at least annually or act pursuant to written consent and keep minutes of such meetings and actions and observe all other Delaware corporate law formalities; and

(v) not acquire any obligations or securities of an Affiliate.

SECTION 6. COLLATERAL.

6.1 Security Interest in Collateral. To secure the payment and performance to the Lender of the Obligations, the Borrower hereby grants to the Lender a continuing security interest of first priority in (subject to Permitted Liens) and lien upon all the following Property and interests in Property of the Borrower, whether now owned or existing or hereafter created, acquired or arising and wheresoever located:

(a) all Purchased Receivables;

(b) all Related Property;

(c) all property constituting (i) deposit accounts or (ii) security interests in property financed under Purchased Receivables, claims under guaranties and other property or security held by or granted to secure payment of the Purchased Receivables by the Obligor obligated thereon;

(d) all other General Intangibles, whether now owned or hereafter created or acquired by the Borrower or in which the Borrower now has or hereafter acquires any interest, including all rights of Borrower against Sellers under the Purchase Agreements;

(e) all monies and other Property of any kind, now or at any time or times hereafter, owned by the Borrower or a bailee of the Borrower;

(f) all contracts, contract rights, chattel paper, instruments and documents of the Borrower;

(g) all rights, claims or choses in action of the Borrower;

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(h) all of the Borrower's interest in the Remittance Account;

(i) all accessions to, substitutions for and all replacements, products and cash and non-cash proceeds of (a), (b), (c), (d), (e), (f), (g) and (h) above, including proceeds of and unearned premiums with respect to insurance policies insuring any of the Collateral; and

(j) all books and records (including customer lists, credit files, computer print-outs, and other computer materials and records) of the Borrower pertaining to any of (a), (b), (c), (d), (e), (f), (g), (h) and (i) above.

6.2 Location of Collateral. All tangible Collateral and Collateral in the form of books and records will at all times be kept by the Borrower or Servicer, as appropriate, at the business location set forth in Section 4.17 and shall not, without the prior written approval of the Lender, be moved therefrom, except as necessary for the collection of an Account.

6.3 Administration of Receivables.

(a) Upon and after the occurrence of an Event of Default (which has not been waived or cured if permitted under Section 7), the Lender or, if so directed by the Lender, the Servicer shall have the exclusive right to settle or adjust all disputes and claims directly with any Obligor and to compromise the amount or extend the time for payment of the Receivables upon such terms and conditions as the Lender may deem advisable. Upon notice by the Lender, after the occurrence of an Event of Default, which notice may be given in the Lender's sole discretion, the Borrower shall relieve the Servicer of any further authority and future administrative obligations with respect to the Receivables.

(b) If any Receivable includes a charge for any tax payable to any governmental authority, the Lender is authorized, after the occurrence of an Event of Default, to pay the amount thereof to the proper governmental authority for the Receivable and charge the Borrower therefor. The Borrower shall notify the Lender if any Receivable includes any tax payable to any governmental authority and, in the absence of such a notice (i) with respect to any Receivable, the Borrower shall be deemed to have made a representation and warranty to the Lender that, to the Borrower's knowledge, no portion of such Receivable is payable to any governmental authority and (ii) the Lender shall have the right to retain the full proceeds of the Receivable. In no event shall the Lender be liable for any taxes to any governmental authority that may be due by the Borrower by reason of the sale and delivery of any Receivable.

(c) Upon and following the occurrence of a Default or an Event of Default and while such Default or Event of Default is continuing, any of the Lender's officers, employees or agents shall have the right in the name of the Lender, any designee of the Lender or the Borrower, to verify the validity, amount or any other matter relating to any Receivables by mail, telephone, telegraph or otherwise. The Borrower shall cooperate fully with the Lender in an effort to facilitate and promptly conclude any such verification process.

SECTION 7. DEFAULT

7.1 Events of Default. The occurrence and continuation of any one or more of the following events prior to the payment in full by the Borrower of the Note shall constitute an "Event of Default" under this Agreement:

(a) Payment Default. The Borrower shall default in the payment of (i) any principal of or interest on the Loan when due (whether at stated maturity, upon acceleration or at mandatory or optional prepayment), it being understood that no notice or cure period will be required for any such event to constitute an Event of Default), or (ii) any other amount payable by it hereunder or the Note and such default shall have continued unremedied for three (3) Business Days.

(b) Target Principal Balance. On any Monthly Report Date, the Principal Balance of the Note, after giving effect to any payment in respect of principal on such Monthly Report Date, shall equal or exceed the Target Principal Balance corresponding to such Monthly Report Date as set forth on Exhibit D of this Agreement.

(c) Representations and Warranties. Any representation or warranty made by the Borrower under the Financing Documents or any certificate, exhibit or other document required thereunder is false, misleading, incomplete or untrue in any material respect (an "Untrue Matter") as of the date made and such Untrue Matter is not cured within fifteen days from the date that the Borrower knows of such Untrue Matter.

(d) Covenants. (1) Any covenant, term, agreement or condition contained in this Agreement is breached by the Borrower or (2) any other covenant, term, agreement or condition contained in the Financing Documents is breached by the Borrower or Servicer, and such breach continues unremedied for a period of fifteen days after the date that the Borrower or the Servicer knows of such breach.

(e) Bankruptcy or Insolvency. The Borrower (i) is dissolved, (ii) fails or is unable or admits in writing its inability to pay its debts generally as they become due, (iii) commences a voluntary case in bankruptcy or any other action or proceeding for any other relief under any law affecting creditors' rights that is similar to a bankruptcy law, (iv) consents by answer or otherwise to the commencement against it of an involuntary case in bankruptcy or any other such action or proceeding, or an involuntary case in bankruptcy or any other such action or proceeding in respect of the Borrower or any of its properties is commenced and is not dismissed on or before the sixtieth day after the commencement thereof, (v) makes an assignment for the benefit of creditors, (vi) files a petition or applies to any tribunal for the appointment of a custodian, receiver or any trustee for all or a substantial part of its assets, (vii) by any act or omission indicates its consent, approval of, or acquiescence in the appointment of a receiver, custodian or trustee for all or a substantial part of its property, (viii) is adjudicated a bankrupt, (ix) becomes insolvent however otherwise evidenced, or (x) ceases to continue as a going concern.

(f) Fraudulent Conveyances. The Borrower conceals, removes or permits to be concealed or removed, any part of its property, with intent to hinder, delay or defraud its creditors or any of them, or makes or permits a transfer of any of its property which transfer is fraudulent under any bankruptcy, fraudulent conveyance or similar law.

(g) Judgments. Any (i) uninsured judgment, (ii) judgment which is not fully insured or (iii) order for the payment of money, that is equal to or greater than \$50,000 shall be rendered against the Borrower (unless the payment of such amount in excess of \$50,000 is fully insured) and such judgment or order shall continue unsatisfied and unstayed for a period of 60 days.

(h) Breach of Agreement. Any security interest created hereunder or pursuant to the Financing Documents shall cease to be a valid and perfected first priority security interest in favor of the Lender in the Purchased Receivables.

(i) Breach of the Purchase Agreements. Any (i) breach or violation by Borrower of any provisions of a Purchase Agreement, but only such breaches or violations which would give rise to a right to terminate Borrower's rights under such agreement, and which continue after the expiration of any applicable notice or cure periods allowed thereunder or (ii) failure by Borrower to enforce its rights under the Purchase Agreements, which failure, in the Lender's reasonable discretion, shall have a material adverse effect on the Borrower's ability to meet its obligations under this Agreement or any other Financing Document and which is not cured within fifteen days from the date that the Borrower receives notice of such breach from the Lender.

(j) Servicer Termination. The occurrence of a Termination Event under the Servicing Agreement.

7.2 Effect of Event of Default. If any Event of Default shall occur, in addition to taking any action pursuant to Section 6.5 and Section 7.3, the Lender may, at its sole option, by written notice to the Borrower declare the entire unpaid Principal Balance of and accrued interest on the Note to be immediately due and payable, without presentment, demand, protest or further notice of any kind, all of which are expressly waived by the Borrower. The Lender may also exercise any or all of the rights and remedies (i) provided to the Lender pursuant to the Financing Documents and (ii) available to a secured creditor under the UCC of the applicable jurisdiction, as the same may be amended from time to time, including without limiting the foregoing, the right to take possession of and sell the Collateral. Except as set forth elsewhere in this Section 7, the occurrence of an Event of Default may only be cured by written waiver from the Lender (and not by the passage of time or remedying of the circumstances which led to such Event of Default).

7.3 Power of Attorney. The Borrower hereby makes, constitutes and appoints the Lender its true and lawful attorney-in-fact, in its name place and stead, or otherwise, upon the occurrence of any Event of Default (which has not been waived or cured if permitted under Section 7):

(a) To take all actions and to execute, acknowledge, obtain and deliver any and all writings deemed advisable by the Lender in order to exercise any rights of the Borrower with respect to the Collateral or to receive and enforce any payment or performance due to the Borrower with respect to the Collateral;

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(b) To give any notices, instructions or other communications to any person or entity in connection with the Collateral;

(c) To demand and receive all performance due under or with respect to the Collateral and to take all lawful steps to enforce such performances and except for any claim or cause of action against the Lender, to compromise and settle any claim or cause of action of the Borrower arising from or related to the Collateral and give acquittances and other discharges relating thereto; and

(d) To file any claim or proceeding or to take any other action, in the name of the Borrower, Lender or otherwise, to enforce performances due under or related to the Collateral and to protect and preserve the right, title and interest of the Lender thereunder.

The foregoing power of attorney is a power coupled with an interest and shall be irrevocable so long as any portion of the obligations of the Borrower hereunder remains contingent, unmatured, unliquidated, unpaid or unperformed. The Lender shall have no obligation to exercise any of the foregoing rights and powers in any event.

SECTION 8. MISCELLANEOUS.

8.1 Non-Recourse Financing. None of the Borrower's lenders, representatives or Affiliates will have any personal liability for the repayment of any portion of the Principal Balance or the fulfillment of any of the Borrower's obligations under this Agreement or any Financing Document. Lender's sole recourse will be to the assets and income of the Borrower.

8.2 Indemnification.

(a) The Borrower agrees to indemnify and hold the Lender (including its Affiliates) harmless from all liabilities, damages, claims, losses, judgments, reasonable costs and expenses, including reasonable attorneys' fees, incurred by Lender arising out of or resulting from

the performance or failure to perform by the Borrower of its obligations and its failure to comply with any applicable Requirements of Law.

(b) The Lender will indemnify and hold harmless the Borrower from all liabilities, damages, claims, losses, judgments, reasonable costs and expenses, including reasonable attorneys' fees, incurred by the Borrower arising out of or resulting from the performance or failure to perform the Lender's obligations, and the Lender's failure to comply with any applicable Requirements of Law.

8.3 Set-off. In addition to any rights and remedies of the Lender provided by law or existing under any instrument, document or agreement relating to the Obligations, if an Event of Default exists, the Lender is authorized at any time and from time to time, without prior notice to the Borrower, Servicer or any other party, any such notice being waived by Borrower, the Servicer and any such other party to the fullest extent permitted by law, to set off and apply any and all monies or deposits at any time held by or for the benefit of, and other indebtedness at any time owing by the Lender to or for the credit or the account of the Borrower against any and all Obligations, now or hereafter existing, irrespective of whether or not the Lender shall have made demand under this Agreement or any Financing Document. The Lender agrees promptly to notify Borrower after any such set-off and application made by the Lender; provided, however, that, the failure to give such notice shall not affect the validity of such set-off and application. The rights of the Lender under this Section 8.3 are in addition to the other rights and remedies (including other rights of set-off) which the Lender may have.

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8.4 Notices. Any notice, demand, request, approval, consent or other communication (collectively "Notice") concerning this Agreement or any matter arising in connection with this Agreement shall be in writing, personally delivered, or sent by telecopier, data transmission, overnight courier or mailed by certified mail, return receipt requested, and shall be deemed to have been duly given upon receipt:

If to the Lender to: PATRIOT CAPITAL MARKETS, LLC
28 Thorndal Circle
Darien, CT 06820
ATTN: Chief Investment Officer

If to the Borrower to: MIDLAND FUNDING NCC-1 CORPORATION
5775 Roscoe Court
San Diego, CA 92123
ATTN: Corporate Secretary

8.5 Transactional Expenses. The Borrower shall pay all Post-Closing Transactional Expenses and all other Obligations (except principal and interest) on or before the thirtieth (30th) day following Borrower's receipt of invoices for the same. All Transactional Expenses and other Obligations which are not so paid shall be capitalized ("Capitalized Transactional Expenses") and shall become part of the Principal Balance on the immediately succeeding Monthly Report Date.

