**Single-Family MBS Prospectus**

FannieMae®

# Guaranteed Mortgage Pass-Through Certificates
# (Single-Family Residential Mortgage Loans)

## The Certificates

We, the Federal National Mortgage Association or Fannie Mae, will issue and guarantee the mortgage pass-through certificates. Each issue of certificates will have its own identification number and will represent the ownership of a pool of residential mortgage loans secured by single-family one- to four-unit dwellings, or by a pool of participation interests in loans of that type.

## Fannie Mae Guaranty

We guarantee that the holders of the certificates will receive timely payments of interest and principal. We alone are responsible for making payments under our guaranty. **The certificates and payments of principal and interest on the certificates are not guaranteed by the United States, and do not constitute a debt or obligation of the United States or any of its agencies or instrumentalities other than Fannie Mae.**

**Consider carefully the risk factors section beginning on page 8. Unless you understand and are able to tolerate these risks, you should not invest in the certificates.**

**The certificates are exempt from registration under the Securities Act of 1933 and are "exempted securities" under the Securities Exchange Act of 1934.**

**The date of this Prospectus is May 1, 2002.**

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## INFORMATION ABOUT PROSPECTUS SUPPLEMENTS

We will provide information that supplements this prospectus in connection with each issue of certificates. The prospectus supplement will be available in paper form and, in some cases, may also be available electronically. The disclosure documents for any particular issue of certificates are this prospectus and the prospectus supplement for that issue, together with any information incorporated in these documents by reference as discussed below under the heading *"Additional Information about Fannie Mae."* **In determining whether to purchase any issue of certificates, you should rely ONLY on the information in this prospectus, the related prospectus supplement and any information which we have incorporated into these documents by reference. You should not rely on information that may be offered to you by a third party. It may not be reliable.**

Each prospectus supplement will include information about the pooled mortgage loans backing that particular issue of certificates and about the certificates themselves. Information about the mortgage loans will be given as of the issue date stated in the prospectus supplement, which is the first day of the month in which the certificates are being issued. Because the prospectus supplement will contain specific information about a particular issue of certificates, you should rely on the information in the prospectus supplement to the extent it is different from or more complete than the information in this prospectus.

You can obtain copies of this prospectus and any related prospectus supplement by writing to Fannie Mae, 3900 Wisconsin Avenue, NW, Area 2H-3S, Washington, DC 20016 or by calling the Fannie Mae Helpline at 1-800-237-8627 or (202) 752-6547. The prospectus supplement is generally available two business days before settlement of the related issue of certificates. These documents may also be available on our corporate Web site at www.fanniemae.com and our business to business Web site at www.efanniemae.com.

## SUMMARY

This summary highlights information contained elsewhere in this prospectus. As a summary, it speaks in general terms without giving details or discussing any exceptions. Before buying any issue of certificates, you should have the complete picture. For that, you must read this prospectus in its entirety as well as any applicable prospectus supplement for that issue.

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| Title of Security .................. | Guaranteed Mortgage Pass-Through Certificates (Single-Family Residential Mortgage Loans). |
| Issuer and Guarantor .............. | Fannie Mae, a federally chartered and stockholder-owned corporation.<br><br>**Neither the certificates nor payments of principal and interest on the certificates are guaranteed by the United States, and the certificates do not constitute a debt or obligation of the United States or any of its agencies or instrumentalities other than Fannie Mae. We alone are responsible for making payments on our guaranty.** |
| Description of Certificates ......... | Each certificate will represent an ownership interest in a pool of mortgage loans. We will issue the certificates in book-entry form on the book-entry system of the U.S. Federal Reserve Banks, unless we specify a different system in the related prospectus supplement. The book-entry certificates will not be convertible into physical certificates. |
| Minimum Denomination ........... | We will issue the certificates in minimum denominations of \$1,000 with additional increments of \$1. |
| Issue Date ......................... | The first day of the month in which the certificates are issued. |
| Distribution Date ................. | The 25th of each month is the day designated for payments to certificateholders. If that day is not a business day, payment will be made on the next business day. |
| Interest ........................... | We will pay interest on the certificates each month on the distribution date.<br><br>If a pool contains fixed-rate mortgage loans, we will pay to certificateholders interest at the fixed pass-through rate stated in the related prospectus supplement.<br><br>If a pool contains adjustable-rate loans, other than those permitting negative amortization, we will pay to certificateholders interest at the variable pool accrual rate. The initial pool accrual rate is described in the related prospectus supplement. If a pool contains adjustable-rate loans that permit negative amortization, we will pay to certificateholders interest at the variable pool accrual rate minus the aggregate amount of any deferred interest which is added to the principal balance of the mortgage loans. |
| Principal ......................... | On each distribution date, we will pass through to certificateholders:<br><br>• the aggregate amounts of the borrowers' scheduled principal payments for the related due period, |

