

Prospectus



Guaranteed Mortgage Pass-Through Certificates

(Conventional Fixed Rate Level Installment Home Mortgage Loans)

Principal and Interest payable on the 25th day of each month

THE OBLIGATIONS OF FNMA UNDER ITS GUARANTY ARE OBLIGATIONS SOLELY OF FNMA AND ARE NOT BACKED BY THE FULL FAITH AND CREDIT OF THE UNITED STATES. THE CERTIFICATES ARE EXEMPT FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT OF 1933 AND ARE "EXEMPTED SECURITIES" WITHIN THE MEANING OF THE SECURITIES EXCHANGE ACT OF 1934.

The Certificates are issued and guaranteed by the Federal National Mortgage Association ("FNMA"), a corporation organized and existing under the laws of the United States, under the authority contained in Section 304(d) of the Federal National Mortgage Association Charter Act (12 U.S.C. §1716 *et seq.*).

Each Certificate offered hereby and by the Supplement related hereto will represent an undivided interest in a pool of mortgage loans (a "Pool") to be formed by FNMA. Each Pool will consist of conventional fixed rate level installment home mortgage loans ("Mortgage Loans") either previously owned by FNMA or purchased by it simultaneously with the formation of the Pool.

Interests in each Pool will be evidenced by a separate issue of Certificates. Information regarding the Pass-Through Rate with respect to an issue and the aggregate principal amount and characteristics of the related Pool will be furnished in a Supplement to this Prospectus at the time of the identification of the Pool. Each such Supplement to this Prospectus will also contain certain financial and other information concerning FNMA. In the event that, prior to identification of the underlying Pool, Certificates are offered for future delivery, a Preliminary Supplement containing information concerning FNMA only should accompany this Prospectus. In that case, a final Supplement will be prepared at the time of the identification of the Pool.

FNMA will have certain contractual servicing responsibilities with respect to each Pool. In addition, FNMA is obligated to distribute scheduled monthly installments of principal and interest (adjusted to the applicable Pass-Through Rate) to Certificateholders, whether or not received. FNMA is also obligated to distribute to Certificateholders the full principal balance of any foreclosed Mortgage Loan, whether or not such principal balance is actually recovered.

The date of this Prospectus is February 22, 1982

Retain this Prospectus for future reference. This Prospectus may not be used to consummate sales of Certificates unless accompanied by a Supplement.

No salesman, dealer, bank or other person has been authorized to give any information or to make any representations other than those contained in this Prospectus and, if given or made, such information or representations must not be relied upon as having been authorized by FNMA. This Prospectus does not constitute an offer to sell or a solicitation of an offer to buy any securities other than the Certificates offered hereby and by the related Supplement nor an offer of the Certificates to any person in any state or other jurisdiction in which such offer would be unlawful.

TABLE OF CONTENTS

<u>Caption</u>	<u>Page</u>
Summary of Prospectus	3
The Mortgage Pools.....	4
Yield Considerations.....	5
Maturity and Prepayment Assumptions.....	5
FNMA Purchase Program.....	6
Seller/Servicer Eligibility	6
Mortgage Loan Eligibility.....	7
Description of Certificates	8
General	8
Transfer of Mortgage Loans to Pools.....	9
Representations and Warranties of FNMA	9
Servicing Through Seller/Servicers	10
Payments on Mortgage Loans; Distributions on Certificates	10
FNMA Guaranty.....	11
Reports to Certificateholders	11
Servicing Compensation and Payment of Certain Expenses by FNMA.....	12
Collection and Other Servicing Procedures.....	12
Certain Matters Regarding FNMA	13
Events of Default.....	13
Rights Upon Event of Default.....	14
Amendment.....	14
List of Certificateholders	14
Termination.....	14
Federal Tax Aspects.....	15
ERISA Considerations.....	16

SUMMARY OF PROSPECTUS

The following summary of certain pertinent information is qualified in its entirety by reference to the detailed information appearing elsewhere in this Prospectus and by reference to the detailed information with respect to each pool of Mortgage Loans (a "Pool") contained in the supplement to this Prospectus (a "Prospectus Supplement") to be prepared in connection with the issue of Guaranteed Mortgage Pass-Through Certificates (the "Certificates") evidencing undivided interests in such Pool. In the event such Certificates are offered for future delivery, prior to the identification of the Pool, a preliminary supplement to this Prospectus (the "Preliminary Prospectus Supplement") will also be used in connection with the offering. Each such Prospectus Supplement and Preliminary Prospectus Supplement will contain certain financial information respecting FNMA as of a recent date, including any available interim quarterly information.

Title of Security	Guaranteed Mortgage Pass-Through Certificates
Issuer and Guarantor	Federal National Mortgage Association (FNMA), a corporation organized and existing under the laws of the United States. See "Federal National Mortgage Association." The obligations of FNMA under its guaranty are obligations solely of FNMA and are not backed by, nor entitled to, the full faith and credit of the United States.
Description of Security	Each Certificate will represent a fractional undivided interest in a Pool of Mortgage Loans to be formed by FNMA. A Certificate will initially represent at least \$25,000 unpaid principal amount of Mortgage Loans. The Certificates will be in fully registered form only.
Interest	Interest at the Pass-Through Rate on each Mortgage Loan will be passed through monthly to Certificateholders, commencing on the 25th day of the month following the month of initial issuance of the related Certificates. The Pass-Through Rate for a particular issue of Certificates will be specified in the Prospectus Supplement and will not be greater than the lowest annual interest rate borne by any Mortgage Loan in the related Pool, less a specified minimum annual percentage representing compensation for servicing and FNMA's guaranty. See "Yield Considerations."
Principal (including pre-payments)	Passed through monthly, commencing on the 25th day of the month following the month of initial issuance of the related Certificates. See "Maturity and Prepayment Assumptions" and "Description of Certificates."
FNMA Guaranty	FNMA is obligated to distribute scheduled monthly installments of principal and interest (adjusted to the Pass-Through Rate) on Mortgage Loans in a Pool, whether or not received. FNMA is also obligated to distribute to Certificateholders the full principal balance of any foreclosed Mortgage Loan, whether or not such principal balance is actually recovered. If FNMA were unable to perform these guaranty obligations, distributions to Certificateholders would consist solely of payments and other recoveries on Mortgage Loans and, accordingly, delinquencies and defaults would impact monthly distributions to Certificateholders.
Servicing	FNMA will be responsible for the servicing of the Mortgage Loans and will contract with the Seller/Servicer(s) of each Pool to perform certain servicing functions on its behalf. See "Description of Certificates—Servicing Through Seller/Servicers."
The Mortgage Pools	Each Pool will consist of conventional home Mortgage Loans with fixed interest rates and level monthly installments of principal and interest with unpaid principal balances aggregating not less than \$1,000,000. Each Mortgage Loan will be secured by a first lien on a one-family or two- to four-family residential property and each Mortgage Loan will meet the standards set forth under "FNMA Purchase Program." No Mortgage Loan with a loan-to-value ratio in excess of 95% will be included in any Pool. Mortgage Loans comprising a Pool will either be provided by FNMA from its own portfolio or will be purchased from Seller/Servicers that satisfy the criteria set forth under "FNMA Purchase Program." Additional information, such as the location of the Mortgaged Properties, the year of origination of the Mortgage Loans and their average size will be included in the Prospectus Supplement for each Pool.
Maturity	The maturities of substantially all of the Mortgage Loans at origination are expected to have been approximately 30 years.