8.6 Relationship Between Parties. The relationship between the Lender and the Borrower shall be solely one of commercial lender and borrower, and nothing contained in this Agreement or in any Financing Document shall constitute the parties as partners or co-venturers with one another.

8.7 Confidentiality.

(a) The Borrower and the Lender agree that the terms of this Agreement, all other Financing Documents, and the Loan made or to be made hereunder are confidential and shall not be disclosed by either party to any other Person without the other party's prior written consent except (a) to each Party's counsel, (b) to each party's Affiliates, investors, prospective investors or lenders (c) as required by law or the rules and regulations of the Securities and Exchange Commission, any applicable stock exchange or trading market, or (d) as specifically contemplated by this Agreement or the other Financing Documents. It is understood that the parties hereto may make customary references to this transaction in their financial statements.

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(b) Notwithstanding anything herein to the contrary, each party hereto may disclose to any and all persons, without limitation of any kind, the tax treatment and tax structure of the transaction contemplated by this Agreement and all materials of any kind (including opinions or other tax analyses) that are provided to such party or such person relating to such tax treatment and tax structure. This authorization is not intended to permit disclosure of any other information including terms or details not relevant to the tax treatment or the tax structure of this transaction or the transactions designated by the Financing Documents.

8.8 Termination. This Agreement shall continue in full force and effect until all Obligations and undertakings of the Borrower hereunder and under any other Financing Document have been fully discharged or performed.

8.9 Amendments. The provisions of this Agreement, and any other Financing Document, may from time to time be amended, modified or waived with the consent of the Borrower and the Lender if such amendment, modification or waiver is in writing and signed by the Lender and the Borrower.

8.10 Waivers. No party shall be deemed to have waived any of its rights or remedies hereunder or under any other Financing Document unless such waiver is in writing and signed by such party and then only to the extent specifically recited. No failure to exercise and no delay or omission in exercising any right, remedy or recourse on the part of either party shall operate or be deemed as a waiver of such right, remedy or recourse hereunder or thereunder or preclude any other or further exercise thereof. A waiver or release on any one occasion shall not be construed as continuing, as a bar to, or as a waiver or release of any subsequent right, remedy or recourse on any subsequent occasion. All rights and remedies of each party, whether pursuant to this Agreement, or any other Financing Document, or any other document or instrument delivered hereunder or thereunder, shall be cumulative and concurrent and may be exercised singly, successively or concurrently at the sole discretion of such party and may be exercised as often as occasion therefor may exist. The rights of each party hereunder or any such document or instrument shall be in addition to all other rights and remedies provided at law or in equity.

8.11 Transferability of Agreement. This Agreement shall be binding upon the Borrower and the Lender and their respective successors and assigns, except that the Borrower may not transfer or assign any or all of its rights or obligations hereunder without the prior written consent of the Lender and any purported assignment without such written consent shall be null and void. The Lender may transfer and assign to any Person (including any Affiliate) any or all of its rights or obligations hereunder and under the other Financing Documents without the prior written consent of the Borrower.

8.12 Replacement Note. Upon the loss, theft, destruction or mutilation of the Note, the Borrower shall execute and deliver in lieu thereof a new Note in the same initial principal amount and with such notations on the schedule attached to such Note as shall evidence all payments in reduction of the Principal Balance prior to the date of delivery of such replacement Note.

8.13 GOVERNING LAW. THIS AGREEMENT SHALL BE GOVERNED BY THE SUBSTANTIVE LAWS OF THE STATE OF NEW YORK WITHOUT APPLICATION OF CONFLICT OF LAW PRINCIPLES (OTHER THAN SECTION 5-1401 OF THE GENERAL OBLIGATIONS LAW OF THE STATE OF NEW YORK).

8.14 Submission to Jurisdiction. The Borrower hereby consents to the jurisdiction of the federal district court located within the County of New York, State of New York, with respect to all actions or proceedings relating to this Agreement, the Note, the other Financing Documents and the Purchased Receivables, and the Borrower waives any objection which it may have based on improper venue or forum non conveniens to the conduct of any proceeding in any such court and waives personal service of any and all process upon it, and consents that all such service of process be made by registered or certified mail or by messenger directed to it at the address of the Borrower set forth in Section 7.3 and that service so made, shall be deemed to be completed upon the earlier of actual receipt and five Business Days after the same shall have been posted to the Borrower's address in accordance herewith. THE PARTIES EACH WAIVE ANY RIGHT TO TRIAL BY JURY. The Borrower agrees that a final judgment in any such action or proceeding shall be conclusive and may be enforced in other jurisdictions by suit on the judgment (if such a procedure is available under applicable law) or in any other manner provided by law. Nothing contained in this section shall affect the right of the Lender to serve legal process in any other manner permitted by law or to bring any action or proceeding in the courts of any jurisdiction against the Borrower or to enforce a judgment obtained in the courts of any other jurisdiction.

8.15 Enforceability of Agreement. Should any one or more of the provisions of this Agreement be determined to be illegal or unenforceable, all other

provisions, nevertheless, shall remain effective and binding on the parties hereto and such provisions shall be deemed revised to the minimum extent necessary to render it enforceable.

8.16 Titles. Titles of the Sections of this Agreement are merely for convenience in reading and shall be deemed not to be a part of this Agreement and shall be ignored in construing any provision hereof.

8.17 Entire Agreement. This Agreement (including all Exhibits hereto), the Financing Documents and the Note shall constitute the full and entire understanding and agreement of the parties hereto and there are no further or other agreements or undertakings, written or oral, in effect between the parties relating to the subject matter hereof unless expressly referred to herein or therein. All prior negotiations, agreements, representations, warranties, statements and undertakings concerning the subject matter hereof between the parties hereto are superseded by this Agreement.

8.18 Execution in Counterparts. This Agreement may be executed in any number of counterparts and in separate counterparts, each of which when so executed and delivered shall be deemed to be an original and all of which taken together shall constitute one and the same instrument.

* * * * *

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IN WITNESS WHEREOF, the Parties have signed this Loan and Security Agreement as of the date set forth in the first paragraph of this Agreement.

LENDER:

PATRIOT CAPITAL MARKETS, LLC

By: /s/ Charles A. Forbes, Jr.
Charles A. Forbes, Jr.
Its: Chief Investment Officer

BORROWER:

MIDLAND FUNDING NCC-1 CORPORATION

By: /s/ Carl C. Gregory, III
Carl C. Gregory, III
Its: President

APPENDIX A

DEFINITIONS

"Account" shall mean each relationship comprising a personal loan, line of credit, lease or other credit transaction established pursuant to an Account Agreement, the Receivables from which are purchased by the Borrower pursuant to a Purchase Agreement.

"Account Agreement" shall mean the retail installment sales contract, lease, credit agreement or other agreement or agreements pursuant to which a Person is obligated to pay for borrowed money or leased property under a credit plan.

"Account Control Agreement" shall mean that account control agreement with respect to the Remittance Account by and among the Lender, the Borrower, the Servicer and the bank named therein, which is in substantially the form attached hereto as Exhibit E.

"Affiliate" means, with respect to any Person, any other Person directly or indirectly controlling (including but not limited to all directors, managers and officers of such Person), controlled by, or under direct or indirect common control with such Person. A Person shall be deemed to control another Person if such Person possesses, directly or indirectly, the power to direct or cause the direction of the management or policies of the other Person,

whether through ownership of voting securities, by contract or otherwise.

"Authorized Officer," with respect to the Borrower, means the Person or other signatory authorized by or pursuant to the Borrower's Bylaws.

"Available Funds" shall have the meaning specified in Section 2.2.

"Borrower" shall have the meaning specified in the preamble to this Agreement.

"Borrowing Rate" shall mean, as to any Monthly Report Date, a per annum rate equal to 15.00%.

"Business Day" shall mean any day other than a Saturday, Sunday or any other day on which banks are required or authorized to be closed in New York, New York.

"Capitalized Transactional Expenses" shall have the meaning specified in Section 8.5 of this Agreement.

"Code" shall mean the Internal Revenue Code of 1986, as amended from time to time, or any successor statute, and the regulations promulgated and the rulings issued thereunder.

"Collateral" shall mean all of the Property and interests in Property described in Section 6.1 of this Agreement, and all other Property and interests in Property that now or hereafter secure the payment and performance of any of the Obligations.

"Collections" shall have the meaning specified in Article I of the Servicing Agreement.

"Default" shall mean an event or condition which, with the passage of time or the giving of notice or both, would constitute an Event of Default.

"ERISA" shall mean the Employee Retirement Income Security Act of 1974, as amended from time to time, or any successor statute, and the regulations promulgated and the rulings issued thereunder.

"ERISA Affiliate" shall mean any trade or business (whether or not incorporated) which, together with the Borrower, is treated as a single employer under Title IV of ERISA or Section 414 of the Code.

"Event of Default" shall have the meaning specified in Section 7.1 of the Agreement.

"FDCPA" shall mean the Fair Debt Collection Practices Act of 1977, as amended.

"Financing Documents" means the Agreement, the Servicing Agreement, the Account Control Agreement and any related agreement or document contemplated thereunder.

"GAAP" shall mean accounting principles generally accepted in the United States of America, as in effect from time to time.

"General Intangibles" shall have the meaning it is given under the UCC as in effect in the State of New York.

"Indebtedness" shall mean, with respect to any Person, any amount payable by such Person pursuant to an agreement or instrument involving or evidencing money borrowed or received, the advance of credit, a conditional sale or a transfer with recourse or with an obligation to repurchase (other than customary "putback" rights given in connection with a sale of Accounts), or pursuant to a lease with substantially the same economic effect as any such agreement or instrument, to which such Person is a party as debtor, borrower or guarantor, all obligations of such Person to purchase securities (or other property) which arise out of or in connection with the sale of the same or substantially similar securities or property and all non-contingent obligations of such Person to reimburse any bank or other Person in respect of amounts paid under a letter of credit or similar instrument.

"Initial Transactional Expenses" shall mean all out-of-pocket costs and expenses incurred by the Lender (including attorneys' fees and expenses) in connection with the consummation of the transactions contemplated by the Financing Documents.

"Lender" shall mean Patriot Capital Markets, LLC, a Delaware limited liability company.

"Loan" shall have the meaning specified in the Recitals to this Agreement.

"Loan Amount" shall have the meaning specified in Section 1.1 of the Agreement.

"Maturity Date" shall mean the Monthly Report Date occurring in October, 2005.

"Monthly Reconciliation Report" shall have the meaning specified in Article I of the Servicing Agreement.

"Monthly Report Date" shall have the meaning specified in Article I of the Servicing Agreement.

"Multiemployer Plan" shall mean a "multiemployer plan" as defined in Section 4001(a) (3) of ERISA.

"Note" shall mean the secured promissory note executed by the Borrower evidencing the Principal Balance, in substantially the form of Exhibit A to the Agreement.

"Obligations" means all present and future liabilities, obligations and indebtedness of the Borrower owing to the Lender under or in connection with this Agreement, including amounts owed in respect of the Principal Balance, Unpaid Interest, Transactional Expenses, and indemnities.

"Obligor" shall mean the customer, obligor, maker, borrower or other party primarily obligated to pay an Account.

"Opinion of Counsel" shall mean a written opinion of counsel and who, in the case of opinions delivered to the Lender, shall be reasonably satisfactory to the Lender.

"Permitted Liens" shall mean, with respect to the Purchased Receivables, (i) inchoate liens in respect of taxes not due and payable, and (iii) security interests created pursuant to the Financing Documents.

"Person" shall mean any legal person, including any individual, corporation, partnership, joint venture, association, joint-stock company, trust, unincorporated organization, governmental entity or other entity of similar nature.

"Plan" shall mean any employee benefit plan, other than a Multiemployer Plan, which is subject to Title IV of ERISA or subject to the minimum funding standards under Section 412 of the Code or Section 302 of ERISA, and either (i) is maintained for employees of the Borrower or any ERISA Affiliate or in which any such employees participate or to which contributions are made by the Borrower or any ERISA Affiliate, or (ii) has at any time within the preceding five years been maintained for employees of the Borrower or any ERISA Affiliate or any Person which was at such time an ERISA Affiliate or in which any such employees participated at such time, or (iii) with respect to which the Borrower or any ERISA Affiliate could be subjected to any liability under Title IV of ERISA (including without limitation Section 4069 of ERISA) in the event that such plan has been or were to be terminated.