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| | • the stated principal balances of mortgage loans that were prepaid in full during the calendar month preceding the month in which the distribution date occurs,<br><br>• the stated principal balances of mortgage loans that were purchased out of the pool for any reason during the calendar month preceding the month in which the distribution date occurs, and<br><br>• the amount of any partial prepayments on mortgage loans received during the calendar month preceding the month in which the distribution date occurs.<br><br>Prepayments in full received on the first day of a month may be treated as if received on the last day of the preceding month. If they are so treated, they will be passed through on the distribution date in the month of actual receipt.<br><br>The due period is the period from the second day of the preceding month to and including the first day of the month in which the distribution date occurs. |
| Monthly Pool Factors ............. | On or about the fourth day of each month, we will publish the monthly pool factor for each issue of certificates. If you multiply the monthly pool factor by the original principal balance of the certificates, you will obtain the current principal balance of the certificates, after giving effect to the monthly principal payment to be passed through on the distribution date in that month. |
| Guaranty......................... | On each distribution date, we guarantee payment to certificateholders of:<br><br>• the aggregate amount of the borrowers' scheduled principal payments for the related due period, whether or not received.<br><br>• an amount equal to one month's interest on the certificates. For fixed-rate pools, we guarantee payment of interest at the specified pass-through rate stated in the prospectus supplement. For adjustable-rate pools, we guarantee payment of interest at the pool accrual rate minus the aggregate amount of any deferred interest which is added to the principal balance of the mortgage loans.<br><br>In addition, we guarantee the full and final payment of the unpaid principal balance of the certificates by the distribution date in the month of the maturity date specified in the prospectus supplement. |
| Servicing......................... | We are responsible for servicing the mortgage loans in each pool. We usually contract with mortgage lenders to perform many servicing functions for us. |
| Mortgage Pools ................... | Each mortgage loan will meet our standards for loans that we purchase, except as we have permitted variances from those standards. We may change our standards from time to time. |

Each mortgage pool will contain the types of mortgage loans described in the related prospectus supplement.

Security Type .................... Each mortgage loan will be secured by a first or subordinate lien on residential real property containing one to four dwelling units, or on a share in a cooperative housing corporation representing the right to occupy a residential dwelling.

Mortgage Loan Types ............. Loan pools include the following types of mortgage loans:

- Fixed-rate, equal monthly payment, fully amortizing loans
- Fixed-rate, equal biweekly payment, fully amortizing loans
- Fixed-rate loans with monthly payments of interest only for a specified initial period, followed by fully amortizing equal monthly payments of principal and interest for the remaining loan term
- Fixed-rate loans with a balloon payment due at maturity
- Adjustable-rate, monthly pay, fully amortizing loans
- Adjustable-rate loans with monthly payments of interest only during a specified initial fixed-rate period, followed by fully amortizing monthly payments of principal and interest for the remaining loan term
- Adjustable-rate loans that may permit deferred interest (which is added to outstanding principal) as a result of negative amortization or provide for a balloon payment due at maturity

Minimum Pool Size ............... Unless the related prospectus supplement provides otherwise, each of our pools will consist of either:

- Fixed-rate loans that have an aggregate unpaid principal balance of at least $1,000,000, or
- Adjustable-rate loans that have an aggregate unpaid principal balance of at least $500,000.

## RISK FACTORS

We have listed below some of the risks associated with an investment in the certificates.

**The certificates may not be a suitable investment for you.** Because each investor has different investment needs and a different tolerance for risk, you should consult your own financial and legal advisors to determine whether the certificates are suitable investments for you. The certificates are complex financial instruments. They are not a suitable investment for every investor. Before investing, you should

- have sufficient knowledge and experience to evaluate (either alone or with the help of a financial advisor) the merits and risks of the certificates and the information contained in this prospectus, the applicable prospectus supplement, and the documents incorporated by reference;
- understand thoroughly the terms of the certificates;
- evaluate (either alone or with the help of a financial advisor) the economics, interest rate and other factors that may affect your investment;
- have sufficient financial resources and liquidity to bear all risks associated with the certificates; and
- investigate any legal investment restrictions that may apply to you.

**If we failed to pay under our guaranty, the amount distributed to certificateholders would be reduced.** If borrowers fail to make their mortgage loan payments on time, we have agreed to make payments under our guaranty. As long as we make these payments, you will not be affected by borrowers' late payments. If, however, we become unable to pay, or fail to pay for any reason, the payments that you receive as a certificateholder will be reduced as a result of borrowers' late payments or complete failure to pay.

**If our credit should become impaired, a buyer may be willing to pay only a reduced price for your certificates, if you wanted to sell them in the future.** There could be an adverse change in our financial condition that would impair the perception of our credit. Even if we were to make all the payments required under our guaranty, potential buyers may offer less for your certificates than they would offer if our financial condition had remained unchanged.