THE MORTGAGE POOLS

FNMA has implemented a program (the "Program") for: (a) the purchase of fixed-rate, level installment conventional (i.e., not insured or guaranteed by any U.S. government agency) home mortgage loans (the "Mortgage Loans"), (b) the immediate setting aside of such Mortgage Loans purchased by FNMA or the setting aside of Mortgage Loans held by FNMA in its own portfolio into separate pools (the "Pools") bearing distinctive identification, and (c) the issuance and sale of trust certificates of beneficial interest evidencing pro rata undivided ownership interests in the Mortgage Loans comprising each separate Pool (the "Guaranteed Pass-Through Certificates," or "Certificates"). Each Pool will consist of Mortgage Loans evidenced by promissory notes (the "Mortgage Notes") secured by first mortgages or deeds of trust (the "Mortgages") on one-family or two- to four-family residential properties (the "Mortgaged Properties"). The Mortgage Loans in each Pool, other than Pools comprised of Mortgage Loans previously held by FNMA in its own portfolio, will be sold to FNMA by eligible institutions which meet certain requirements set forth under "FNMA Purchase Program" and are referred to herein as "Seller/Serviceirs." No Pool will consist of Mortgage Loans having unpaid principal balances aggregating less than \$1,000,000 on the first day of the month of issuance of the related Certificates. See "FNMA Purchase Program—Mortgage Loan Eligibility" for a description of certain criteria applicable to the eligibility of Mortgage Loans for inclusion in Pools.

Interests in each Pool will be evidenced by a separate series of Certificates (an "Issue"). To create a Pool, FNMA may assemble Mortgage Loans from its own mortgage portfolio or it may enter into contracts with Seller/Serviceirs to purchase Mortgage Loans either for immediate delivery or, alternatively, for delayed delivery on a date not more than six months after the date of execution of such contracts (plus an additional six months if extended with FNMA's consent during the initial six month period). By entering into such contracts, FNMA will obligate itself to issue Certificates to, or to the order of, the Seller/Serviceirs named in the contracts, upon delivery to FNMA of the required Mortgage Loans conforming to FNMA's standards. **FNMA will not insure or guarantee the performance by any Seller/Serviceir of its obligation to deliver Mortgage Loans and, correspondingly, does not insure or guarantee the performance by any person of any obligation to deliver Certificates.**

FNMA will cause the Mortgage Loans in each Pool to be held for the benefit of the holders of Certificates ("Certificateholders" or "Holders") pursuant to the combined terms of a trust indenture executed by FNMA in its corporate capacity and in its capacity as Trustee (the Trust Indenture dated as of November 1, 1981 as modified and amended by a First Supplemental Indenture dated as of February 15, 1982 being herein called the "Trust Indenture"), and a supplement thereto for the related Issue (the "Issue Supplement"). Certain capitalized words or series of words in this Prospectus refer to and are further defined in the Trust Indenture. FNMA will be responsible for the administration and servicing of the Mortgage Loans in the Pool, including the supervision of the servicing activities of Seller/Serviceirs, if appropriate, the collection and receipt of payments from Seller/Serviceirs, and the remittance of distributions and certain reports to Certificateholders. FNMA will be entitled to receive a fee for its guaranty obligations and its services pursuant to the Trust Indenture. The fee to FNMA for any Mortgage Loan (out of which it will compensate Seller/Serviceirs) will be equal to the difference between the annual interest rate borne by the Mortgage Loan and the annual rate of interest paid to Certificateholders at the Pass-Through Rate for the related Pool. FNMA will reserve the right to remove a Seller/Serviceir at any time if it considers such removal to be in the best interests of Certificateholders. In such event, FNMA will meet its obligations to provide servicing either by directly servicing the Mortgage Loans itself or by finding a replacement Seller/Serviceir that meets the eligibility standards for the Program.

FNMA's obligations with respect to the Mortgage Loans will be limited to the servicing responsibilities under the Trust Indenture, its representations and warranties made therein (see "Description of Certificates—Representations and Warranties of FNMA") and, in the event of any delinquencies in payments or loss on any Mortgage Loan, its obligation to make supplemental payments in amounts described herein under "Description of Certificates—FNMA Guaranty."

Because the principal amount of the Mortgage Loans in a Pool will decline monthly as principal payments, including prepayments, are received, each Certificate Principal Balance (defined to be the principal amount appearing on the face of the related Certificate or, subsequent to the first Distribution Date, the last amount reported to the Holder of such Certificate by FNMA as the principal balance thereof) will also decline over time. See “Maturity and Prepayment Assumptions.”

YIELD CONSIDERATIONS

Each Pool will be composed of Mortgage Loans which bear simple interest at fixed annual rates (“Mortgage Rates”). A Pool may include Mortgage Loans which bear different Mortgage Rates. The Pass-Through Rate of interest payable to Certificateholders of each Issue, as set forth on the face of the Certificates, will be equal to the lowest Mortgage Rate borne by any Mortgage Loan in the related Pool, less a specified minimum annual percentage representing compensation for servicing and FNMA’s guaranty. Since the Pass-Through Rate for an Issue will not be greater than the lowest Mortgage Rate for the related Pool, any disproportionate principal prepayments among Mortgage Loans bearing different Mortgage Rates will not affect the return to Certificateholders.