"Post-Closing Transactional Expenses" shall mean all out-of-pocket costs and expenses incurred by the Lender in connection with the interpretation, enforcement, exercise of rights or amendment (in each case, whether or not definitive action is taken) of the Financing Documents.

"Principal Balance" shall mean, on any Business Day (i) the sum of (a) the Loan Amount as of the Closing Date, (b) the aggregate amount of Unpaid Interest on all previous Monthly Report Dates, and (c) all Post-Closing Transactional Expenses which have become Capitalized Transactional Expenses on any Monthly Report Date on or before such Business Day, minus (ii) amounts paid to the Lender in reduction of the Principal Balance pursuant to clause fourth of Section 2.2 of the Agreement.

"Property" shall mean any interest in any kind of property or asset, whether real, personal or mixed, or tangible or intangible.

"Purchase Agreements" shall have the meaning specified in the Recitals to this Agreement.

"Purchased Receivables" shall have the meaning specified in the Recitals to this Agreement.

"Receivable" shall mean any outstanding indebtedness of an

Obligor under an Account Agreement (including any unpaid finance charges and other charges relating thereto) arising from a loan for borrowed money or a lease for leased property, including any deficiency balance remaining after the application of sale proceeds from any property securing such property.

"Related Property" shall mean all rights, title and interest of the Borrower under and in the Servicing Agreement and the Purchase Agreements, including the ownership interests of the Borrower in Purchased Receivables acquired thereunder.

"Remittance Account" shall mean the account established by the Servicer in accordance with Section 2.9 of the Servicing Agreement.

"Remittance Date" shall have the meaning specified in Article I of the Servicing Agreement.

"Remittance Period" shall have the meaning specified in Article I of the Servicing Agreement.

"Requirement of Law" shall mean, as to any Person, any law, treaty, rule or regulation, determination or order of any arbitrator or a court or other governmental authority, judgment, decree, franchise or permit in each case applicable to or binding upon such Person or any of its property or to which such Person or any of its property is subject.

"Sellers" shall have the meaning specified in the Recitals to this Agreement.

"Servicer" shall mean Midland Credit Management, Inc., a Kansas corporation.

"Servicing Agreement" shall mean the Servicing Agreement among the Borrower, the Servicer and the Lender, dated as of July 25, 2003, relating to the servicing of the Purchased Receivables.

"Servicing Fee" shall mean the Servicing Fee received by the Servicer in accordance with Section 3.1 of the Servicing Agreement.

"Target Principal Balance" shall mean, with respect to any Monthly Report Date, the dollar amount corresponding to such Monthly Report Date as set forth on Exhibit D of this Agreement.

"Termination Event" shall have the meaning specified in Section 1.1 of the Servicing Agreement.

"Transactional Expenses" shall mean the Initial Transactional Expenses and the Post-Closing Transactional Expenses.

"UCC" shall mean the Uniform Commercial Code as in effect in a jurisdiction at any time.

"Unpaid Interest" shall mean, on a Monthly Report Date, the amount, if any, by which the amount owing pursuant to clause second of Section 2.2 of the Agreement exceeds the amount of Available Funds in respect of such Monthly Report Date applied in payment of such owing amounts.

[EXECUTION COPY]

SERVICING AGREEMENT

by and among

MIDLAND FUNDING NCC-1 CORPORATION,

as Borrower,

MIDLAND CREDIT MANAGEMENT, INC.,

as Servicer,

and

PATRIOT CAPITAL MARKETS, LLC

as Lender

Dated as of July 25, 2003

CONFIDENTIAL

[***] Omitted pursuant to a request for confidential treatment. The omitted material has been filed separately with the Securities and Exchange Commission.

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SERVICING AGREEMENT

This **SERVICING AGREEMENT** (this "Agreement") is made as of July 25, 2003, by and among **MIDLAND FUNDING NCC-1 CORPORATION**, a Delaware corporation (the "Borrower"), **MIDLAND CREDIT MANAGEMENT, INC.**, a Kansas corporation (the "Servicer") and **PATRIOT CAPITAL MARKETS, LLC**, a Delaware limited liability company (the "Lender").

WHEREAS, the Borrower has purchased a pool or pools (each, a "Portfolio") which assets include delinquent or deficiency consumer obligations other than charged off credit card accounts.

WHEREAS, the Borrower and the Lender are parties to a Loan and Security Agreement of even date herewith, as the same may be amended or supplemented from time to time (the "Loan Agreement") pursuant to which the Lender has made a Loan secured by such Portfolios.

WHEREAS, the Servicer and the Lender desire that the Servicer manage and service collection of such assets so purchased by the Borrower and financed by the Lender, the Borrower and the Servicer is desirous of providing such services.

NOW THEREFORE, in consideration of the premises and the mutual covenants and agreements hereinafter set forth, the Lender, the Borrower and the Servicer (sometimes singularly referred to as a "Party" and collectively referred to as the "Parties") hereby agree as follows:

ARTICLE I
DEFINITIONS

Section 1.1 Defined Terms. For all purposes of this Agreement, except as otherwise expressly provided or unless the context otherwise requires:

- (a) the terms defined in the preamble hereto have the meanings therein assigned to them;
- (b) the terms defined in this Article have the meanings assigned to them in this Article, and include the plural as well as the singular;
- (c) all accounting terms not otherwise defined herein have the meanings assigned to them in accordance with GAAP;
- (d) all accounting terms, unless otherwise specified, shall be deemed to refer to Persons and their subsidiaries on a consolidated basis in accordance with GAAP;
- (e) "including" shall mean including but not limited to; "from", when used with respect to a period of time, shall mean from and including; and "to", when used with respect to a period of time, shall mean to and including; and

(f) if any action or event is to occur on a day that is not a Business Day, then such action or event shall occur on the first Business Day occurring thereafter.

"ACCOUNT" means an obligation of an Obligor to pay money, whether under an open account balance,

consumer loan, installment sales or payment agreement, deficiency balance, deferred payment contract or any other arrangement whatsoever, as set forth and described in a Purchase Agreement, and all unpaid balances due from the Obligors with respect to such obligations, together with all documents evidencing such Obligors' agreement to make payment of such unpaid balances, including without limitation each loan application or agreement, and each promissory note, loan agreement, receivable, chattel paper, payment agreement, contract, installment sales agreement or other obligation or promise to pay of an Obligor, all as described and referred to in a Purchase Agreement.

"AFFILIATED PARTY" means a Person which is related to, affiliated with or controlled by, or under common control with, or common ownership of, the Borrower, the Servicer or Encore Capital Group.

"ASSET" means each Account and any property or other right obtained by the Borrower in connection with collection of any such Account or in substitution therefor, all of which constitute a part of the Portfolio into which such Account was initially delivered.

"ASSET DOCUMENTS" has the meaning set forth in Section 2.2.

"BANKRUPT ACCOUNT" means any Account the Obligor of which is subject to (i) a petition filed under the United States Bankruptcy Code by or against such Obligor, (ii) a decree or order for relief in a bankruptcy, insolvency, readjustment of debt or similar proceeding enforced by a court of supervising authority having jurisdiction in respect of such Obligor, or (iii) the appointment of a trustee in bankruptcy, conservator or receiver for such Obligor in any bankruptcy, insolvency, readjustment of debt or similar proceeding.

"BULK TRANSFER" has the meaning set forth in Section 2.7.

"BUSINESS DAY" means any day other than (a) a Saturday or Sunday and (b) a day on which banking institutions in the states of California or New York are authorized or obligated by law, executive order or governmental decree to be closed.

"CLOSING DATE" means July 25, 2003.

"COLLATERAL" has the meaning specified in the Loan Agreement.

"COLLECTIONS" means any and all monies, payments, revenues, income, receipts, collections, recoveries and other proceeds or assets, representing collected available funds, net of checks returned for insufficient funds, received or otherwise recovered on or with respect to Assets (net of Permitted Third-Party Costs and Permitted Third-Party Fees retained by Permitted Third Parties out of collections received by such Permitted Third Parties) including (a) payments of principal, interest, fees, late charges, insufficient funds charges, guaranty payments and any interest thereon, credit insurance payments and other cash receipts on account of any Asset, (b) interest on the Remittance Account or any other account created in connection herewith, (c) court-awarded legal fees and expenses, court-awarded reimbursement of fees, costs and expenses, (d) legal fees, credit insurance costs, guaranty fees and other amounts recovered on account of any Asset, to the extent the obligation giving rise thereto has previously been paid or is otherwise not due and payable with any such receipts, (e) settlements, compromises, liquidations, foreclosure proceeds, dispositions, sales, transfers or other proceeds, whether cash or otherwise, received as a result of or in any way in connection with collection activities related to any Asset or in connection with the sale, transfer or disposition of any Asset, (f) payments, fees, rebates, refunds, commissions, kickbacks, rakeoffs, discounts, deductions, whether cash or otherwise, received by Borrower, or any Affiliated Party, as a result of or in any way in connection with collection activities related to any Asset or in connection with the sale, disposition or transfer of any Asset, and (g) proceeds from the sale of Accounts pursuant to Section 2.7.

"DEFAULT" means an event that, with giving of notice or passage of the grace period (if any) or both, would constitute an Event of Default.

"ELIGIBLE ACCOUNT" means a segregated account, which may be an account (i) maintained with a depository institution or trust company whose long term unsecured debt obligations are rated at least BBB+ by Standard & Poor's Ratings Services and Baal by Moody's Investors Service, Inc.; provided that if only one such rating agency rates such institution, such single rating shall suffice), or (ii) a segregated account maintained with a federally or state chartered depository institution subject to regulations regarding fiduciary funds on deposit substantially similar to 12 C.F.R. § 9.10(b).

"ENCORE CAPITAL GROUP" means Encore Capital Group, Inc., a Delaware corporation, which is the parent corporation of the Borrower and the Servicer and which is a publicly traded company.

"ERISA" means the Employee Retirement Income Security Act of 1974, as amended.

"EVENT OF DEFAULT" has the meaning specified in Section 7.1 of the Loan Agreement.

"GAAP" means accounting principles generally accepted in the United States of America.

"INITIAL TRANSACTIONAL EXPENSES" has the meaning specified in Appendix A of the Loan Agreement.

"LEGAL OUTSOURCING MANAGEMENT FEE" has the meaning specified in Section 3.1.

"LOAN" means the loan made by the Lender to the Borrower pursuant to the Loan Agreement.

"LOAN DOCUMENTS" means this Agreement, the Loan Agreement, the Account Control Agreement and any related agreement or document contemplated thereunder.

"MIDLAND CREDIT" means Midland Credit Management, Inc., a Kansas corporation.

"MONTHLY RECONCILIATION REPORT" means, as to any Monthly Report Date, a report delivered to the Lender on such date substantially in the form of Exhibit C hereto, setting forth as of the end of immediately preceding month all Collections received, all Servicing Fees, Legal Outsourcing Management Fees, Permitted Third-Party Costs and Permitted Third-Party Fees netted from Collections, interest and principal calculations with respect to the Loan, and other relevant information to determine the use and application of Collections during such month.

"MONTHLY REPORT DATE" means the date on which the Monthly Reconciliation Report is required to be delivered by the Servicer to the Lender, which date shall be the fifteenth (15th) day of each month, or, if such fifteenth (15th) day is not a Business Day, the next succeeding Business Day.

"NAN" or "National Attorney Network" means the National Attorney Network, a division of TSYS Total Debt Management, Inc.

"NET NEGATIVE PERMITTED THIRD-PARTY COSTS" means the amount of Permitted Third-Party Costs expended with respect to the Assets which have been paid from sources other than collections arising from the Assets.

"NOTE" means the promissory note, dated as of the Closing Date, substantially in the form of Exhibit A to the Loan Agreement, issued by the Borrower to the order of the Lender.

"OBLIGOR" means the customer, obligor, maker, borrower or other party primarily obligated to pay an Account.

"PERMITTED THIRD PARTY" means (i) any member of the National Attorney Network, (ii) Automated Collections Control, Inc. d/b/a YouveGotClaims.com and each collections attorney or agency engaged in connection with the use thereof, (iii) [***] with respect to its balance transfer program, and (iv) any other Person reasonably acceptable to the Lender selected by Servicer to assist in the collection process.

"PERMITTED THIRD-PARTY COSTS" means all out-of-pocket costs and expenses incurred by a Permitted Third Party retained or otherwise engaged by the Servicer in connection with collection actions or proceedings related to the enforcement or collection of any Account, which may be retained by such Permitted Third Party solely out of collections collected by such Permitted Third Party.