**Loans in the pool could be repaid at a different speed than you expected, affecting the timing of repayment of principal on your certificates.** If that happens, the return on your investment in the certificates could be less than you expected when you purchased the certificates. Some of the specific reasons why loans could be repaid at a different speed are described in separate paragraphs below. Regardless of the reason, if the loans are repaid more quickly than you expected, then the principal on your certificates will be repaid to you sooner than you had predicted. Depending on then-prevailing economic conditions and interest rates, you might not be able to reinvest these proceeds at a yield that is equal to or greater than the yield on your certificates. If the loans are repaid more slowly than you expected, then the principal on your certificates will be repaid to you later than you had predicted. Your ability to reinvest these funds would therefore be delayed. If the yield on your certificates is lower than comparable investments available when you expected your certificates to prepay or mature, you will be disadvantaged by not having as much principal available to reinvest, and by having your investment dollars remain in the certificates for a longer than expected period.

**Even if the mortgage loans are prepaid at a rate that on average is consistent with your expectations, variations in the rate of prepayment over time can significantly affect your yield.** Generally, the earlier the payment of principal, the greater the effect on the yield to maturity. As a result, if the rate of principal prepayment during any period is faster or slower than you expected, a corresponding reduction or increase in the prepayment rate during a later period may not fully offset the effect of the earlier prepayment rate on your yield.

**Prevailing interest rates could decline, causing borrowers to prepay their loans and refinance at a lower rate, accelerating the rate at which you receive your return of principal on the certificates.** You could receive payments of principal on the certificates more quickly than you expected, at a time when reinvestment rates are lower. The mortgage loans may or may not contain prepayment premiums that discourage borrowers from prepaying. If prevailing rates decline and borrowers are able to obtain new loans at lower rates, they are more likely to refinance their mortgage loans.

**The mortgage origination industry could change its procedures and prices for refinancing loans, accelerating the rate at which you receive your return of principal on the certificates.** Mortgage originators are continually reviewing and revising procedures to ease the burden for themselves and borrowers of processing refinance loans. Sometimes these changes occur with our cooperation. Their changes may include reducing the amount of documentation required to refinance and easing their underwriting standards. In addition, mortgage originators are working to find ways to reduce borrower costs to refinance. To the extent mortgage originators are successful in streamlining procedures and reducing costs for refinancing, this could encourage borrowers to refinance their loans. An increase in the prevalence of refinances of the mortgage loans in the pool will accelerate the rate at which you receive payments of principal on your certificates.

**Prevailing interest rates could rise, causing borrowers not to prepay their loans, slowing the rate at which you receive your return of principal on the certificates.** You could receive payments of principal on the certificates more slowly than you expected, and the certificates could remain outstanding longer than you expected. If prevailing rates rise and borrowers are less able to obtain new loans at lower rates, they may elect less frequently to move to a new home or refinance their existing loan. The effect of these decisions by the borrowers would be that the loans in the pool may, on average, prepay less rapidly than you expected.

**Borrowers could default on their loans, resulting in prepayment of a portion of the principal on the certificates.** Because we guarantee the repayment of principal on the certificates, a default by a borrower does not reduce the amount of principal that will be repaid to certificateholders. A borrower default could, however, affect the timing of that repayment. When a mortgage loan is delinquent by four or more consecutive monthly payments (or eight biweekly payments), we have the option to purchase the loan out of the pool. We will pass through the stated principal balance of the repurchased loan to certificateholders on the distribution date in the month after the month in which the loan is repurchased. Thus, a loan delinquency that lasts for four or more months can have essentially the same effect on the timing of certificate principal repayment as a borrower prepayment. Factors affecting the likelihood of a borrower default include:

- the general economic conditions;
- local and regional employment conditions;
- borrower creditworthiness;
- significant changes in the size of required loan payments;
- uninsured natural disasters; and
- borrower bankruptcy or other insolvency.

**Borrowers could make partial prepayments of principal, accelerating the rate at which you receive your return of principal on the certificates.** Some borrowers may elect to make a partial principal prepayment and thereby reduce their outstanding loan balance. The portion of the principal that is prepaid on an unscheduled basis will be passed through to certificateholders on the distribution date in the month following the month of payment. The outstanding principal balance of the certificates will be reduced by the amount of this prepaid principal, thus accelerating the maturity of the certificates compared to what it would have been in the absence of a partial prepayment. While this risk of prepayment is applicable to all pool types, it is particularly noteworthy in the context of pools that contain loans obligating the borrower to pay only interest for a stated period, before beginning to amortize principal. Although these loans are interest only for that stated period, distributions on the certificates will also include any unscheduled payment of principal made by the borrower.

**We could withdraw some mortgage loans from the pool due to a breach of representations and warranties, accelerating the rate at which you receive your return of principal.** Each seller that sells loans to us makes representations and warranties about the seller and the loans. For a description of the subjects covered by these representations and warranties, see *"Fannie Mae Purchase Program—Seller Representations and Warranties,"* below. If these representations and warranties were not true when they were made, we can require the seller to repurchase the affected loans at any time. The affected loans could be all of the loans in the pool or only a portion of the pool. When a loan is repurchased, its stated principal balance is passed through to certificateholders on the distribution date in the month following the month of repurchase. Thus, a breach of a representation and warranty may accelerate the rate of repayment of principal on your certificates.