The effective yield to Certificateholders will be reduced slightly below the yield otherwise produced by the applicable Pass-Through Rate because the distribution of interest which accrues from the first day of each month will not be made until the 25th day of the month following the month of accrual.

When a Mortgage Loan is prepaid or otherwise liquidated, the proceeds of such prepayment or liquidation will, unless FNMA elects in its discretion to make any distribution thereof in the following month, be passed through to Certificateholders in the second month following the month of such prepayment or other liquidation. Since FNMA will agree in each Certificate to distribute on each Distribution Date to the Holder thereof an amount as to interest representing one month’s interest on the Certificate Principal Balance, any prepayment or other liquidation of a Mortgage Loan and the timing of the distribution of the proceeds thereof will have no effect on the interest return to Certificateholders.

Assuming performance by FNMA of its obligations under its guaranty, the net effect of each distribution respecting interest will be the pass-through to each Certificateholder of an amount which is equal to one month’s interest at the Pass-Through Rate on the Certificate Principal Balance of such Holder’s Certificate. See “Description of Certificates—Payments on Mortgage Loans; Distributions on Certificates.”

MATURITY AND PREPAYMENT ASSUMPTIONS

The maturities of substantially all of the Mortgage Loans at origination are expected to be 30 years. Each Mortgage Loan with an original maturity of 30 years will provide for amortization of principal according to a schedule which, in the absence of prepayments, would result in repayment of one-half of the original principal amount of the Mortgage Loans by approximately the 23rd to 27th year, with higher Mortgage Rates resulting in slower amortization of principal.

A significant number of the Mortgage Loans will provide by their terms that in the event of the sale of all or some of the underlying property the full unpaid principal balance of the Mortgage Loan is due and payable at the option of FNMA. As set forth under “Description of Certificates—Collection and Other Servicing Procedures”, the Trust Indenture requires FNMA to exercise its right to accelerate the maturity of any such Mortgage Loan in such an event so long as acceleration is permitted under applicable law.

In jurisdictions where, on the date of origination of a Mortgage Loan, the law substantially restricted lenders from accelerating the due date upon sale in such a manner, that Mortgage Loan may, but is not required to, provide that it is due and payable to the holder at the end of seven years, again at the option of FNMA. As described in "Description of Certificates—Collection and Other Servicing Procedures", the Trust Indenture provides that FNMA will exercise or refrain from exercising any such "Call Option Rider" in a manner which is consistent with then-current policies or practices employed by FNMA respecting comparable mortgage loans held in its own portfolio.

Past experience of the Federal Housing Administration (FHA) relating to government-insured single-family mortgage loans at various interest rates with original maturities of 26 to 30 years indicates that, while some of such mortgage loans remain outstanding until the scheduled maturity, a pool of 30-year FHA insured single-family mortgage loans will, on the average, produce a yield to maturity equivalent to that of a single loan which amortizes as described above and then fully prepays in the 12th year. This 12-year prepayment assumption is the mortgage industry norm for quoting yields and is used in most generally accepted yield tables. Based upon published information and FNMA's own experience, the rate of prepayments on 30-year conventional single-family loans has fluctuated significantly in recent years, including a substantial reduction in the prepayment rate during 1980 and 1981. FNMA believes such fluctuation is due to a number of factors, including general economic conditions, mortgage market interest rates and homeowner mobility, and that such factors will affect the prepayment experience for the Mortgage Loans in Pools. Accordingly, FNMA cannot estimate what such prepayment experience will be or how it might compare to the FHA 12-year prepayment assumption respecting insured mortgage loans. See "Description of Certificates—Termination" for a description of FNMA's option to repurchase the Mortgage Loans in any Pool when the aggregate principal balance thereof become less than 10% of the aggregate principal balance of the Mortgage Loans in the Pool on the Issue Date.

FNMA PURCHASE PROGRAM

Set forth below is a description of certain aspects of FNMA's purchase program for mortgage loans eligible for inclusion in a Pool (the "Program"). The Prospectus Supplement to be prepared with respect to each Issue will contain information on the Mortgage Loans in the Pool, including information as to the years of origination, the Mortgage Rates borne thereby, the outstanding principal balance and the types of Mortgaged Properties and their geographic distribution.

Seller/Servicer Eligibility

FNMA will purchase Mortgage Loans from eligible state- and federally-chartered savings and loan associations, mutual savings banks, commercial banks, credit unions and similar financial institutions, the deposits or accounts of which are insured by the Federal Savings and Loan Insurance Corporation (FSLIC), the Federal Deposit Insurance Corporation (FDIC) or the National Credit Union Administration (NCUA), from certain other state-insured financial institutions and from certain institutions, principally mortgage bankers, that are FNMA-approved mortgage sellers. FNMA, on an individual institution basis, will determine whether such institutions will be approved as eligible Seller/Servicers for the Program by applying certain criteria, including depth of mortgage origination experience, servicing experience, and financial capacity. With respect to financial capacity, FNMA requires eligible Seller/Servicers to maintain net worth in an amount not less than \$250,000 plus .2% of the aggregate principal balance of all Mortgage Loans serviced under the Program by the Seller/Servicer. Approved Seller/Servicers will be party with FNMA to a Conventional Home Mortgage Selling Contract. Also, each Mortgage Loan purchased for inclusion in a Pool will be subject to and must comply with the terms of a Seller/Servicer Guide applicable to the Program. The Seller/Servicer Guide may be amended periodically.

Mortgage Loan Eligibility

Pursuant to the requirements of the Seller/Servicer Guide, Mortgage Loans must be conventional real estate loans with stated constant annual rates of interest, secured by first Mortgages on residential properties, with principal balances which, at the time of purchase by FNMA, did not exceed certain federally-imposed maximum principal balance limitations applicable to FNMA. In 1982, the maximum dollar purchase limitations for Mortgage Loans are as follows: \$107,000 for mortgages secured by single-family residences (\$160,500 in Alaska and Hawaii); \$136,800 for mortgages secured by two-family residences (\$205,200 in Alaska and Hawaii); \$165,100 for mortgages secured by three-family residences (\$247,650 in Alaska and Hawaii); and \$205,300 for mortgages secured by four-family residences (\$307,950 in Alaska and Hawaii).