"PERMITTED THIRD-PARTY FEES" means the amount of any fees or compensation paid or owed to a Permitted Third Party retained or otherwise engaged by the Servicer under fee or compensation arrangements that are contingent upon, and determined by reference to, the amounts (net of related Permitted Third-Party Costs) recovered by such Permitted Third Party in respect of the related Accounts.

[***] Omitted pursuant to a request for confidential treatment. The omitted material has been filed separately with the Securities and Exchange Commission.

"PERSON" means any individual, corporation, partnership, limited liability company, joint venture, association, joint-stock company, trust, unincorporated organization or government or any agency or political subdivision thereof.

"PLAN" means an employee benefit plan or other plan maintained for employees and covered by Title IV of ERISA.

"PORTFOLIO" means all Accounts and other Assets purchased from a Portfolio Seller, together with (a) each and every Asset obtained in replacement or satisfaction of or substitution for, any such Account so purchased, (b) each and every item of property obtained by the Borrower as a result of its collection activities with respect to any such Account, including Re-Write Notes, (c) each and every item of collateral or security, including all security interests, liens, guarantees and other interests securing payment of any Account, and all other rights and interests of the Borrower with respect to each Account, (d) each judgment rendered against an Obligor in respect of an Account, together with all lien rights related thereto, (e) Collections derived from or paid or payable with respect thereto, together with any and all earnings thereon, and (f) each and every other right, claim and interest associated therewith.

"PORTFOLIO SELLER" means the party that sold or has agreed to sell a specified Portfolio to the Borrower pursuant to the terms and conditions of a Purchase Agreement.

"POST-CLOSING TRANSACTIONAL EXPENSES" shall mean all reasonable out-of-pocket costs and expenses incurred by the Lender in connection with the interpretation, enforcement, exercise of rights or amendment (in each case, whether or not definitive action is taken) of the Loan Documents.

"PURCHASE AGREEMENT" means the asset or account purchase and sale agreement by and between the Borrower and a Portfolio Seller pursuant to which such Portfolio Seller agrees to sell (i) a specified Portfolio to the Borrower for a specified purchase price, or (ii) a number of Portfolios to the Borrower pursuant to a Forward Flow Purchase Agreement.

"REMITTANCE ACCOUNT" has the meaning set forth in Section 2.9.

"REMITTANCE DATE" means each Friday commencing on August 1, 2003 until all amounts due and payable under the Loan Agreement have been satisfied.

"REMITTANCE PERIOD" means, with respect to each Remittance Date, the period of time commencing with the Friday occurring two (2) weeks prior to the applicable Remittance Date and ending on the Thursday first occurring after such Friday; provided, however, that the initial Remittance Period shall mean the period of time commencing with July 1, 2003 and ending on July 24, 2003.

"REMITTANCE REPORT" means, with respect to a Remittance Period, a report substantially in the form of Exhibit B hereto, setting forth the Collections, Servicing Fees, Legal Outsourcing Management Fees, outstanding balance of the Loan, Permitted Third-Party Costs and Permitted Third-Party Fees netted from Collections by Permitted Third Parties, Net Negative Permitted Third-Party Costs, and other relevant information to determine the use and application of Collections during such Remittance Period.

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"REMITTANCE REPORT DATE" means, with respect to a Remittance Date, the second Business Day immediately preceding such Remittance Date.

"REPORTABLE EVENT" has the meaning assigned to that term in Title IV of ERISA.

"RE-WRITE NOTE" means a promissory note issued by an Obligor in favor of the Borrower in replacement or settlement of the Account of such Obligor.

"SERVICER" initially means Midland Credit, and, if thereafter replaced, means any replacement servicer or any permitted successor or assign thereof.

"SERVICER'S COLLECTION ACCOUNT" means account [***] maintained by the Servicer with Wells Fargo Bank, National Association, or such other collection account as may be approved in writing from time to time by the Lender, which account the Servicer shall use solely for receipt of collections.

"SERVICING FEE" means the fee payable to the Servicer for services rendered during the related Collection Period, computed in accordance with Exhibit A hereto; provided, however, that the Servicing Fee shall not be payable with respect to any Collections to the extent that they are a result of repurchase of Assets by a Portfolio Seller.

"SUBSIDIARY" means, with respect to any Person, (i) any corporation of which more than 50% of the outstanding shares of capital stock having general voting power under ordinary circumstances to elect a majority of the board of directors of such corporation, irrespective of whether or not at the time stock of any other class or classes has or might have voting power by reason of the happening of any contingency, is at the time directly or indirectly owned by such Person, by such Person and one or more other Subsidiaries, or by one or more other Subsidiaries, (ii) any partnership of which 50% or more of the partnership interests therein are directly or indirectly owned by such Person, by such Person and one or more other Subsidiaries, or by one or more other Subsidiaries, and (iii) any limited liability company or other form of business organization the effective control of which is held by such Person, such Person and one or more other Subsidiaries, or by one or more other Subsidiaries.

"TERMINATION EVENT" has the meaning set forth in Section 6.1.

"UCC" means the Uniform Commercial Code as in effect from time to time in New York or in any state whose laws are held to govern the creation, perfection or foreclosure of any security interest granted pursuant to the Loan Agreement.

"YGC" means Automated Collections Control, Inc. d/b/a YouveGotClaims.com and collections attorneys and agencies engaged in connection with the use thereof.

ARTICLE II SERVICING

Section 2.1 Appointment of the Servicer as Servicer. The Servicer shall collect, administer and service all Accounts and other Assets from time to time constituting a part of any Portfolio financed in whole or in part by the Lender in accordance with this Agreement and shall have full power and authority, to the extent not limited hereunder, to do or cause to be done any and all things in connection with such servicing, administration and collection. In the performance of its duties and responsibilities under this Agreement, the Servicer may engage Permitted Third Parties to commence collection actions, foreclosure proceedings and/or the like; provided, however, that each Permitted Third Party shall be engaged on a contingency fee basis and all Permitted Third-Party Costs and Permitted Third-Party Fees shall be payable only by such Permitted Third Party retaining such Permitted Third-Party Costs and Permitted Third-Party Fees from collections collected by such Permitted Third Party. The Servicer acknowledges that the Borrower has assigned to the Lender for security all of the Borrower's rights under this Agreement.

[***] Omitted pursuant to a request for confidential treatment. The omitted material has been filed separately with the Securities and Exchange Commission.

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Section 2.2 Documents Evidencing Assets. To the extent delivered to the Borrower by a Portfolio Seller, the Borrower will deposit with the Servicer copies of each document evidencing or relating to an Account or other Asset to be serviced by the Servicer, together with such other documents available to the Borrower as the Servicer may reasonably require in order to perform its duties under this Agreement. In addition, the Servicer shall (i) maintain and retain physical possession of good and legible copies of all other instruments or documents, including original Re-Write Notes to the extent permitted under this Agreement, executed by an Obligor and/or the Servicer to modify, supplement, compromise, settle, restructure or otherwise modify the terms or conditions of any Account during the term that the Servicer is servicing the Accounts, and (ii) maintain and retain originals or copies, as appropriate, of all instruments and documents generated by or coming into the possession of the Servicer (including current and historical computerized data files, whether developed or originated by the Servicer or others) that are reasonably required to evidence, document, collect or service any Asset. All documents described in this Section 2.2 are referred to collectively herein as the "Asset Documents". All Asset Documents shall remain the property of the Borrower, subject to the security interest of the Lender, and shall be kept by the Servicer at the address set forth in Section 7.2 and shall not, without the prior written consent of the Lender, be moved therefrom.

Section 2.3 Duties of Servicer. Without limiting the generality of Section 2.1, the Servicer shall undertake commercially reasonable efforts to collect or otherwise realize upon each Asset comprising a part of a Portfolio being serviced hereunder, including, without limitation, commencing (i) collection actions, (ii) foreclosure proceedings and repossession activities, if applicable, and (iii) other customary collection practices. In that connection, the Servicer shall be solely responsible for the retention and compensation of attorneys (other than Permitted Third Parties) engaged for purposes of pursuing collection litigation against Obligors, collection and posting of all payments, responding to inquiries of Obligors of Accounts, investigating delinquencies, sending statements to Obligors, reporting any required tax information to Obligors, reporting any required credit information on Obligors to the credit bureaus, accounting for Collections collected on account of any Asset, monitoring the status of any guaranties or insurance policies relating to any Asset, commencing and pursuing collection actions, entering into agreements for the settlement, compromise or satisfaction of Assets and such other practices and procedures as are generally employed in collecting similar accounts, loan portfolios and other receivables. To the extent that the Servicer, in the performance of its duties and responsibilities under this Agreement, engages Permitted Third Parties or other attorneys for purposes of pursuing collection litigation or other purposes, the Servicer shall also have sole responsibility for monitoring the activities and actions of such Permitted Third Parties and such other attorneys and shall use reasonable efforts to require, by enforcement of the applicable contract of placement or engagement, that such activities and actions are in compliance with provisions of this Agreement.

Section 2.4 Servicing Standards; Subservicing.

(a) The Servicer agrees that it shall service, administer, collect, market and sell the Assets in a commercially reasonable manner.

(b) In addition to Permitted Third Parties, the Servicer, with the prior approval of the Lender, which approval shall not be unreasonably withheld, delayed or conditioned, may appoint one or more subservicers to perform the Servicer's duties hereunder. No appointment of any subservicer or engagement of any attorney for collection litigation or other purposes by the Servicer shall relieve the Servicer of any of its duties or responsibilities under this Agreement, including without limitation, its servicing responsibilities hereunder and its reporting responsibilities hereunder. The Servicer shall not be entitled to payment of any Servicing Fee on account of the Assets subject to a subservicing agreement, but the amount of such subservicing fees payable under such subservicing agreement shall be payable from Collections from such Assets serviced by such subservicer in lieu of the Servicing Fee which would otherwise be payable to the Servicer with respect to such Assets.

Section 2.5 Power and Authority. The Servicer is hereby granted the full power and authority to conduct its servicing, administration and collection activities for and on behalf of the Borrower and the Lender as contemplated herein and, without limiting the generality of the foregoing, is authorized and empowered to (a) make all communications with Obligors under Accounts in the Borrower's name and (b) execute and deliver, on behalf of the Borrower, any and all instruments of amendment, modification, satisfaction, cancellation, sale, transfer, release, discharge and all other comparable instruments with respect to any such Asset; provided, however, that the authority granted above shall not be exercised by the Servicer unless consistent with Section 2.6 and Section 2.7 hereof. To the extent permitted by applicable law, the Servicer is hereby authorized to commence, in the name of the Borrower, legal proceedings to collect Accounts and to commence or participate in any other legal proceeding otherwise relating to or involving an Account or any other Asset. If the Servicer commences or participates in any such legal proceedings, the Servicer is authorized and empowered to execute and deliver, in the Borrower's name, any notices, demands, claims, complaints, responses, affidavits or other documents or instruments in connection with any such proceeding. Upon request, the Borrower shall furnish the Servicer with any powers of attorney or other documents which the Servicer may reasonably request and which the Borrower may reasonably approve in order to take such steps as the Servicer deems necessary, appropriate or expedient to carry out its servicing, administration and collection activities under this agreement.

Section 2.6 Settlement Authority and Re-Write Notes. The Servicer shall have authority to compromise, settle or cooperate with the Borrower in selling any Account or other Asset. In furtherance of the Servicer's collection of Accounts, the Servicer may accept, on behalf of the Borrower and subject to the Lender's security interest, a promissory note issued by an Obligor in favor of the Borrower in replacement or settlement of an Account (a "Re-Write Note"). Each Re-Write Note shall be in compliance with all applicable laws and, upon execution and delivery of such Re-Write Note by the Obligor to the Servicer, the Servicer shall affix thereto a legend clearly stating that all right, title and interest thereto shall be the exclusive property of the Borrower subject to the lien and security interest of the Lender. So long as no Default or Event of Default exists under the Loan Agreement and no Termination Event exists under this Agreement, the Lender shall permit the Servicer, as

agent for the Lender (for the sole purpose of perfecting the Lender's security interest in Re-Write Notes) to retain possession of Re-Write Notes. The Servicer hereby acknowledges and agrees that it shall retain possession (in the same manner as, and consistent with, Section 2.2 hereof) of the Re-Write Notes as agent for the Lender for the purpose of perfecting the Lender's security interest in the Re-Write Notes. Upon the occurrence of a Default or an Event of Default under the Loan Agreement or upon the occurrence of a Termination Event, upon written request of the Lender, the Servicer shall immediately deliver all Re-Write Notes to the Lender. If after delivery of the Re-Write Notes to the Lender (at a time when the Servicer has not been terminated as servicer for the Assets), the Servicer needs possession of a Re-Write Note for amendment, enforcement or return to the applicable Obligor upon final payment of such Re-Write Note, the Servicer shall provide the Lender with a written request for the applicable Re-Write Note. Upon receipt of such written request from the Servicer, the Lender shall promptly provide to the Servicer the requested Re-Write Note. Unless such Re-Write Note is paid in full or a lesser amount is accepted by the Servicer in its reasonable judgment in full satisfaction of the amount owing under such Re-Write Note, the Servicer shall promptly return such Re-Write Note to the Lender when the Servicer no longer needs possession of such Re-Write Note for amendment or enforcement.