**If the pool includes adjustable-rate loans that permit conversion to a fixed rate, borrowers may so convert the loans, accelerating the rate at which you receive your return of principal.** Some adjustable-rate loans contain conversion options, permitting the borrower to convert the loan to a fixed rate. If these loans are included in an adjustable-rate pool, and the borrower exercises the option, thereby converting the loan to a fixed rate, we buy the loan out of the pool prior to its conversion to a fixed rate. The stated principal balance of that loan is passed through to certificateholders on the distribution date in the month following the month of our purchase. Thus, conversion of these loans to a fixed rate may accelerate the rate of repayment of principal on your certificates.

**The characteristics of loans may differ from pool to pool, causing prepayment speeds to differ for different issues of certificates.** We purchase mortgage loans with many different characteristics. For a description of these characteristics, see *"The Mortgage Pools,"* below. We change our loan eligibility requirements and underwriting standards from time to time. A loan pool may include a mix of loans with differing characteristics and loans originated at different times. This means it is possible that not all the mortgage loans in a particular pool will be subject to the same eligibility and underwriting standards. The differences among the loan characteristics and the eligibility and underwriting standards that were applied in the loan purchases may affect the likelihood that a borrower will prepay a loan under various prevailing economic circumstances and the likelihood that a borrower will become delinquent. Thus, the differences among pools may have an effect upon the extent to which the prepayment of a particular issue of certificates will follow historical averages or averages of otherwise similar certificates issued concurrently.

**The location of real property securing loans in a pool may differ from pool to pool, causing prepayment speeds to differ for different issues of certificates.** We purchase mortgage loans throughout the United States and its territories. A pool may include loans secured by property in one or several states, and may be relatively concentrated or diverse in location. Regional economic differences among locations may affect the likelihood that a borrower will prepay a loan, and the likelihood that a borrower will become delinquent. Thus, the differences among geographic concentrations in pools may have an effect upon the extent to which the prepayment of a particular issue of certificates will follow historical averages or averages of otherwise similar certificates issued concurrently.

**There may be no market for the certificates of a particular issue, and no assurance can be given that a market will develop and continue.** We cannot be sure that each new issue of certificates, when created, will have a ready market, or, if a market does develop, that the market will remain during the entire term for which the certificates are outstanding. Therefore, it is possible that if you wish to sell your certificates in the future, you may have difficulty finding potential purchasers. Some of the factors that may affect the resale of certificates are:

- the method, frequency and complexity of calculating principal or interest on the loans or the certificates;
- the age of the mortgage loans in the pool;
- the outstanding principal amount of the certificates of that series and other series with similar features;
- the amount of certificates of that series or of a series with similar features offered for resale from time to time;
- any legal restrictions or tax treatment that limits the demand for the certificates;
- the availability of comparable securities; and
- the level of interest rates generally, the volatility with which prevailing interest rates are changing and the direction in which interest rates are, or appear to be, trending.

## FANNIE MAE

Fannie Mae is a federally chartered and stockholder-owned corporation organized and existing under the Federal National Mortgage Association Charter Act. We were established in 1938 as a United States government agency to provide supplemental liquidity to the mortgage market. We became a stockholder-owned and privately managed corporation by legislation enacted in 1968. We are the largest investor in residential mortgage loans in the United States.

Under the Charter Act, we were created to:

- provide stability in the secondary market for residential mortgages;
- respond appropriately to the private capital market;
- provide ongoing assistance to the secondary market for residential mortgages (including activities relating to mortgages on housing for low-and moderate-income families involving a reasonable economic return that may be less than the return earned on other activities) by increasing the liquidity of mortgage investments and improving the distribution of investment capital available for residential mortgage financing; and
- promote access to mortgage credit throughout the nation (including central cities, rural areas and underserved areas) by increasing the liquidity of mortgage investments and improving the distribution of investment capital available for residential mortgage financing.

In accordance with our statutory purpose, we provide funds to the mortgage market by purchasing mortgage loans from lenders. In this way, we replenish their funds so they can make additional loans. We acquire funds to purchase these loans by issuing debt securities to capital market investors, many of whom ordinarily would not invest in mortgages. Thus, we are able to expand the total amount of funds available for housing.

We also issue mortgage-backed certificates, receiving guaranty fees for our guaranty of timely payment of principal and interest on the certificates. We issue mortgage-backed certificates primarily in exchange for pools of mortgage loans from lenders. By issuing mortgage-backed certificates, we further fulfill our statutory mandate to increase the liquidity of residential mortgage loans.

In addition, we offer various services to lenders and others for a fee. These services include issuing certain types of structured mortgage-backed certificates and providing technology services for originating and underwriting mortgage loans.

Our principal office is located at 3900 Wisconsin Avenue, NW, Washington, DC 20016, telephone: (202) 752-7000.

## ADDITIONAL INFORMATION ABOUT FANNIE MAE

You also should read our current Information Statement and any supplements to the Information Statement.

These documents contain important financial and other information about Fannie Mae, which we are incorporating by reference in this prospectus. This means that we are disclosing important information to you by referring to these documents and have not reprinted that information here. You should read them together with this prospectus.