No mortgage loan with a loan-to-value ratio in excess of 95% will be included in any Pool. Mortgage Loans with loan-to-value ratios exceeding 80% must have the principal amount of the indebtedness in excess of 75% of the appraised value of the Mortgaged Property insured by a policy of primary mortgage guaranty insurance. Each mortgage insurer must be licensed to transact a mortgage guaranty insurance business in the state where the Mortgaged Property is located and be acceptable to FNMA as a mortgage insurer. As an alternative to the requirement to obtain mortgage insurance for Mortgage Loans with loan-to-value ratios in excess of 80% (but not in excess of 90%), Seller/Servicers may contract with FNMA to repurchase such Mortgage Loans at a price equal to the unpaid principal balance thereof in the event of default before the loan-to-value ratio has been reduced to 80% of the original value.

The maximum loan-to-value ratio for a Mortgage Loan secured by a first Mortgage subject, at the time of origination of the Mortgage Loan, to subordinate financing is 80%, regardless of the unpaid principal balance. In addition, the sum of the combined unpaid balances of the Mortgage Loan secured by such first Mortgage and the subordinate financing may not exceed 90% of original value. The maximum loan-to-value ratio for Mortgage Loans secured, at the time of origination of the Mortgage Loan, by non-owner occupied properties is 80%. The Mortgage Loans to be included in each Pool will be single-family Mortgage Loans on residential properties. The term "single-family Mortgage Loans" means permanent loans (as opposed to construction and land development loans) secured by Mortgages on properties comprising one- to four-family dwelling units, including units in condominium projects, planned unit developments, and *de minimis* planned unit developments. Each Mortgage Loan will be documented by the appropriate FNMA/FHLMC Uniform Instrument in effect at the time of origination, or other instrument as approved by FNMA, and will comply with all applicable federal and local laws, including laws relating to usury, equal credit opportunity and disclosure.

Each Mortgage Loan must be repayable in equal monthly installments that reduce the principal balance of the loan to zero at the end of the term. All principal and interest payments on the Mortgage Loans included in a Pool due prior to the second day of the month prior to the month of the Issue Date for such Pool must have been made. There is no requirement that Mortgage Loans be payable on the first day of the month in order to be eligible for inclusion in a Pool. The Mortgage Loans must have had maturities of not more than 30 years from their date of origination.

Pursuant to the requirements of the Seller/Servicer Guide, each eligible Seller/Servicer that sells a Mortgage Loan to FNMA for the purposes of the Program must assume responsibility for underwriting such Mortgage Loan using FNMA's published criteria for mortgage loan underwriting, as from time to time in effect, as guidelines. After delivery of the Mortgage Loans, FNMA will conduct reviews of the quality of credit and property underwriting used in the origination of certain randomly-selected Mortgage Loans.

DESCRIPTION OF CERTIFICATES

Each Issue of Certificates will be issued pursuant to the Trust Indenture executed by FNMA in its corporate capacity and as Trustee for Certificateholders. The Trust Indenture will, as to each Issue, be supplemented by an Issue Supplement which will be prepared at the time of the creation of such Issue. The Issue Supplement will set forth the specific terms of the Issue, such as the Pass-Through Rate applicable thereto and the Issue Date. The Issue Supplement will also contain any variations from the basic Trust Indenture applicable to a particular Issue, any such variations also being described in the Prospectus Supplement relating to such Issue.

Mortgage Loans not previously held in FNMA's portfolio will be purchased pursuant to a Pool Purchase Contract from FNMA-approved Seller/Servicers for cash or in exchange for Certificates in the related Pool. Such Mortgage Loans will be serviced for FNMA by FNMA-approved Seller/Servicers, normally the same entity as the loan originator, pursuant to the terms of the Pool Purchase Contract, as supplemented by the Seller/Servicer Guide, which is incorporated therein by reference. Copies of the Trust Indenture and form of the Pool Purchase Contract, together with the Seller/Servicer Guide, may be obtained from FNMA's Washington, D.C. office, or from any of FNMA's regional offices in Philadelphia, Atlanta, Chicago, Dallas, and Los Angeles.

The following summaries describe certain provisions of the Trust Indenture. These summaries do not purport to be complete and are subject to, and qualified in their entirety by reference to, the more complete provisions of the Trust Indenture (cited herein as "TI").

General

The Certificates will be issued in fully registered form only and will represent Fractional Undivided Interests in the Trust Fund created pursuant to the Trust Indenture and Issue Supplement for each Issue. The Fractional Undivided Interest represented by a particular Certificate will be equal to the initial principal denomination of such Certificate set forth on the face thereof divided by the aggregate principal balance¹ of the Mortgage Loans in the Pool as of the Issue Date, which also will be set forth on the face of the Certificate. The Trust Fund for an Issue consists of (i) such Mortgage Loans as from time to time are subject to the Trust Indenture and Issue Supplement, (ii) such payments or other recoveries on Mortgage Loans as from time to time may be considered to be held by FNMA for Certificateholders, (iii) property acquired by foreclosure of Mortgage Loans or by deed in lieu of foreclosure, and (iv) the interest of Certificateholders in the obligation of FNMA to supplement payments and other recoveries on Mortgage Loans to the extent necessary to make required distributions to Certificateholders.

Certificates will not be issued in initial principal denominations of less than \$25,000. (TI Section 7.01)

The Certificates will be freely transferable and exchangeable at the corporate trust office of Chemical Bank, New York, New York. A service charge may be imposed for any exchange or registration of transfer of Certificates and FNMA may require payment of a sum sufficient to cover any tax or other governmental charge. (TI Section 7.02)

Distributions of principal and interest on each Issue of Certificates will be made by FNMA on the 25th day of each month (the "Distribution Date") to the persons in whose names the Certificates are registered as of the close of business on the last day of the preceding month (the "Record Date"). The first

¹All references herein to the principal balance of a Mortgage Loan or to the aggregate principal balance of all Mortgage Loans in a Pool are to the principal balance or aggregate principal balance, as the case may be, utilized by FNMA in calculating the then outstanding principal balances of Certificates. Such principal balances may differ from actual principal balances for a number of reasons, including supplemental payments by FNMA on delinquent Mortgage Loans pursuant to its guaranty obligations and delays in the distribution of certain Mortgage Loan receipts.

distribution for each Issue of Certificates will be in the month following the month in which the Issue Date occurs. Distributions for each Issue will be made by check mailed to the address of the person entitled thereto as it appears on the Certificate Register; provided, however, that the final distribution in retirement of Certificates of any Issue will be made only upon presentation and surrender of the Certificates at the office or agency of FNMA specified in the notice to Certificateholders of such final distribution.