Section 2.7 Account Sales. The Servicer may, and the Borrower may, without the consent of the Lender, sell Bankrupt Accounts to a third party who is not an Affiliated Party in an arm's length transaction. The Servicer may also, without the consent of the Lender, sell, assign or otherwise transfer Accounts from more than one (1) Obligor (a "Bulk Transfer") to a third party who is not an Affiliated Party in an arm's length transaction; provided, that the purchase price percentage is not less than the applicable purchase price percentage paid by Borrower for the receivables being sold, in each case as set forth in the applicable Purchase Agreements. Except as permitted herein, the Servicer may not, without the consent of the Lender, convey, sell, lease or otherwise dispose of the Receivables, or any portion of the Receivables. Any Bulk Transfer of Accounts or any sale of a Bankrupt Account pursuant to this paragraph is sometimes referred to as a "Permitted Sale". Upon deposit into the Remittance Account of the Collections generated from a Permitted Sale, such Permitted Sale shall be free and clear of any lien or security interest of the Lender, and the Lender, upon request of the Borrower, shall execute and deliver to the Servicer UCC releases prepared by the Servicer, in form and content acceptable to the Lender, with respect to the Accounts sold or transferred pursuant to such Permitted Sale. Upon request of the Borrower, the Lender shall provide prior to the closing of a Permitted Sale a "payment letter" in form and content acceptable to the Lender which will provide that, among other things, upon deposit into the Remittance Account of immediately available funds by the date and in the amount specified in such "payment letter", the Lender shall execute and deliver UCC releases prepared by the Servicer, in form and content acceptable to the Lender, with respect to the Accounts sold or transferred pursuant to such Permitted Sale.

Section 2.8 Legal Compliance. The Servicer shall perform all of its obligations under this Agreement in full compliance with all applicable laws, rules and regulations, including laws, rules and regulations governing debt collection practices and procedures. To the extent that the Servicer places Assets for collection with any subservicer or engages any Permitted Third Party or any other attorney to commence collection actions, foreclosure proceedings and/or the like with respect to the Assets, the Servicer shall advise each such subservicer, Permitted Third Party or other attorney of provisions in this Agreement and the Loan Agreement which are relevant to such placement or engagement. The Servicer shall use reasonable efforts to require, by enforcement of the applicable contract of such placement or engagement, each such subservicer and each such Permitted Third Party or other attorney to perform all of its obligations with respect to the Assets in full compliance with the provisions of this Agreement and the Loan Agreement and in full compliance with all applicable laws, rules and regulations, including laws, rules and regulations governing debt collection practices and procedures. The Servicer specifically represents and warrants to the Borrower and the Lender that the Servicer is knowledgeable and experienced in complying with such laws, rules and regulations as they pertain to debt collection practices and procedures.

Section 2.9 Remittance Account.

(a) The Servicer shall cause to be established and, in accordance with the Account Control Agreement, maintained at all times an Eligible Account (the "Remittance Account") on behalf of and in the name of the Borrower. The Borrower shall possess all right, title and interest in all funds on deposit from time to time in the Remittance Account subject to the security interest of the Lender and shall hold all funds therein in trust on behalf of and as fiduciary for the Lender. The Borrower shall have no right of withdrawal from the Remittance Account.

(b) The Servicer shall deposit into the Remittance Account on a daily basis, all Collections posted by it on the prior Business Day, net of (i) all Servicing Fees (or fees payable in lieu thereof to a subservicer pursuant to Section 2.4) and Legal Outsourcing Management Fees earned that are due and payable to the Servicer, and (ii) all Net Negative Permitted Third Party Costs. The Servicer shall use reasonable efforts to require by enforcement of the applicable contract of placement or engagement, all Collections whether received by a subservicer, a Permitted Third Party or any other attorney engaged to commence collection actions, foreclosure procedures and/or the like, to be paid to the Servicer for deposit into the Remittance Account pursuant to the applicable contract of placement or engagement. To the extent that Collections are received (whether by wire transfer, money order or otherwise) in the Servicer's Collection Account and posted, the Servicer shall transfer all Collections (net of the amounts set forth in clauses (i) and (ii) above) on a daily basis from the Servicer's Collection Account to the Remittance Account. Except for the temporary deposit of Collections in the Servicer's Collection Account as provided in the preceding sentence, the Servicer shall not commingle any Collections collected with respect to the Assets with any moneys or other funds which are not Collections. Pending distribution pursuant thereto, all Collections at any time held by the Servicer, any subservicer, any Permitted Third Party or any other attorney

shall be held in trust for the benefit of the Lender. The Servicer acknowledges that the Borrower has granted a security interest to the Lender in all of the Borrower's right, title and interest in and to all Collections, including those from time to time on deposit in the Servicer's Collection Account and those from time to time on deposit in the Remittance Account. The Servicer has not granted, and will not grant, to any Person (i) a security interest in the Servicer's Collection Account or in the Collections at any

(c) time on deposit in the Servicer's Collection Account. or (ii) the right to control in any respect the Servicer's Collection Account or any Collections at any time on deposit therein.

Section 2.10 Distributions from the Remittance Account. All Collections from time to time on deposit in the Remittance Account in accordance with Section 2.9(b) shall be held therein until distribution on the appropriate Remittance Date. Not later than 3:00 p.m. Eastern time on the applicable Remittance Report Date, the Servicer shall deliver to the Lender the Remittance Report for the related Remittance Period. Not later than 3:00 p.m. Eastern time on the applicable Remittance Date, the Servicer shall wire all amounts with respect to the corresponding Remittance Period on deposit in the Remittance Account to a bank account designated by Lender for application on the applicable Monthly Report Date in accordance with Section 2.2 of the Loan Agreement, until such time as all amounts due and payable under the Loan Agreement have been satisfied.

Section 2.11 Accounting for Fees. The Servicer shall provide to the Lender on each Remittance Report Date a detailed accounting of all Servicing Fees and Legal Outsourcing Management Fees actually incurred and paid to the Servicer for the immediately preceding Remittance Period. In the event that the amounts paid exceed or fall short of the Servicing Fees and Legal Outsourcing Management Fees actually due and payable pursuant to the Loan Agreement and/or the Servicing Agreement for such preceding Remittance Period, an appropriate adjustment shall be made in the disbursement from the Remittance Account.

Section 2.12 Insurance. The Servicer shall maintain at all times during the term of this Agreement insurance coverage substantially similar (including amounts of monetary coverage) to the policies set forth in Schedule 5.1(1).

ARTICLE III
SERVICING AND OTHER FEES; REIMBURSEMENT OF EXPENSES

Section 3.1 Servicing Fees; Legal Outsourcing Management Fees.

(a) Except to the extent that the provisions of this Agreement or the Loan Agreement provide that the Servicer is not entitled to a Servicing Fee, the Servicer shall be entitled to a Servicing Fee with respect to Collections, computed in accordance with Exhibit A. Any Servicing Fee shall be payable solely from Collections and shall be without recourse to the Lender.

(b) As compensation for its services in managing the legal placement of accounts through YGC, Servicer shall receive a Legal Outsourcing Management Fee equal to [***] percent (*** %) of gross collections received through the use of YGC, out of which fee Servicer shall be responsible for paying all fees owing to YGC (but not the Permitted Third-Party Costs incurred by, or the Permitted Third-Party Fees payable to, the collections attorneys engaged in connection with the use of YGC).

[***] Omitted pursuant to a request for confidential treatment. The omitted material has been filed separately with the Securities and Exchange Commission.

Section 3.2 Nonreimbursable Expenses of the Servicer. Except for Permitted Third Party Costs and Permitted Third Party Fees retained by Permitted Third Parties from collections received by such Permitted Third Parties and except with respect to a subservicer to the extent contemplated by Section 2.4, the Servicer shall be solely responsible for payment of all costs and expenses incurred in connection with the servicing, administration or collection of Assets. Without limiting the generality of the foregoing, and with the exception of Net Negative Permitted Third Party Costs, it is understood and agreed that the Servicer shall not be entitled to payment or reimbursement for any costs of collecting or realizing upon any Account (including, without limitation, any filing fees, court costs, legal fees or other costs or expenses incurred by the Servicer) or for any overhead expenses of the Servicer, salaries, wages or other compensation of employees of the Servicer or travel and other expenses incurred by any employees of the Servicer. In addition, except for Permitted Third-Party Costs and Permitted Third-Party Fees retained by Permitted Third Parties from collections received by such Permitted Third Parties and except with respect to a subservicer to the extent contemplated by Section 2.4, to the extent the Servicer engages any other party to perform any aspects of its duties under this Agreement, any such fees, charges, costs or expenses therefor shall be paid by the Servicer and shall not be reimbursable from Collections.

ARTICLE IV
ACCOUNTING, STATEMENTS AND REPORTS

Section 4.1 Books and Records.

(a) The Servicer shall keep accurate books and records pertaining to the operations, business and financial condition of the Servicer and to such other matters as the Lender may from time to time reasonably request with respect to the Servicer.

(b) The Servicer shall (i) maintain and retain detailed records with respect to each Asset setting forth the status of such Asset, the amount and application of any funds received on account of such Asset, or other realization upon, such Asset, and (ii) maintain and retain notes related to the servicing, administration and collection efforts and activities with respect to each Asset as are reasonably necessary to continue servicing the Asset. The Servicer shall also make periodic reports in accordance with Section 4.2. To the extent that the Servicer has placed any of the Assets with a subservicer or has engaged a Permitted Third Party or any other attorney to commence collection actions, foreclosure proceedings and/or the like, the Servicer shall use reasonable efforts to require, by enforcement of the applicable contract of placement or engagement, each such subservicer and each such Permitted Third Party and each such other attorney to keep detailed records pertaining to such Assets. Such records may not be destroyed or otherwise disposed of except as provided herein. All records and all Asset Documents, whether or not developed or originated by the Servicer, any such subservicer or any such attorney, shall remain at all times the property of the Borrower, subject to the security interests of the Lender therein. None of the Servicer, any such subservicer, any such Permitted Third Party or any such other attorney shall acquire any property rights with respect to any such books or records or Asset Documents, and none of the Servicer, any such subservicer, any such Permitted Third Party or any such other attorney shall have any right to possession of any of them except pursuant to this Agreement. Upon termination of this Agreement, the Servicer shall immediately deliver, and the Servicer shall use reasonable efforts to require, by enforcement of the applicable contract of placement or engagement, each such subservicer, each such Permitted Third Party and each such other attorney to immediately deliver, all such records and Asset Documents to the Lender or its designee. The Servicer shall bear the entire cost of restoration in the event any such books or records or Asset Documents shall become damaged, lost or destroyed while in the possession of the Servicer, any such subservicer, any such Permitted Third Party or any such other attorney.

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Section 4.2 Periodic Reporting. Until such time as all amounts due and payable under the Loan Agreement have been satisfied, the Servicer shall provide to the Borrower and the Lender the following periodic reports, in form and content acceptable to the Borrower and the Lender:

(a) As soon as available, and in any event within one hundred twenty (120) days after the end of each fiscal year of Encore Capital Group, a copy of the annual audit report of Encore Capital Group and its Subsidiaries, including the Borrower and the Servicer, with the opinion of their respective certified public accountants (which opinion shall not contain any "going concern" qualifications to Encore Capital Group or the Servicer and which shall not contain any other qualification as to the Collateral or as to the ability of the Borrower or the Servicer to perform any of its respective obligations under any Loan Documents to which it is a party), together with the audited financial statements of Encore Capital Group and its Subsidiaries, including the Borrower and the Servicer, which financial statements shall include the consolidated balance sheets and the consolidated statements of operations, shareholder's equity and cash flows as of and for such fiscal year end for Encore Capital Group and its Subsidiaries, all in reasonable detail and stating in comparative form the figures for the previous fiscal year, all prepared in accordance with GAAP, applied on a consistent basis; provided that so long as Encore Capital Group is a reporting company, delivery of the Form 10-K filed by Encore Capital Group with respect to a fiscal year shall satisfy the requirement for the annual audit report and consolidated financial statements under this section).