We publish our Information Statement annually and update it from time to time, usually to reflect quarterly and annual financial results. When we use the term Information Statement in this prospectus, we mean our most recent Information Statement as of the issue date for a particular issue of certificates, together with any supplements to that Information Statement that have been published up until that time. You should always rely on the most current Information Statement.

You can read our Information Statement and other information about us at the offices of the New York Stock Exchange, the Chicago Stock Exchange and the Pacific Exchange. We are not subject to the periodic reporting requirements of the Securities Exchange Act of 1934, so we do not file reports or other information with the Securities and Exchange Commission.

You can obtain copies of our Information Statement, all the other documents incorporated by reference and additional information about us, without charge, by writing us at Office of Investor Relations, Fannie Mae, 3900 Wisconsin Avenue, NW, Washington, DC 20016, or by calling us at 1-800-701-4791. Some of these documents may also be available on our corporate Web site at www.fanniemae.com and our business to business Web site at www.efanniemae.com.

We may discontinue providing any of the information referenced in this section at any time without notice.

## USE OF PROCEEDS

We usually issue certificates in swap transactions, in which the certificates are issued in exchange for the mortgage loans in the pool that backs the certificates. In some instances, we may issue certificates backed by pools of mortgage loans that we already own. In those transactions, we would receive cash proceeds. Unless stated otherwise in the prospectus supplement, we would apply the cash proceeds to the purchase of other mortgage loans and for other general corporate purposes.

## DESCRIPTION OF THE CERTIFICATES

We will issue the certificates under a trust indenture. For each issuance of certificates, there will be an issue supplement to the trust indenture. We have summarized the terms of the trust indenture below. This summary is not complete. If there is any conflict between the information in this prospectus and the actual provisions of the trust indenture, the terms of the trust indenture and its related issue supplement will govern. You may obtain a copy of the trust indenture and issue supplement that applies to your certificates from our Washington, DC office.

### The Certificates

The certificates represent fractional undivided ownership interests in the pool of mortgage loans held in the trust created under the trust indenture and the issue supplement. We will hold the mortgage loans, in our capacity as trustee under the trust indenture, for the benefit of all the holders of certificates of the same issue. The fractional undivided interest of each certificate of the issue will be equal to the initial principal balance of that certificate divided by the aggregate principal balance of the loans in the pool on the issue date.

Occasionally, the certificates represent fractional undivided ownership interests in a pool of participation certificates, rather than whole mortgage loans. If that is the case, the prospectus supplement will state that fact. We will hold the participation certificates in our capacity as trustee under the trust indenture, for the benefit of all the holders of certificates of the same issue. The description of the certificates throughout this prospectus is written on the assumption that the certificates represent interests in whole loans.

### Issuance in Book-Entry Form

We will issue the certificates in book-entry form using the book-entry system of the U.S. Federal Reserve Banks, unless we specify a different method in the applicable prospectus supplement. Physical certificates are not available. Book-entry certificates must be issued in a minimum denomination of $1,000 with additional increments of $1. They are freely transferable on the records of any Federal Reserve Bank, but are not convertible to physical certificates. Any transfers are subject to the minimum denomination requirements.

A certificateholder is an entity that appears in the records of a Federal Reserve Bank as owner of the certificate. Only entities that are eligible to maintain book-entry accounts with a Federal Reserve Bank may be certificateholders. These entities are not necessarily the beneficial owners of the certificates. They are banks, brokerage firms, securities clearing organizations and similar companies, which act as financial intermediaries. Ordinarily, beneficial owners hold certificates by having accounts at financial intermediaries, which either have book-entry accounts with a Federal Reserve Bank or hold through other financial intermediaries, one of which has such a book-entry account. A certificateholder that is not also the beneficial owner of a certificate, and all the other financial intermediaries in the chain between the certificateholder and the beneficial owner, are responsible for establishing and maintaining accounts for their customers.

Neither we nor the Federal Reserve Banks will have any direct obligation to the beneficial owner of a certificate who is not also a certificateholder. We and the Federal Reserve Bank may treat the certificateholder as the absolute owner of the certificate for all purposes, regardless of any contrary notice you may provide. For example, we will make distribution payments on the certificates only to certificateholders, and will give effect to a transfer of a certificate only if we receive the notice from a certificateholder.

The Federal Reserve Bank credits the account of the certificateholder when we make a distribution on the certificates. Each certificateholder and any financial intermediaries are responsible for remitting distributions to the beneficial owners of the certificate.

### Distributions on Certificates

We will make distributions to certificateholders on the 25th day of each month, or if the 25th day is not a business day, on the first business day following the 25th day of the month. We refer to this as a distribution date. We will make the first payments for each issue of certificates on the distribution date in the month after the month of issuance. We will pay the certificateholder who is listed as the holder in the records of any Federal Reserve Bank as of the record date. The record date is the last day of the month immediately preceding the month in which the distribution date occurs.

***Interest Payments.*** On each distribution date, we will distribute to certificateholders one month's interest. Interest will be calculated on the certificate's principal balance immediately prior to that distribution date.