Transfer of Mortgage Loans to Pools

Each Mortgage Loan transferred to a Pool will be identified in a Mortgage Loan Schedule appearing as an exhibit to the Issue Supplement for the related Issue of Certificates. Such Mortgage Loan Schedule will include information as to the principal balance of each Mortgage Loan after application of installments due on or before the Issue Date, as well as information respecting the Mortgage Rate, the original loan-to-value ratio, the address of the Mortgaged Property and the constant principal and interest payment due monthly on the Mortgage Loan. In addition, FNMA, as trustee of the Mortgage Loans, will retain on behalf of Certificateholders the original Mortgage Note, endorsed in blank, and a completed and executed assignment to FNMA of the mortgage instrument in suitable form for recording but not recorded. At its option, FNMA may choose to maintain such documents with a custodian institution, the deposits or accounts of which must be insured by the FDIC or the FSLIC. FNMA will review the Mortgage Loan Schedule prior to the issuance of the Certificates and will conduct random spot checks to confirm the sufficiency of the documents after issuance of the Certificates.

Although the above procedures are intended to protect the interests of the Holders of Certificates in the Mortgage Loans in the related Pool, the law applicable to a liquidation, reorganization or similar proceeding involving the assets of a Seller/Servicer or of FNMA is unclear and as a result no opinion can be rendered as to the status of Certificateholders' interests in the event of any such proceeding. FNMA's guaranty would, however, by its terms be available in the event of any such proceeding involving the assets of a Seller/Servicer.

As described herein under "Rights upon Event of Default" holders of Certificates will have the right under certain circumstances to appoint a successor trustee.

Representations and Warranties of FNMA

With respect to each Mortgage Loan in a Pool, FNMA will represent and warrant that as of the Issue Date of the related Certificates: (i) each Mortgage Loan is documented by appropriate FNMA/FHLMC mortgage instruments in effect at the time of origination or other instruments as approved by FNMA; (ii) the Mortgaged Property securing each Mortgage Loan is improved with a one-family or two- to four-family dwelling unit, including units in a condominium project, a planned unit development or a *de minimis* planned unit development; (iii) each Mortgage Loan at the time it was made complied in all material respects with applicable state and federal laws, including usury, equal opportunity and disclosure laws; (iv) each Mortgage Loan conformed to the eligibility requirements set forth in this Prospectus and the applicable Prospectus Supplement; (v) each Mortgage Loan at the time it was made had an original term not exceeding 30 years and each Mortgage Loan bears interest at a constant annual rate and provides for payment of equal monthly installments; (vi) the information set forth in the Mortgage Loan Schedule is true and correct in all material respects; (vii) immediately prior to the transfer thereof, FNMA had good indefeasible title to each Mortgage Loan and immediately upon the assignment thereof, the Trustee will have good and indefeasible title to such Mortgage Loan; (viii) each original Mortgage was recorded and, in the case of any Mortgage Note delivered to a custodian, an assignment in recordable form of the related Mortgage to FNMA was delivered to the custodian; (ix) each Mortgage and Mortgage Note is the legal, valid and binding obligation of the maker thereof and is enforceable in accordance with its terms, except only as such enforcement may be limited by laws affecting the enforcement of creditors' rights generally; (x) each Mortgage Loan is secured by a first and paramount lien on the Mortgaged Property, subject only

to (1) the liens of current real property taxes and assessments and (2) covenants, conditions and restrictions, rights of way, easements and other matters of public record which are customarily acceptable to mortgage lending institutions generally or to which like properties are commonly subject and which do not materially affect the value or marketability of the Mortgaged Property; and (xi) no Mortgage Loan is delinquent on the Issue Date to the extent of more than the monthly installment of principal and interest due after the first day of the month prior to the month of the Issue Date.

Upon the discovery by FNMA of a breach of any representation and warranty which materially and adversely affects the interests of Certificateholders in and to the related Mortgage Loan (or which, in the case of the Prospectus and Prospectus Supplement description of the related Pool, causes that description to be materially incorrect), FNMA is obligated, within 60 days of such discovery, either to cure such breach in all material respects or to repurchase such Mortgage Loan from the Trust Fund at a price equal to its outstanding principal balance together with interest thereon at the Pass-Through Rate. In lieu of any such repurchase, FNMA may, at its option, substitute a new Mortgage Loan for a defective Mortgage Loan; provided, however, that no such substitution may take place more than 120 days subsequent to the date of the original issue of the related Certificates and any such substitute Mortgage Loan must satisfy certain eligibility criteria designed to assure that the nature of the Pool will not be altered by any such substitution. Any amount by which the principal balance of the defective Mortgage Loan exceeds the principal balance of the substitute Mortgage Loan (the substitute Mortgage Loan may not be larger than the Mortgage Loan it is replacing) will be passed through to Certificateholders. (TI Section 4.02)

Servicing Through Seller/Serviceers

Pursuant to the Trust Indenture, FNMA is responsible for servicing and administering the Mortgage Loans but, in its discretion, is permitted to contract with the originator of each Mortgage Loan, or another eligible servicing institution, to perform such functions under the supervision of FNMA as more fully described herein. Any servicing contract or arrangement by FNMA with a Seller/Serviceer for the direct servicing of Mortgage Loans is a contract solely between FNMA and that Seller/Serviceer and the Certificateholders are not deemed to be parties thereto and have no claims, rights, obligations, duties or liabilities with respect to such Seller/Serviceer. (TI Section 5.01)

Seller/Serviceers will be obligated pursuant to the Seller/Serviceer Guide to perform diligently all services and duties customary to the servicing of mortgages, as well as those specifically prescribed by the Seller/Serviceer Guide. FNMA will monitor the Seller/Serviceer's performance and has the right to remove any Seller/Serviceer for cause at any time it considers such removal to be in the best interest of Certificateholders. The duties performed by Seller/Serviceers include general loan servicing responsibilities, collection and remittance of principal and interest payments, administration of mortgage escrow accounts, collection of insurance claims and, if necessary, foreclosure.