(b) As soon as available and in any event within sixty (60) days after the end of each of the first three quarters of each fiscal year of Encore Capital Group, a copy of the interim unaudited financial statements of Encore Capital Group and its Subsidiaries, including the Borrower and the Servicer, which financial statements shall include the consolidated balance sheets and the consolidated statements of operations, shareholder's equity and cash flows as of and for the end of such quarter for Encore Capital Group and its Subsidiaries, all in reasonable detail and stating in comparative form the figures for the corresponding date and period in the previous fiscal year, all prepared in accordance with GAAP, applied on a consistent basis (provided that so long as Encore Capital Group is a reporting company, delivery of the Form 10-Q filed by Encore Capital Group with respect to a fiscal quarter shall satisfy the requirement for quarterly consolidated financial statements under this section).

(c) As soon as available and in any event within thirty (30) days after the end of each month, (i) a copy of the monthly unaudited financial statements of Encore Capital Group and its Subsidiaries, including the Borrower and the Servicer, which financial statements shall include the consolidated balance sheets and the consolidated statements of operations, shareholder's equity and cash flows as at the end of such month for Encore Capital Group and its Subsidiaries, all in reasonable detail and stating in comparative form the figures for the corresponding date and period in the previous fiscal year, all (except for the statement of cash flows) prepared in accordance with GAAP, applied on a consistent basis, and (ii) a copy of the monthly unaudited balance sheet of the Borrower at the end of such month, certified by a responsible officer of the Servicer.

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(d) On each Monthly Report Date, beginning August 15, 2003, a Monthly Reconciliation Report.

(e) Not later than 3:00 p.m., Eastern time, two (2) Business Days immediately preceding each Remittance Date, (i) a Remittance Report for the applicable Remittance Period, (ii) a cash receipts report by Asset, and (iii) such other reports as the Lender shall reasonably require regarding the Portfolios or the Collections.

(f) As promptly as practicable (but in any event not later than five (5) Business Days) after the Servicer obtains knowledge of the occurrence of any default by the Servicer in the performance of any of its obligations under this Agreement or under any other Loan Document to which the Servicer is a party, notice of such occurrence, together with a detailed statement by the Servicer of the steps being taken by the Servicer to cure the effect of such event.

(g) As promptly as practicable (but in any event not later than five (5) Business Days) after the Servicer obtains knowledge thereof, notice of any pending or overtly threatened litigation against Encore Capital Group or any of its Subsidiaries (i) which must be reported in a Form 8-K filed by Encore Capital Group or (ii) which, if successful, would likely result in a judgment of \$1,000,000 or more or (iii) which involves the Borrower or any of the Assets (other than routine litigation customary in the collection industry).

(h) Such other information respecting any Portfolio, the Servicer, any Permitted Third Party, any subservicer or any attorney engaged by the Servicer as the Lender may from time to time reasonably request.

The Lender acknowledges that certain information provided to it pursuant to this Agreement, including, pursuant to this Section 4.2, may consist of material nonpublic information regarding Encore Capital Group and its Subsidiaries, and Lender acknowledges and agrees that it is aware (and that any Person to whom any such information may be disclosed as permitted by this Agreement has been, or upon receiving such information will be, advised) of the restrictions imposed by federal and state securities laws on a Person possessing material nonpublic information regarding an issuer of securities. In the event the Servicer is required to provide to the Lender material nonpublic information regarding Encore Capital Group and its Subsidiaries pursuant to this Agreement, including, without limitation, pursuant to this Section 4.2, and to the extent that applicable federal securities laws, rules and regulations require that the Lender execute and deliver a confidentiality agreement in connection with its receipt of such material nonpublic information, upon request of the Servicer, the Lender will execute and deliver a confidentiality agreement reasonably acceptable to Lender which has been prepared by the Servicer and which is consistent with the minimum requirements for confidentiality agreements set forth in such federal securities laws, rules and regulations. Notwithstanding any other provision in this Agreement, this paragraph shall survive and continue to be binding against Lender after any sale, conveyance, assignment or transfer by any such Person of the Note.

Section 4.3 Inspection Rights. At any time and from time to time during regular business hours, the Servicer shall permit, and shall use reasonable efforts to require, by enforcement of the applicable contract of placement or engagement, each subservicer which is servicing any of the Assets to permit, the Borrower, the Lender or their respective agents, representatives or designees, at the sole cost and expense of such requesting party, (a) to examine or make copies of abstracts from all books, records and documents (including, without limitation) computer tapes and disks and constituting Asset Documents or otherwise in any way relating to any Asset or the Servicer's or any subservicer's collection activities with respect thereto, (b) to visit the offices and properties of the Servicer or any subservicer for purposes of examining such materials or the Servicer's or any subservicer's procedures, processes and activities relating to the exercise of its duties hereunder and (c) to discuss matters relating to Assets or the servicing, collection or liquidation thereof or the performance by the Servicer or any subservicer with respect thereto with any officers or employees having knowledge of any such matters. Without limiting the foregoing, at any time and from time to time during regular business hours, the Servicer shall permit, and the Servicer shall use reasonable efforts to require, by enforcement of the applicable contract of placement or engagement, each subservicer to permit, certified public accountants or other auditors designated by the Borrower or the Lender to conduct a review of the Servicer's or any subservicer's books, records and procedures with respect to the servicing, administration, collection and/or disposition of the Assets. In connection with the Lender's exercise of the inspection rights granted to the Lender pursuant to this Section 4.3, the Lender will use reasonable efforts not to interfere with the preparation by employees and agents of Encore Capital Group and its Subsidiaries of financial statements or other reports or filings required by applicable federal securities laws, rules and regulations.

ARTICLE V REPRESENTATIONS, WARRANTIES AND COVENANTS

Section 5.1 Representations and Warranties of the Servicer. The Servicer hereby represents and warrants to the Lender and the Borrower as follows:

(a) The Servicer is a corporation duly organized, validly existing and in good standing under the laws of the jurisdiction of its incorporation, and is duly qualified and licensed to conduct collection activities and is in good standing in each jurisdiction in which such qualification or licensing is necessary as a condition to conducting collection activities with respect to Assets being serviced hereunder and where the failure to obtain such licensing or qualification would have a material adverse effect on the Servicer or its ability to perform its obligations hereunder. The Servicer has all requisite power and authority to own and operate its properties,

carry out its business as presently conducted and as proposed to be conducted and to enter into and discharge its obligations under this Agreement and the other Loan Documents to which it is a party. Within the last five (5) years, the Servicer has done business only under its current name as specified herein. As of the Closing Date, the chief executive office and principal place of business of the Servicer is located at the address set forth in Section 7.2, and all of the Servicer's records relating to its businesses are kept at one or more of the following locations: (i) the location set forth in Section 7.2, (ii) 4302 East Broadway Road, Phoenix, Arizona 85040 or (iii) 12375 Kerran Street, Poway, California 92064. The Servicer will not change its chief executive office or principal place of business without sixty (60) days prior written notice to the Lender.

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(b) The execution and delivery by the Servicer of this Agreement and the other Loan Documents to which it is a party and performance and compliance by the Servicer with the terms of this Agreement and the other Loan Documents to which it is a party have been duly authorized by all necessary action on the part of the Servicer and will not violate the Servicer's organizational documents or constitute a default under any indenture or loan or credit agreement or any other material agreement, lease or instrument to which the Servicer is a party or by which it or its properties may be bound or affected.

(c) This Agreement and the other Loan Documents to which it is a party constitute the valid, legal and binding obligations of the Servicer, enforceable against it in accordance with their respective terms, except as enforcement may be limited by applicable bankruptcy, insolvency, reorganization, moratorium or other similar laws affecting creditors' rights generally and by general principles of equity (whether considered in a proceeding or action in equity or at law).

(d) As of the Closing Date, no litigation is pending or, to the best of the Servicer's knowledge, threatened against the Servicer, the consequences of which would prohibit its entering into this Agreement or that would materially and adversely affect the condition (financial or otherwise) or operations of the Servicer or its properties or the consequences of which would materially and adversely affect its performance hereunder.

(e) The Servicer has heretofore furnished to the Borrower and the Lender consolidated financial statements of Encore Capital Group and its Subsidiaries, including the Servicer, as of May 31, 2003. Those consolidated financial statements fairly present the consolidated financial condition of Encore Capital Group and its Subsidiaries, including the Servicer, on the date thereof and the results of their respective operations for the period ending on May 31, 2003, and, except for the consolidated statement of cash flows, which is presented in an internal company format, were prepared in accordance with GAAP. From May 31, 2003 through the Closing Date, there has been no material adverse change in the business, properties or condition (financial or otherwise) of Encore Capital Group and its Subsidiaries, including the Servicer.

(f) All actions, approvals, consents, waivers, exemptions, variances, franchises, orders, permits, authorizations, rights and licenses required to be taken, given or obtained, as the case may be, by or from any federal, state or other governmental authority or agency, that are necessary or advisable in connection with the execution and delivery by the Servicer of this Agreement and the other Loan Documents to which it is a party have been duly taken, given or obtained, as the case may be, are in full force and effect on the date hereof, are not subject to any pending proceedings or appeals (administrative, judicial or otherwise) and either the time within which any appeal therefrom may be taken or review thereof may be obtained has expired or no review thereof may be obtained or appeal therefrom taken, and are adequate to authorize this Agreement and the other Loan Documents to which it is a party and, as of the Closing Date, the performance by the Servicer of its obligations under this Agreement and the other Loan Documents to which it is a party.

(g) The Servicer has paid or caused to be paid to the proper authorities when due all federal, state and local taxes required to be withheld by it (other than any taxes which are being contested in good faith and by proper proceedings and for which the Servicer shall have set aside on its books adequate reserves). The Servicer has filed all federal, state and local tax returns which to the knowledge of the officers of the Servicer, are required to be filed, and the Servicer has paid or caused to be paid to the respective taxing authorities all taxes as shown on said returns or on any assessment received by it to the extent such taxes have become due (other than any taxes which are being contested in good faith and by proper proceedings and for which the Servicer shall have set aside on its books adequate reserves).

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(h) The Servicer has no ownership interest in the Assets or the Asset Proceeds and the Servicer has not granted, or attempted to grant, to any other Person any security interest in the Assets or the Collections, and no financing statement naming the Servicer as debtor and covering the Assets or the Collections is on file in any office.

(i) As of the Closing Date, the Servicer does not maintain and has not in the past maintained any Plan. The Servicer has not received any notice or has any knowledge to the effect that it is not in full compliance with any of the requirements of ERISA. No Reportable Event or other fact or circumstance which may have an adverse effect on the Plan's tax qualified status exists in connection with any Plan. The Servicer does not have:

- i) any accumulated funding deficiency within the meaning of ERISA; or
- ii) any liability or know of any fact or circumstances which could result in any liability to the Pension Benefit Guaranty Corporation, the Internal Revenue Service, the Department of Labor or any participant in connection with any Plan (other than accrued benefits which are or which may become payable to participants or beneficiaries of any such Plan).

(j) As of the Closing Date, the Servicer is in compliance with all provisions of all agreements, instruments, decrees and orders to which it is a party or by which it or its property is bound or affected, the breach or default of which could have a material adverse effect on the financial condition, properties or operations of the Servicer.

(k) All financial and other information regarding the Servicer or Encore Capital Group and its Subsidiaries provided to the Borrower and/or the Lender by or on behalf of the Servicer in connection with the Borrower's request for the Loan is true and correct in all material respects and, as to projections, valuations or proforma financial statements for the Servicer or Encore Capital Group, or any Portfolio, present a good faith opinion as to such projections, valuations and proforma condition and results. The foregoing information regarding the Servicer or Encore Capital Group and its Subsidiaries provided to the Borrower and/or the Lender by or on behalf of the Servicer contains no omissions which would cause such information to be misleading. All information provided to the Borrower and/or the Lender with respect to the Assets, the Portfolios, the Collections and related matters by or on behalf of the Servicer is, to the knowledge of the Servicer, true and correct in all material respects and, to the knowledge of the Servicer, does not contain any omissions which would cause such information to be misleading.