For pools of fixed-rate loans, we will distribute one month's interest at the pass-through rate stated in the prospectus supplement. For pools of adjustable-rate loans, other than those adjustable-rate loans that permit negative amortization, we will distribute one month's interest at the pool accrual rate.

In the case of adjustable-rate pools composed of mortgage loans that permit negative amortization, we will distribute one month's interest at the pool accrual rate minus the aggregate amount of deferred interest which is added to the principal balance of the mortgage loans during the related due period. During periods when the mortgage loans are negatively amortizing, although your certificate balance will be increasing (as deferred interest is added to the principal balance of the mortgage loans), the amount of interest you receive may not increase.

The due period for each distribution date is the period beginning with and including the second day of the calendar month preceding the month in which the distribution date occurs and ending with and including the first day of the month in which that distribution date occurs.

***Interest Accrual Basis.*** We will calculate the amount of interest due each month on the certificates by assuming that each month consists of 30 days and each year consists of 360 days. This is true even if some or all of the mortgage loans in the pool provide that interest is calculated on a different basis, such as simple interest. Simple interest, also called daily interest, means that interest on the mortgage loans is calculated daily based on the actual number of days in each month with a year consisting of 365 days (or 366 days, as applicable) and with the borrower's payment being credited on the date it is received.

***Principal Distributions.*** On each distribution date, we will distribute to certificateholders, as payments of principal on the certificates, an amount equal to the aggregate of the following amounts:

- scheduled principal due on the mortgage loans in the pool during the related due period;

- the stated principal balance of each mortgage loan that was prepaid in full during the calendar month preceding the month in which that distribution date occurs;

- the stated principal balance of each mortgage loan that was purchased out of the pool for any reason during the calendar month preceding the month in which that distribution date occurs; and

- the amount of any partial prepayment of a mortgage loan, sometimes referred to as a curtailment, received during the calendar month preceding the month in which that distribution date occurs.

The stated principal balance of a mortgage loan is the principal balance of the loan as of the issue date of the certificates, reduced by all payments of principal received and paid to certificateholders after that date, and increased by accrued interest, if any, that has been added to principal as a result of negative amortization under the loan's terms.

For mortgage loans that do not have their first scheduled principal payment due until the second due period following the issuance of the certificates, certificateholders will receive no scheduled principal payment on the first distribution date. The prospectus supplement will indicate the percentage of such mortgage loans in the pool, if any.

For mortgage loans that provide for interest to be calculated on a daily or simple interest basis, the scheduled principal payment will be determined as the amount of principal that would have been due on the mortgage loan under an amortization schedule that assumes interest accrues monthly on the basis of a 360-day year consisting of twelve 30-day months, rather than on a daily or simple interest basis.

There are some instances when the distribution date for prepayments may differ from that described above. Sometimes the servicer is unable to provide us with prepayment information in sufficient time to allow the monthly pool factor for that distribution date to reflect the prepayment. In those instances, we will distribute those prepayments to certificateholders on the distribution date that occurs in the second month following the month in which the borrower makes the prepayment. In addition, we sometimes treat prepayments in full occurring on the first day of a month as if they actually occurred on the last day of the preceding month.

### Reports to Certificateholders

***Monthly Reports.*** Each certificateholder who is listed as the holder in the records of any Federal Reserve Bank will be provided the information below with respect to each payment, adjusted to reflect each certificateholder's pro rata interest in the related pool as of the distribution date:

- the amount due on the certificates on that distribution date on account of total scheduled and unscheduled principal;
- the amount due on the certificates on that distribution date on account of interest;
- the total cash distribution on the certificates on that distribution date;
- the amount of any deferred interest added to principal as of that distribution date as a result of negative amortization on loans;
- the principal balances of the certificates on that distribution date after giving effect to any distribution of principal on that date and to any deferred interest added to the principal balances of the mortgage loans in that pool during the related due period; and
- for pools of adjustable-rate loans, the pool accrual rate for that distribution date.

***Annual Reports.*** Within a reasonable time after the end of each calendar year, we will furnish to each person who was listed as a certificateholder in the records of any Federal Reserve Bank at any time during that year a statement containing any information required by the federal income tax laws.

### Fannie Mae Guaranty

We guarantee to certificateholders, on each distribution date:

- an amount equal to the borrowers' scheduled principal payments for the related due period, whether or not received, plus
- an amount equal to one month's interest on the certificates.

For fixed-rate pools, we guarantee payment of interest at the specified pass-through rate stated in the prospectus supplement. For adjustable-rate pools, we guarantee payment of interest at the variable pool accrual rate minus the aggregate amount of any deferred interest which is added to the principal balance of the mortgage loans.

In addition, we guarantee the full and final payment of the unpaid principal balance of the certificates on the distribution date in the month of the maturity date specified in the prospectus supplement for the certificates.

If we were unable to perform our guaranty obligations, certificateholders would receive only the payments that borrowers actually make and other recoveries on the mortgage loans in the pool from sources such as insurance, condemnation and foreclosure proceeds. If that happens, delinquencies and defaults on the mortgage loans would directly affect the amounts that certificateholders would receive each month.