For each Mortgage Loan, FNMA retains the difference in interest between the annual Mortgage Rate borne by the Mortgage Loan and the Pass-Through Rate on the Certificates. See "Yield Considerations." For example, if a Mortgage Loan with a 12.25% Mortgage Rate is included in a Pool against which a Certificate with a 11.25% Pass-Through Rate is issued, FNMA would be entitled to receive total compensation of one percent per annum on the Mortgage Loan. FNMA is also entitled to retain prepayment fees, late charges, assumption fees, interest float on advance payments, and similar charges to the extent they are collected from borrowers. FNMA will compensate Seller/Serviceers in an amount up to, but never exceeding, the amount of interest retention described above, less a prescribed minimum amount to be retained by FNMA for itself in consideration of its guaranty obligations and servicing responsibilities.

Payments on Mortgage Loans; Distributions on Certificates

On the twenty-fifth day of each month (beginning with the month following the month of the Issue Date), FNMA will, respecting each Issue, distribute to Certificateholders an amount equal to the total of (i) the principal due on the Mortgage Loans in the related Pool during the period beginning on the second

day of the month prior to the month of such distribution and ending on the first day of such month of distribution, (ii) the principal balance of any such Mortgage Loan which was prepaid in full during the second month next preceding the month of such distribution (including as prepaid for this purpose any Mortgage Loan repurchased by FNMA as described herein because of the breach of a representation and warranty, or because of FNMA's election to repurchase the Mortgage Loan after it is delinquent, in whole or in part, with respect to four consecutive installments of principal and interest, or because of FNMA's election to repurchase such Mortgage Loan under the circumstances described in the last paragraph under "Collection and Other Servicing Procedures" below), (iii) the amount of any partial prepayment of a Mortgage Loan received in the second month next preceding the month of distribution, and (iv) one month's interest at the Pass-Through Rate on the aggregate principal balance of the Mortgage Loans as reported to Certificateholders in connection with the previous distribution (or, respecting the first distribution, the aggregate of the principal balances of the Mortgage Loans on the Issue Date). For purposes of distributions, a Mortgage Loan will be considered to have been prepaid in full if, in FNMA's reasonable judgment, the full amount finally recoverable on account of such Mortgage Loan has been received, whether or not such full amount is equal to the outstanding principal balance of the Mortgage Loan. FNMA may, in its discretion, include with any distribution principal prepayments, both full and partial, received during the month prior to the month of distribution but is under no obligation to do so.

Distributions on any Distribution Date will be made to Certificateholders of record on the prior Record Date (the close of business on the last day of the immediately preceding month). Each Certificateholder will be entitled to receive an amount equal to the total amount distributed multiplied by the Fractional Undivided Interest evidenced by such Holder's Certificate.

FNMA Guaranty

FNMA's obligation described above to distribute amounts representing scheduled principal and interest, whether or not received, and its obligation to distribute the full principal amount of any foreclosed or otherwise finally liquidated Mortgage Loan, whether or not such principal amount is actually recovered, constitute FNMA's guaranty obligations in respect of the Certificates. If FNMA were unable to perform such obligations, distributions to Certificateholders would consist solely of payments and other recoveries on Mortgage Loans and, accordingly, delinquencies and defaults would impact monthly distributions to Certificateholders.

Reports to Certificateholders

With respect to each distribution, FNMA will cause to be forwarded to each Certificateholder a statement setting forth the following information:

- (i) the amount due on the Certificate on account of scheduled principal;
- (ii) the amount due on the Certificate on account of interest;
- (iii) the amount, if any, due on the Certificate on account of unscheduled principal;
- (iv) the total of the cash distribution on the Certificate; and
- (v) the Certificate Principal Balance of the Certificate after giving effect to such distribution.

Within a reasonable period of time after the end of each calendar year, FNMA will furnish to each Person who at any time during the calendar year was a Certificateholder a statement containing the information set forth in items (i)–(iii) above, in summary form for such calendar year, or for any portion thereof during which such Person was a Certificateholder.

Servicing Compensation and Payment of Certain Expenses by FNMA

As compensation for its activities and obligations under the Trust Indenture, FNMA will be entitled to retain the amounts applicable to interest which are not required to be distributed to Certificateholders as described above. In addition, FNMA is entitled to retain any amounts by which the proceeds of the liquidation of a Mortgage Loan exceed (i) the principal balance of that Mortgage Loan and (ii) interest thereon at the Pass-Through Rate. FNMA will pay all expenses incurred by it in connection with its servicing activities, including, without limitation, the fees to Seller/Serviceicers, and is not entitled to reimbursement therefor out of the Trust Fund.

Additional servicing compensation in the form of prepayment charges, assumption fees, late payment charges or otherwise will be retained by FNMA.

Collection and Other Servicing Procedures

FNMA is responsible for servicing the Mortgage Loans in each Pool and may, as set forth above, conduct such servicing through Seller/Serviceicers or through other FNMA-approved mortgage serviceicers. In connection with its servicing activities, FNMA has full power and authority to do or cause to be done any and all things as it may deem necessary or appropriate in its sole discretion, including the foreclosure or comparable conversion of a defaulted Mortgage Loan. In lieu of undertaking any such foreclosure, FNMA may, in its discretion and without obligation, repurchase from the Trust Fund any Mortgage Loan which is delinquent, in whole or in part, as to four consecutive installments of principal and interest. The purchase price will be equal to the principal balance of the delinquent Mortgage Loan together with accrued interest at the Pass-Through Rate and will be distributed to Certificateholders in the same manner as full prepayments of Mortgage Loans. See "Description of Certificates — Payments on Mortgage Loans: Distributions on Certificates." (TI Section 5.01)

Subject to the following paragraph and to the extent consistent with then current policies of FNMA respecting mortgage loans held in its own portfolio, FNMA in its discretion may enforce or waive enforcement of any of the terms of any Mortgage Loan or enter into an agreement for the modification of any of the terms of any Mortgage Loan, or take any action or refrain from taking any action in servicing any Mortgage Loan. In such connection, FNMA may waive any prepayment charge, assumption fee or late payment charge or may exercise or refrain from exercising any "Call Option Rider"; provided, however, that any decision to exercise or refrain from exercising any Call Option Rider must be consistent with then current policies or practices employed by FNMA respecting comparable mortgage loans held in its own portfolio and must be without consideration of the ownership status of the related Mortgage Loan.