(l) The attached Schedule 5.1(1) lists and briefly describes each insurance policy maintained for or on behalf of the Servicer with respect to its properties, assets and business. All of such insurance policies are in full force and effect, and no default exists with respect to the obligations of the Servicer under any such insurance policies and the Servicer has not received any notification of cancellation of any of such insurance policies. Except as set forth on Schedule 5.1(1), the Servicer does not have any self-insurance or co-insurance programs.

Section 5.2 Covenants of the Servicer. The Servicer will comply with the following covenants:

(a) The Servicer will pay or discharge, when due, (i) all taxes, assessments and governmental charges levied or imposed upon it or upon its income or profits, upon any properties belonging to it prior to the date on which penalties attach thereto, (ii) all federal, state and local taxes required to be withheld by it, and (iii) all lawful claims for labor, materials and supplies which, if unpaid, would by law become a lien or charge upon any properties of the Servicer; provided, that the Servicer shall not be required to pay any such tax, assessment, charge or claim whose amount, applicability or validity is being contested in good faith by appropriate proceedings.

(b) The Servicer will keep and maintain all of its properties necessary or useful in its business in good condition, repair and working order (normal wear and tear excepted); provided, however, that nothing in this Section 5.2(b) shall prevent the Servicer from discontinuing the operation and maintenance of any of its properties if such discontinuance is, in the reasonable judgment of the Servicer, desirable in the conduct of the Servicer's business and not disadvantageous in any material respect to the Borrower or the Lender.

(c) The Servicer will preserve and maintain its legal existence and all of its rights, privileges and franchises necessary or desirable in the normal conduct of its business and shall conduct its business in an orderly, efficient and regular manner.

(d) The Servicer will conduct all collection activities and all sales, transfers and dispositions relating to the Assets on an arms-length basis and so as to cause all collections and all consideration received upon the sale, transfer or disposition of an Asset to (i) become and constitute Collections, and (ii) be distributed as Collections in accordance with Section 2.10.

(e) The Servicer will not create, or attempt to create, any pledge, lien, security interest, assignment or transfer upon or in any of the Assets or the Collections, or assign or otherwise convey, or attempt to assign or otherwise convey, any right to receive collections or other income with respect thereto, except as contemplated by the Loan Documents.

(f) The Servicer will not sell, lease, assign, transfer or otherwise dispose of all or a substantial part of its assets (whether in one transaction or in a series of transactions) which materially and adversely affects the Assets or the ability of the Servicer to perform its obligations under the Loan Documents to which it is a party.

(g) Except for the right of the Servicer to remit Collections net of certain amounts pursuant to Section 2.9, the Servicer shall not assert any claims or set-off rights against the Collections.

(h) In the fulfillment of Servicer's obligations under this Agreement, Servicer shall not, and no person under its direct control or direction shall, (i) engage in any fraudulent activity or (ii) knowingly engage in any other activity which would constitute a violation of law or other governmental requirement.

(i) Servicer will use reasonable efforts to maintain systems, personnel and facilities, including back-up and disaster recovery capability, that will enable it to perform fully its obligations under this Agreement.

(j) Unless Lender otherwise consents in writing:

i) Servicer shall not resign from the obligations and duties imposed on it by this Agreement as the Servicer.

- ii) Servicer shall not assign this Agreement or any of its rights, powers, duties or obligations hereunder, except as authorized pursuant to this Agreement.
- iii) The duties and obligations of Servicer under this Agreement shall continue until this Agreement expires or shall have been terminated and shall survive the exercise by the Parties of any right or remedy under this Agreement, or the enforcement by the Parties of any provision of this Agreement.
- (k) The Servicer shall not liquidate, dissolve, terminate or suspend its business operations or otherwise fail to operate its business in the ordinary course.
- (l) The Servicer will not consolidate with or merge into any Person, or permit any other Person to merge into it, or acquire (in a transaction analogous in purpose or effect to a consolidation or merger) all or substantially all the assets of any other Person.
- (m) The Servicer will not accept or receive or agree to accept or receive any rebate, refund, commission, fee (other than the Servicing Fee and the Legal Outsourcing Management Fee), kickback or rakeoff, whether cash or otherwise and whether paid by or originating with an Obligor, any subservicer or any other party (including but not limited to brokers and agents), as a result of or in any way in connection with collection activities related to any Asset or in connection with the sale, disposition, transfer or servicing of any Asset.
- (n) Upon termination of this Agreement for any reason, the Servicer shall, in addition to the obligations of the Servicer set forth in Section 6.3 hereof, provide its reasonable cooperation to Lender, Borrower and any successor servicer in the transfer of management responsibilities contemplated by this Agreement.

ARTICLE VI
TERMINATION; TRANSFER OF SERVICING; INDEMNITY

Section 6.1 Termination Events. Any of the following acts or occurrences shall constitute a Termination Event under this Agreement (each, a "Termination Event"):

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- (a) The Servicer shall fail to deposit to the Remittance Account any Collections received by the Servicer as and when required in accordance with this Agreement, or the Servicer shall fail to pay to the Lender any payment in the amount and on the date required to be made in accordance with this Agreement, and any such failure shall continue for more than two (2) Business Days;
- (b) The Servicer shall fail to observe or perform in any respect any covenant or agreement required to be performed thereby under this Agreement or under any other Loan Document to which the Servicer is a party, and the continuance of such default or breach for a period of fifteen (15) calendar days after there has been given to the Servicer a written notice specifying the default or breach and requiring it to be remedied;
- (c) Any representation, warranty or statement of the Servicer made in this Agreement shall prove to have been incorrect in any material respect, or any representation, warranty or statement of the Servicer in any certificate, report or other statement, in writing or orally, delivered to any party hereto shall not satisfy the standard applicable to such representation or warranty as set forth in Section 5.1(k) of this Agreement;
- (d) The Servicer or Encore Capital Group shall be or become insolvent, or admit in writing its inability to pay its debts as they mature, or make a general assignment for the benefit of creditors; or the Servicer or Encore Capital Group shall apply for or consent to the appointment of any receiver, trustee, or similar officer for it or for all or any substantial part of its property; or such receiver, trustee or similar officer shall be appointed without the application or consent of the Servicer or Encore Capital Group and shall not be discharged within sixty (60) days of appointment; or the Servicer or Encore Capital Group shall institute (by petition, application, answer, consent or otherwise) any insolvency, reorganization, arrangement, readjustment of debt, dissolution, liquidation or similar proceeding relating to it under the laws of any jurisdiction; or any such proceeding shall be instituted (by petition, application or otherwise) against the Servicer or Encore Capital Group; or any judgment, writ, warrant of attachment or execution or similar process shall be issued or levied against a substantial part of the property of the Servicer or Encore Capital Group and such shall remain unstayed or undismissed for sixty (60) days;
- (e) A voluntary petition naming the Servicer or Encore Capital Group, as debtor, is filed under the United States Bankruptcy Code, or an involuntary petition naming the Servicer or Encore Capital Group, as debtor, is filed under the United States Bankruptcy Code and such involuntary petition shall remain undismissed for sixty (60) days;
- (f) An Event of Default as specified in the Loan Agreement shall exist and shall not have been remedied to the written satisfaction of the Lender or waived in writing by the Lender;
- (g) A material adverse change shall occur in the financial, business or operational condition of the Servicer or Encore Capital Group as compared to the status of the Servicer or Encore Capital Group as of the date of this Agreement, which material adverse change materially impacts the ability of the Servicer to perform its obligations under any Loan Document to which it is a party;

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(h) Any Reportable Event, which the Lender determines in good faith might constitute grounds for the termination of any Plan or for the appointment by the appropriate United States District Court of a trustee to administer any Plan, shall have occurred and be continuing thirty (30) days after written notice to such effect shall have been given to the Servicer or Encore Capital Group by the Lender; or any Plan shall have been terminated, or a trustee shall have been appointed by an appropriate United States District Court to administer any Plan, or the Pension Benefit Guaranty Corporation shall have instituted proceedings to terminate any Plan or to appoint a trustee to administer any Plan;

(i) The Servicer or Encore Capital Group shall liquidate, dissolve, terminate or suspend its business operations or otherwise fail to operate its business in the ordinary course;

(j) The Servicer or Encore Capital Group shall sell, lease, assign, transfer or otherwise dispose of all or a substantial part of its assets (whether in one transaction or in a series of transactions) which materially and adversely affects the Collateral or the ability of the Servicer to perform its obligations under the Loan Documents to which it is a party;

(k) The Servicer or Encore Capital Group shall fail to pay, withhold, collect or remit any tax or tax deficiency when assessed or due (other than any tax or tax deficiency which is being contested in good faith and by proper proceedings and for which it shall have set aside on its books adequate reserves therefor) or notice of any state or federal tax liens shall be filed or issued (other than with respect to any taxes or tax deficiencies which are being contested in good faith and by proper proceedings and for which it shall have set aside on its books adequate reserves therefor);

(l) A continuing default in the payment of \$100,000 or more under any note, agreement or other evidence of indebtedness or similar obligation of the Servicer (other than a default whose breach is elsewhere in this Section 6.1 specifically dealt with) or under any instrument under which such evidence of indebtedness or similar obligation has been issued or by which it is governed and the expiration of the applicable period of grace, if any, specified in such evidence of indebtedness or other instrument;

(m) The rendering against the Servicer or Encore Capital Group of a final judgment, decree or order for the payment of money in excess of \$1,000,000 (unless the payment of such judgment in excess of \$1,000,000 is fully waived) which materially and adversely affects the ability of the Servicer or Encore Capital Group to perform its obligations under the Loan Documents to which it is a party and such judgment, decree or order remains unsatisfied and unstayed for more than sixty (60) days; or

(n) Any of the following shall occur: (i) entry of a court order which enjoins, restrains or in any way prevents the Servicer or Encore Capital Group from conducting all or any material part of its business affairs in the ordinary course of business, or (ii) withdrawal or suspension of any license required for the conduct of any material part of the business of the Servicer or Encore Capital Group, or (iii) any assets of the Servicer or Encore Capital Group having a fair market value of \$1,000,000 or more in the aggregate are subject to an order or writ granting a motion or action to replevy, sequester, garnish, attach or levy against such assets.

Section 6.2 Termination; Removal of the Servicer. Immediately upon the occurrence of a Termination Event, the Lender, upon written notice to the Servicer and the Borrower, may terminate this Agreement with respect to any or all of the Assets or Portfolios, whereupon the Servicer shall be removed from its duties and obligations as Servicer under this Agreement with respect to such Assets and Portfolios and the Lender shall have the right to appoint one or more replacement servicers to service and collect all such Assets and Portfolios. Selection of one or more replacement servicers and execution of one or more replacement servicing agreements shall be in the sole discretion of the Lender and shall be subject to such terms and conditions, including as to the servicing fee which shall be payable to such one or more replacement servicers, as the Lender shall require in its sole discretion. Each such replacement servicing agreement shall contain a confidentiality provision in substantially the form of Section 7.14 of this Agreement. In addition, upon the occurrence of a Termination Event, the Lender may pursue the Servicer for damages and exercise any other right or remedy against the Servicer as may be available under applicable law as a result of the Servicer's acts or omissions, whether arising under contract law, tort law or otherwise. Without the prior written consent of the Lender, the Servicer may not resign from its obligations under this Agreement, unless it is determined by the Lender and the Servicer that the performance by the Servicer of its obligations under this Agreement is prohibited by applicable law.