Neither the certificates nor payments of principal and interest on the certificates are guaranteed by the United States government. The certificates do not constitute a debt or obligation of the United

States or any of its agencies or instrumentalities other than Fannie Mae. We alone are responsible for making payments on our guaranty.

### Collection and Other Servicing Procedures

We are responsible for servicing the mortgage loans in each pool. We may service loans through lenders or other approved mortgage servicers. See *"Fannie Mae Purchase Program—Seller and Servicer Eligibility"* for information on our servicer requirements. Our servicing procedures include collecting payments from borrowers, seeing that the mortgaged property is insured, and foreclosing upon defaulted mortgage loans. Some mortgage loans provide that the lender can require payment in full if the borrower sells or transfers the related property (called a due-on-sale clause). See *"Yield Considerations—Due-on-Sale Clause"* for a discussion of the circumstances in which we will enforce a due-on-sale clause.

### Certain Matters Regarding Our Duties as Trustee

We may not resign from our duties under the trust indenture unless a change in law requires it. Even then, our resignation would not become effective until a successor has assumed our duties. A successor would not take over our guaranty obligations. Even if our other duties under the trust indenture terminate, we would still be obligated under our guaranty.

If we are unable to fulfill our guaranty obligations, the trust indenture may be modified to provide for monthly distributions to certificateholders from mortgage loan payments and other mortgage loan recoveries in a manner similar to practices and procedures followed in the servicing of whole loans for institutional investors. See *"— Amendment"* below.

We are not liable under the trust indenture to certificateholders for errors in judgment or for anything we do, or do not do, in good faith. This also applies to our directors, officers, employees and agents. Nevertheless, neither we nor they will be protected against any liability if it results from willful misfeasance, bad faith or gross negligence or as a result of willful disregard of our duties.

The trust indenture provides that we are free to refuse involvement in any legal action that we think will expose us to expense or liability unless the action is related to our duties under the trust indenture. On the other hand, we may decide to participate in legal actions, such as actions involving the mortgage loans, if we think our participation would be necessary to or in the interests of the certificateholders. In that case, we will pay the legal expenses and costs of the action.

If we merge or consolidate with another corporation, the successor corporation will be our successor under the trust indenture and will assume all of our duties under the trust indenture, including our guaranty.

### Events of Default

Any of the following events will be considered an event of default under the trust indenture for an issue of certificates:

- if we fail to make a required payment to the certificateholders, and our failure continues uncorrected for 15 days after certificateholders owning at least 5% of that issue of certificates have given us written notice of nonpayment; or
- if we fail in any material way to fulfill any of our other obligations under the trust indenture or the related issue supplement, and our failure continues uncorrected for 60 days after certificate-holders owning at least 25% of that issue of certificates have given us written notice; or
- if we become insolvent or unable to pay our debts or if other events of insolvency occur.

If one of the events of default occurs and continues uncorrected, certificateholders who own at least 25% of the related issue of certificates will have the right to terminate all of our rights and obligations under the trust indenture for that issue. These obligations include our duties as trustee and in our corporate capacity. However, our guaranty obligations will continue in effect. The same proportion of certificateholders that has the right to terminate us also may appoint a successor to all of our terminated obligations. This successor will take legal title to the mortgage loans included in the related trust fund. The acts of certificateholders to terminate us and appoint a successor must be in writing.

### Amendment

We may amend the trust indenture without notifying or obtaining the consent of the certificateholders, to do any of the following:

- add to our duties;
- evidence that another party has become our successor and has assumed our duties under the trust indenture in our capacity as trustee or in our corporate capacity or both;
- eliminate any of our rights in our corporate capacity under the trust indenture;
- cure any ambiguity or correct or add to any provision in the trust indenture or the related issue supplement, so long as no certificateholder is adversely affected; and
- if we cannot fulfill our guaranty obligations, modify the trust indenture to provide for monthly distributions from payments and other recoveries on the mortgage loans in the pool in a manner similar to practices and procedures followed in the servicing of whole loans for institutional investors.

In addition, if certificateholders owning at least 66% of an issue of certificates give their consent, we may amend the trust indenture for that issue to eliminate, change or add to its terms or those of the related issue supplement, or to waive our compliance with any of those terms. Nevertheless, we may not terminate or change our guaranty obligations or reduce the percentage of certificateholders who must give their consent to the types of amendments listed in the preceding sentence unless all certificateholders of an issue have agreed. In addition, unless each affected certificateholder consents, no amendment may reduce or delay the funds that are required to be distributed on any certificate.

### Termination

The trust indenture will terminate with respect to each issue of certificates when the last mortgage loan in that pool has been paid off or liquidated and the proceeds have been distributed to the certificateholders. We do ***not*** have an option, in the nature of a clean-up call, to repurchase the mortgage loans and thereby to retire the certificates and terminate the trust indenture.