In connection with the transfer or prospective transfer of title to a Mortgaged Property, FNMA is obligated to accelerate the maturity of the related Mortgage Loan where that Mortgage Loan contains a "due on sale" clause permitting acceleration under those conditions. FNMA's obligation to accelerate the maturity of any Mortgage Loan under such a circumstance is dependent upon acceleration being permitted under applicable law. The Trust Indenture provides that FNMA is conclusively presumed to be unable to exercise its rights under any "due on sale" clause if the related Mortgaged Property is located in a jurisdiction in which FNMA, at the time of transfer of such Mortgaged Property, requires that Mortgage Loans purchased for its own portfolio contain "call option riders" (see "Maturity and Prepayment Assumptions") or in which FNMA has in force other policies or procedures related to FNMA's assessment that the ability to exercise "due on sale" clauses therein is substantially restricted. At the date of this Prospectus, FNMA required that "call option riders" be included in mortgage loans secured by property located in fourteen states: Arizona, California, Colorado, Florida, Georgia, Illinois, Iowa, Michigan, Mississippi, New Mexico, Ohio, South Carolina, Utah and Washington. (TI Section 5.02)

In the event that, for any reason, FNMA is not obligated to accelerate the maturity of a Mortgage Loan upon the transfer, or prospective transfer, of title to the underlying Mortgaged Property, FNMA may enter into a transaction by which the obligor is released from liability on the related Mortgage Loan and the transferee assumes such liability; provided, however, that no such transaction shall (i) be entered into which would not have been entered into had the Mortgage Loan been held in FNMA's own portfolio or (ii) provide for reduction of the Mortgage Rate.

The Trust Indenture provides that FNMA may repurchase from the related Pool, at a price equal to the outstanding principal balance thereof plus accrued interest thereon at the applicable Pass-Through Rate, any Mortgage Loan which in its judgment may be the subject of litigation if and to the extent that FNMA were to carry out required servicing policies and procedures. (TI Section 5.03)

Certain Matters Regarding FNMA

The Trust Indenture provides that FNMA may not resign from its obligations and duties thereunder, except upon determination that those duties are no longer permissible under applicable law. No such resignation will become effective until a successor has assumed FNMA's obligations and duties under the Trust Indenture; provided, however, that no successor will succeed to FNMA's guaranty obligations described above, FNMA continuing to be responsible thereunder notwithstanding any termination of its other duties and responsibilities under the Trust Indenture. In the event that FNMA is unable to fulfill its continuing guaranty obligations, the Trust Indenture may be modified to provide for monthly distributions to be made from then available Mortgage Loan payments and other recoveries in a manner similar to practices and procedures followed in the servicing of whole loans for institutional investors. (TI Section 9.01)

The Trust Indenture also provides that neither FNMA nor any director, officer, employee or agent of FNMA will be under any liability to the Trust Fund or to Certificateholders for any action taken or for refraining from the taking of any action in good faith pursuant to such Trust Indenture, or for errors in judgment; provided, however, that neither FNMA nor any such person will be protected against any liability which would otherwise be imposed by reason of willful misfeasance, bad faith or gross negligence or by reason of willful disregard of obligations and duties.

In addition, the Trust Indenture provides that FNMA is not under any obligation to appear in, prosecute or defend any legal action which is not incidental to its responsibilities under the Trust Indenture and which in its opinion may involve it in any expense or liability. FNMA may, however, in its discretion undertake any such legal action which it may deem necessary or desirable in the interests of the Certificateholders. In such event, the legal expenses and costs of such action and any liability resulting therefrom will be expenses, costs and liabilities of FNMA which will not be reimbursable to FNMA out of the Trust Fund. (TI Section 8.02)

Any corporation into which FNMA may be merged or consolidated, or any corporation resulting from any merger, conversion or consolidation to which FNMA is a party, or any corporation succeeding to the business of FNMA, will be the successor of FNMA under the terms of the Trust Indenture. (TI Section 9.02)

Events of Default

Events of Default under the Trust Indenture will consist of (i) any failure by FNMA to distribute to Certificateholders any required payment which continues unremedied for 15 days after the giving of written notice of such failure to FNMA by the Holders of Certificates evidencing Fractional Undivided Interests aggregating not less than 5% of the related Trust Fund; (ii) any failure by FNMA duly to observe or perform in any material respect any other of its covenants or agreements in the Trust Indenture which failure continues unremedied for 60 days after the giving of written notice of such failure to FNMA by the

Holders of Certificates evidencing Fractional Undivided Interests aggregating not less than 25% of the related Trust Fund; and (iii) certain events of insolvency, readjustment of debt, marshalling of assets and liabilities or similar proceedings and certain actions by or against FNMA indicating its insolvency, reorganization or inability to pay its obligations. (TI Section 9.03)

Rights Upon Event of Default

As long as an Event of Default under the Trust Indenture for any Issue remains unremedied, the Holders of Certificates evidencing Fractional Undivided Interests aggregating not less than 25% of the related Trust Fund may, in writing, terminate all of the obligations and duties of FNMA as Trustee and in its corporate capacity under the Trust Indenture in respect of such Issue (other than its guaranty obligations described above which continue notwithstanding any such termination) and name and appoint, in writing, a successor to succeed to all such responsibilities, duties and obligations of FNMA thereunder (other than FNMA's guaranty obligations) and to the legal title to the Mortgage Loans held in such Trust Fund. (TI Section 9.03)

Amendment

The Trust Indenture as it relates to any Issue may be amended by FNMA, without the consent of or notice to any of the Certificateholders, for one or more of the following purposes: (i) to add to the covenants of FNMA; (ii) to evidence the succession of another party or parties to FNMA and the assumption by such successor or successors of the obligations of FNMA thereunder in its corporate capacity or in its capacity as Trustee or in both such capacities; (iii) to eliminate any right reserved to or conferred upon FNMA in its corporate capacity; (iv) to make provisions for the purpose of curing any ambiguity or correcting or supplementing any provisions in the Trust Indenture or any Issue Supplement, provided such provisions do not adversely affect the interests of any Certificateholder; or (v) to modify the Trust Indenture under the circumstances and for the purposes set forth in the final sentence of the first paragraph under "Certain Matters Regarding FNMA" above. (TI Section 11.01)

The Trust Indenture as it relates to any Issue may also be amended by FNMA with the consent of the Holders of Certificates evidencing Fractional Undivided Interests aggregating not less than 66% of the related Trust Fund so as to waive compliance by FNMA with any terms of the Trust Indenture or related Issue Supplement, or to allow FNMA to eliminate, change, add to, or modify the terms of the Trust Indenture or Issue Supplement. However, no such waiver or amendment may, without the consent of all Certificateholders, terminate or modify the guaranty obligations of FNMA or reduce the percentages of Certificates the Holders of which are required to consent to any waiver or amendments. In addition, no waiver or amendment shall, without the consent of each Certificateholder affected thereby, reduce in any manner the amount of, or delay the timing of, payments received on Mortgage Loans which are required to be distributed on any Certificate. (TI Section 11.02)