Section 6.3 Effect of Termination. Upon termination of this Agreement pursuant to Section 6.2, except for any accrued and unpaid Servicing Fee or Legal Outsourcing Management Fee owing to the Servicer with respect to a Remittance Period ended before the termination of this Agreement or with respect to any Collections collected by Permitted Third Parties who have authority to continue collection services after termination of this Agreement pursuant to the terms of this Section 6.3, the Servicer shall not be entitled to any compensation with respect to any Assets which are no longer being serviced by Servicer after the date of such termination. Upon termination of this Agreement, the Servicer shall promptly deliver, and use reasonable efforts, by enforcement of the applicable contract of placement or engagement, to require each Permitted Third Party and other subservicer to deliver, to the replacement servicer all books and records that the Servicer and/or any Permitted Third Party or any other subservicer has maintained with respect to such Assets, including all Asset Documents then in the possession of the Servicer or any Permitted Third Party or any other subservicer. Any Collections received by the Servicer with respect to an Asset no longer serviced by the Servicer hereunder after removal of such servicing responsibilities shall be remitted by the Servicer directly and immediately to the Remittance Account. The Servicer shall promptly transfer all right, title and interest in the Remittance Account to Lender. The Servicer agrees to cooperate and agrees to use reasonable efforts to require, by enforcement of the applicable contract of placement or engagement, each Permitted Third Party and any other subservicer to cooperate, with any such replacement servicer in effecting the termination of any of the Servicer's servicing responsibilities and rights under this Agreement and shall promptly provide such replacement servicer with all documents and records reasonably requested by it to enable it to assume the functions of the Servicer and shall promptly transfer to the Remittance Account any Collections then on deposit with the Servicer. Notwithstanding the foregoing, in the event of a termination of this Agreement pursuant to Section 6.2, so long as such termination was not as a result of a

Termination Event under Section 6.1(d) or Section 6.1(e) or as a result of any Termination Event arising from an act of fraud or misappropriation of funds on the part of the Servicer, the Lender shall allow Permitted Third Parties to continue to perform collection actions, foreclosure proceedings, repossession activities and other related collection activities with respect to Accounts which were being collected by such Permitted Third Parties at the time of termination of this Agreement (and such Permitted Third Parties may continue to retain Permitted Third-Party Fees and Permitted Third-Party Costs with respect to such Accounts) so long as all Collections generated from such collection activities of such Permitted Third Parties continue to be timely deposited into the Remittance Account as required by the terms of Section 2.9. Upon any removal of the Servicer, the Servicer shall join in, and the Servicer shall use reasonable efforts to require, by enforcement of the applicable contract of placement or engagement, each subservicer to join in, any written notice to affected Obligor of the transfer of the servicing to such replacement servicer.

Section 6.4 Indemnity by the Servicer. The Servicer agrees to indemnify, defend and hold harmless the Borrower and the Lender (each an "Indemnitee") from and against any and all claims, losses, liabilities, damages, penalties, fines, forfeitures, legal and accounting fees and all other fees or costs of any kind, judgments or expenses resulting from or arising out of any claims, actions or proceedings brought against an Indemnitee by any third party as a result of or based upon actions or inactions by the Servicer in the performance of its obligations under this Agreement (unless such action or inaction is not required by this Agreement and was undertaken at the express written direction of such Indemnitee), including any failure by the Servicer, any subservicer or any of their agents, representatives or employees to comply with all applicable debt collection laws, rules and regulations and any other action taken in collection of the Assets. If any investigative, judicial or administrative proceeding arising from any of the foregoing is brought against the Borrower or the Lender, upon request of such party, the Servicer, or counsel designated by the Servicer and reasonably satisfactory to the Indemnitee, will resist and defend such action, suit or proceeding to the extent and in a manner reasonably directed by the Indemnitee, at the Servicer's sole cost and expense. Each Indemnitee will use its best efforts to cooperate in the defense of any such action, suit or proceeding.

ARTICLE VII
MISCELLANEOUS

Section 7.1 Severability Clause. Any part, provision, representation or warranty of this Agreement which is prohibited or which is held to be void or unenforceable shall be ineffective to the extent of such prohibition or unenforceability without invalidating the remaining provisions hereof. Any part, provision, representation or warranty of this Agreement which is prohibited or unenforceable or is held to be void or unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such prohibition or unenforceability without invalidating the remaining provisions hereof, and any such prohibition or unenforceability in any jurisdiction shall not invalidate or render unenforceable such provision in any other jurisdiction. To the extent permitted by applicable law, the parties hereto waive any provision of law which prohibits or renders void or unenforceable any provision hereof. If the invalidity of any part, provision, representation or warranty of this Agreement shall deprive any party of the economic benefit intended to be conferred by this Agreement, the parties shall negotiate in good faith to develop a structure the economic effect of which is as nearly as possible the same as the economic effect of this Agreement without regard to such invalidity.

Section 7.2 Notices. Any notices, consents, directions, demands or other communications given under this Agreement (unless otherwise specified herein) shall be in writing and shall be deemed to have been duly given when delivered in person or by overnight delivery at, or telecopied to, the respective addresses or telecopy numbers, as the case may be, set forth below (or to such other address or telecopy numbers as either party shall give notice to the other party pursuant to this Section 7.2); provided, however, any notice of a Termination Event given by Lender to Servicer shall be delivered either in person or by overnight mail:

If to the Borrower:

Midland Funding NCC-1 Corporation
5775 Roscoe Court
San Diego, California 92123
Attention: General Counsel
Telephone: (858) 309-6964
Telecopy: (858) 309-6977

If to the Servicer:

Midland Credit Management, Inc.
5775 Roscoe Court
San Diego, California 92123
Attention: General Counsel
Telephone: (858) 309-6964
Telecopy: (858) 309-6977

If to the Lender:

Patriot Capital Markets, LLC
28 Thorndal Circle
Darien, CT 06820
Attention: Charles A. Forbes, Jr.
Telephone: (203) 656-3470
Telecopy: (203) 829-4992

Any such demand, notice or communication hereunder shall be deemed to have been duly given when received by the other party or parties at the addresses described above, or such other address as may hereafter be furnished to the other party or parties by like notice and shall be deemed to have been received on the date delivered to or received at the premises of the addresses.

Section 7.3 Costs and Expenses. The Servicer agrees that neither the Borrower nor the Lender shall be liable for any costs, expenses or disbursements which may be incurred or made in connection with servicing of any Portfolios, or any action which may be taken by the Servicer to collect such costs, expenses or disbursements. All legal costs and expenses incurred by the Lender in connection with the preparation, execution and delivery of this Agreement and the other documents to be delivered hereunder, shall be Initial Transactional Expenses. The Servicer shall pay all Post-Closing Transactional Expenses within thirty (30) days following the presentation of invoices for the same.

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Section 7.4 Assignment. The obligations of the Servicer under this Agreement shall not be assigned without the prior written consent of the Lender.

Section 7.5 Counterparts. For the purpose of facilitating the execution of this Agreement and for other purposes, this Agreement may be executed simultaneously in any number of counterparts, each of which shall be deemed to be an original, and together shall constitute and be one and the same instrument.

Section 7.6 Governing Law; Jurisdiction; Waiver of Jury Trial.

(a) Governing Law. This Agreement shall be governed by, and construed in accordance with, the laws of the State of New York.

(b) Jurisdiction. The Servicer and the Borrower hereby irrevocably submit to the non-exclusive jurisdiction of any federal court sitting in New York, New York in any action or proceeding arising out of or relating to this Agreement, and the Servicer and the Borrower hereby irrevocably agree that all claims in respect of such action or proceeding may be heard and determined in such federal court. The Servicer and the Borrower hereby irrevocably waive, to the fullest extent they may effectively do so, the defense of an inconvenient forum to the maintenance of such action or proceeding and irrevocably consent to the service of any summons and complaint and any other process by the mailing of copies of such process to them at the addresses specified in Section 7.2. To the extent permitted by applicable law, and without limiting any right to appeal, the Servicer and the Borrower hereby agree that a final judgment in any such action or proceeding shall be conclusive and may be enforced in other jurisdictions by suit on the judgment or in any other manner provided by law. Nothing in this Section 7.6 shall affect the right of any party to serve legal process in any other manner (or in any other jurisdiction) permitted by law or affect the right of any party to bring any action or proceeding under this Agreement in the courts of other jurisdictions.

(c) WAIVER OF JURY TRIAL. EACH OF THE PARTIES HERETO HEREBY IRREVOCABLY WAIVES ALL RIGHT TO A TRIAL BY JURY IN ANY ACTION, PROCEEDING OR COUNTERCLAIM ARISING OUT OF OR RELATING TO THIS AGREEMENT OR ANY AGREEMENT OR ANY INSTRUMENT OR DOCUMENT DELIVERED THEREUNDER.

Section 7.7 Amendments. This Agreement may be amended from time to time by a written instrument signed by the Servicer, the Borrower and the Lender and no waiver of any of the terms hereof by any party shall be effective unless it is in writing and signed by the other parties.

Section 7.8 Integration. The Servicing Agreement and the Loan Agreement together comprise the final and complete integration of all prior expressions by the parties hereto with respect to the subject matter hereof and shall constitute the entire agreement among the parties hereto with respect to such subject matter, superseding all prior oral or written understandings.

Section 7.9 Agreement Effectiveness. This Agreement shall become effective upon delivery of fully executed counterparts hereof to each of the parties hereto.

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Section 7.10 Headings Descriptive. The headings of the sections and subsections of this Agreement are inserted for convenience only and shall not in any way affect the meaning or construction of any provision of this Agreement.

Section 7.11 Advice from Independent Counsel. The parties hereto understand that this Agreement is a legally binding agreement that may affect such party's rights. Each party hereto represents to the other that it has received legal advice from counsel of its choice regarding the meaning and legal significance of this Agreement and that it is satisfied with its legal counsel and the advice received from it.

Section 7.12 Judicial Interpretation. Should any provision of this Agreement require judicial interpretation, it is agreed that a court interpreting or construing the same shall not apply a presumption that the terms hereof shall be more strictly construed against any person by reason of the rule of construction that a document is to be construed more strictly against the person who itself or through its agent prepared the same, it being agreed that all parties hereto have participated in the preparation of this Agreement.

Section 7.13 Term. This Agreement shall terminate upon the satisfaction of all amounts due and payable under the Loan Agreement, unless earlier terminated pursuant to Article VI.

Section 7.14 Confidentiality.

(a) The Borrower, the Servicer and the Lender agree that the terms of the transaction set forth in this Agreement and the Loan Documents, along with all information regarding the Portfolios in connection with the loan approval process and all confidential, proprietary and non-public information regarding Encore Capital Group, the Servicer, the Borrower and their respective subsidiaries and affiliates and their business operations, procedures, methods and plans (together with all notes, analysis, compilations, studies and other documents, whether prepared by the Borrower, the Lender, Encore Capital Group, the Servicer and their respective subsidiaries and affiliates, or others, which contain or otherwise reflect such information (collectively, the "Confidential Information") shall be considered confidential. Therefore, the Borrower, the Servicer and the Lender agree not to disclose any Confidential Information to any Person, except for affiliates of the Borrower or the Lender, as the case may be, nor provide copies of the Loan Documents, or earlier drafts of such Loan Documents, to any person, except for affiliates of the Borrower or the Lender, provided, however, that the Borrower, the Servicer and the Lender may disclose any such Confidential Information (i) to any party contemplated in this Agreement for purposes contemplated hereunder (including to any permitted assignee of any such parties' rights) provided that such party shall be informed of the confidential nature of the Confidential Information and shall agree to maintain its confidentiality in accordance with this Section 7.14; (ii) to the directors, employees, auditors, current or prospective investors, counsel or affiliates of the Lender, the Servicer or the Borrower, each of whom shall be informed of the confidential nature of the Confidential Information; (iii) as may be required by any municipal, state, federal or other regulatory body having or claiming to have jurisdiction over such party; (iv) in order to comply with any law, order, regulation, regulatory request or ruling applicable to such party; or (v) in the event any such party is legally compelled (by interrogatories, requests for information or copies, subpoena, civil investigative demand or similar process) to disclose any such Confidential Information. This Section 7.14 shall be inoperative as to those portions of the Confidential Information which are or become generally available to the public or to the Lender on a non-confidential basis from a source other than the Borrower or the Servicer or were known to the Lender on a non-confidential basis prior to its disclosure by the Borrower or the Servicer. The foregoing restrictions shall not prohibit the use of template documents in the form of the Loan Documents provided that all financial or economic terms, exhibits, appendices, schedules and identifying information with respect to the Parties have been redacted therefrom.

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(b) Notwithstanding anything herein to the contrary, each party hereto may disclose to any and all persons, without limitation of any kind, the tax treatment and tax structure of the transaction contemplated by this Agreement and all materials of any kind (including opinions or other tax analyses) that are provided to such party or such person relating to such tax treatment and tax structure. This authorization is not intended to permit disclosure of any other information including terms or details not relevant to the tax treatment or the tax structure of this transaction or the transactions designated by the Loan Documents.

[Signature page follows]

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

PATRIOT CAPITAL MARKETS, LLC

By: /s/ Charles A. Forbes, Jr.
Its: Chief Investment Officer

MIDLAND FUNDING NCC-1 CORPORATION

By: /s/ Carl C. Gregory, III
Its: President

MIDLAND CREDIT MANAGEMENT, INC.

By: /s/ Carl C. Gregory, III