List of Certificateholders

With respect to each Pool, in the event that Holders of Certificates evidencing Fractional Undivided Interests aggregating not less than 5% of the related Trust Fund notify FNMA in writing that they desire to communicate with other Certificateholders of that Trust Fund, accompanied by a copy of the proposed communication, then, within five business days after receipt of such notification, FNMA will afford access to such Certificateholders during normal business hours to the most recent list of Certificateholders in such Pool. (TI Section 12.02)

Termination

The Trust Indenture as it relates to each Issue terminates upon the final payment or liquidation of the last Mortgage Loan remaining in the related Pool and distribution of all proceeds thereof. The Trust Indenture as it relates to each Issue will terminate also upon repurchase by FNMA, at its option, of all

remaining Mortgage Loans in the related Pool at a price equal to 100% of the Stated Principal Balance thereof together with one month's interest thereon at the Pass-Through Rate. (TI Section 10.01) The exercise of such option will effect early retirement of the Certificates of that Issue, but FNMA's right to repurchase is subject to the aggregate principal balances of the Mortgage Loans at the time of repurchase being less than ten percent (10%) of the aggregate principal balances of the Mortgage Loans on the Issue Date. In no event, however, will the trust relating to each Pool as created by the Trust Indenture continue beyond the expiration of 21 years from the death of the last survivor of five persons named in the Trust Indenture. For each Issue, FNMA will give written notice of termination of the Trust Indenture as it relates to such Issue to each affected Certificateholder, and the final distribution will be made only upon surrender and cancellation of the Certificates at an office of FNMA specified in the notice of termination. (TI Section 10.01)

FEDERAL TAX ASPECTS

Silverstein and Mullens, special tax counsel to FNMA, have advised FNMA that in their opinion a Mortgage Pool and the arrangement to be administered by FNMA, under which FNMA, as Trustee, will hold and FNMA, in its corporate capacity, will service the Mortgage Loans and pursuant to which Certificates will be issued to Certificateholders, will not be classified as an association taxable as a corporation, but rather will be classified as a grantor trust under Subpart E of subchapter J of the Internal Revenue Code of 1954, as amended, (the "Code"). Each Certificateholder will be treated as the owner of a pro rata undivided interest in the ordinary income and corpus portions of the trust attributable to that particular Pool and will be considered the equitable owner of the pro rata undivided interest in each of the Mortgage Loans included therein.

Accordingly, Certificateholders of a particular series will be required to report on their Federal income tax returns their pro rata share of the entire income from the Mortgage Loans in that particular Pool, including interest, prepayment fees, assumption fees and late payment charges received by the Pool, plus any amount paid by FNMA as interest under its guaranty. Under section 162 or 212 of the Code, Certificateholders will be entitled to deduct compensation retained by FNMA. Certificateholders using the cash method of accounting must take into account their pro rata share of income and deductions as and when collected or paid. Certificateholders using the accrual method of accounting must take into account their pro rata share of income and deductions as they become due.

Certificateholders are advised to consult with their tax advisors as to the tax treatment of premium and discount attributable to the Mortgage Loans arising either upon the initial acquisition of Certificates or thereafter, including premium and discount arising from market purchases and sales of Certificates, and the effect, if any, of such premium and discount upon any secondary market for Certificates. Certificateholders may be required to report annually as ordinary income their pro rata share of any such discount but may not be permitted to deduct annually their pro rata share of any such premium. Such premium may be deductible only upon sale or final distribution in respect of the Certificates, and then only as a short- or long-term capital loss, depending upon how long the Certificates have been held.

Silverstein and Mullens have further advised FNMA that on the basis of Rev. Rul. 71-399, 1971-2 C.B. 433, Rev. Rul. 74-169, 1974-1 C.B. 147 and Rev. Rul. 77-349, 1977-2 C.B. 20:

1. A Certificate owned by a "domestic building and loan association" within the meaning of section 7701(a)(19) of the Code will be considered to represent "loans secured by an interest in real property" within the meaning of section 7701(a)(19)(C)(v) of the Code, provided the real property is (or from the proceeds of the loan will become) the type of real property described in that section of the Code; and

2. A Certificate owned by a financial institution described in section 593(a) of the Code will be considered to represent "qualifying real property loans" within the meaning of section 593(d) of the Code, provided the real property underlying the Mortgage Loans is (or from the proceeds of the loan will become) the type of real property described in that section of the Code; and

3. A real estate investment trust which owns a Certificate will be considered to own "real estate assets" within the meaning of section 856(c)(5)(A) of the Code, and interest income thereon will be considered "interest on obligations secured by mortgages on real property" within the meaning of section 856(c)(3)(B) of the Code.

FNMA will furnish to each Certificateholder with each distribution a statement setting forth the amount of such distribution allocable to principal and to interest. In addition, FNMA will furnish, within a reasonable time after the end of each calendar year, to each Certificateholder at any time during such year information necessary to enable the Certificateholder to prepare its tax return. It is suggested that Certificateholders residing in states or localities which impose intangible property or income taxes consult their own tax advisors as to the status of the Certificates and the income thereon.

ERISA CONSIDERATIONS

The Department of Labor has issued a class exemption from the prohibited transaction restrictions of the Employee Retirement Income Security Act of 1974 ("ERISA") and from certain taxes imposed by the Internal Revenue Code of 1954, as amended. The class exemption (Exemption 81-7) exempts, subject to certain conditions, the acquisition and holding of certain mortgage pass-through certificates by employee benefit plans subject to ERISA. One of the conditions which must be met for the exemption to apply is that the sponsor (that is, the entity which organizes and services the pool, in this case, FNMA) and the trustee for the pool must maintain a system for insuring or otherwise protecting the Mortgage Loans and the property securing such loans up to a specified percentage of the outstanding principal balances of the loans. FNMA has been advised by its counsel, Brown, Wood, Ivey, Mitchell & Petty, that FNMA's guaranty of the Certificates complies with the provisions of the class exemption and, accordingly, acquisition of the Certificates by employee benefit plans subject to ERISA is not prohibited.