## YIELD CONSIDERATIONS

### Effective Yield

Your yield will depend in part upon whether you purchase certificates at a discount or a premium from the outstanding principal. In general, if you purchase a certificate at a discount from the outstanding principal and the mortgage loans are prepaid at a rate that is slower than you expected, your yield on that certificate will be less than you expected. If you purchase a certificate at a premium over the outstanding principal and the mortgage loans are prepaid at a rate that is faster than you expected, your yield on that certificate also will be less than you expected. ***You must make your own decision as to the prepayment assumptions you will use in deciding whether to purchase the certificates.***

Although interest on the certificates accrues during a calendar month, we do not distribute interest to certificateholders until the distribution date in the following calendar month. Because of this delay the effective yield on the certificates will be less than it would be if we paid interest earlier.

### Yield of Adjustable-Rate Certificates

Certificates backed by adjustable-rate loans bear interest at a rate that also adjusts and that is calculated on the basis of the changing rates on the loans in the pool. How the index value is determined and how it changes, along with other features of adjustable-rate loans, will affect the yield on the certificates. See *"The Mortgage Pools—Mortgage Loan Types—Adjustable-Rate Loans (ARMs)"* for information regarding the different types of adjustable-rate loans, and the methods for adjusting their interest rates. The adjustment of interest rates on the loans in the pool affects the yield on the certificates. The effective yield on the certificates is the result of the combined effect of some or all of the following factors:

- ***The index.*** All mortgage loans in a single pool have the same index, which will be identified in the prospectus supplement.
- ***Initial fixed-rate period.*** If the mortgage loans in the pool have an initial interest rate that is not based on the index, the certificates will have an interest rate that is also not initially based on the stated index. This will continue to be true until all of the mortgage loans in the pool have had their first rate adjustment date. Not all the mortgage loans in the pool will have the same first rate adjustment date.
- ***Mortgage margin.*** On each rate change date, the interest rate is adjusted to equal the sum of the index value most recently available as of a recent date specified in the mortgage note and the mortgage margin. The result is rounded according to the rounding convention stated in the mortgage note (usually to the nearest, next lower or next higher 1/8 or 1/4 percent).
- ***Index change frequency.*** If the interest rates on the mortgage loans change less frequently than the index value, changes in the effective yield on the certificates will lag changes in the index. A change in the index value will not necessarily cause an immediate change in the pool accrual rate. The pool accrual rate will only be affected as, and to the extent that, mortgage loans in the pool experience interest rate adjustments.
- ***Interest rate adjustment dates.*** Since not all the mortgage loans in the pool will have the same rate adjustment date, the index values upon which interest rate adjustments are based may vary among the mortgage loans in a pool.
- ***The lookback period.*** The lookback period has the effect of creating a lag (in most cases 45 days) between the index value upon which interest rate adjustments are based and the index value in effect at the time the interest rate on the mortgage loan adjusts.
- ***Interest rate caps and floors.*** Interest rate caps and floors can have the effect of preventing the interest rate on a loan from increasing as high or declining as low as it otherwise would as a

result of a change in the index value. Therefore, whenever one or more mortgage loans in the pool are affected by a cap or a floor, the yield paid on the certificates will be affected.

- ***Negative amortization.*** For pools that include adjustable-rate mortgage loans which permit negative amortization, the yield on the related certificates can be affected in several ways.

  — *Principal may increase.* During periods when a mortgage loan is negatively amortizing, the unpaid principal balance on the mortgage loan will be increasing, as deferred interest is added to the principal balance of the mortgage loan. The same amount is also added to the outstanding principal balance of the certificates, so that the unpaid principal balance of the certificates equals the stated principal balance of the mortgage loans.

  — *Interest paid is affected.* When a loan is negatively amortizing, certificateholders will be paid interest equal to only the portion of the borrower's scheduled payment for the related due period that is allocable to interest. This excludes the amount of any deferred interest. As a result, during periods when one or more mortgage loans in the pool are negatively amortizing, certificateholders will receive less interest than they would have expected if they were calculating the anticipated interest solely on the outstanding certificate balance at the applicable pool accrual rate.

  — *Effect of periodic reamortization.* Whenever adjustable-rate mortgage loans are reamortized, certificateholders' monthly interest payments will no longer be reduced by deferred interest, unless another period of negative amortization occurs.

- ***Options to convert to fixed rate.*** If the borrower exercises any option to convert the adjustable-rate loan to a fixed-rate loan, we will repurchase the mortgage loan from the pool during the calendar month before the loan begins to accrue interest at the new fixed rate at a price equal to its stated principal balance, together with one month's interest at its then-current pool accrual rate. The stated principal balance of that mortgage loan will be passed through to certificateholders, and will reduce the outstanding principal balance of the certificates, on the distribution date in the month following the month of repurchase. As a result, the weighted average life of the certificates for a pool of convertible adjustable-rate loans may be significantly shorter than for a comparable pool of non-convertible adjustable-rate loans.

- ***Adjustments upon assumption.*** To the extent that any adjustable-rate mortgage loan in the pool has an adjustment in the interest rate caps, floors or the mortgage margin in connection with an assumption of the loan upon the sale of the real property, the effective yield on the certificates may be affected.

- ***Prepayments and repurchases of loans.*** Adjustable-rate pools generally contain mortgage loans having several different interest rates. The certificateholders receive a yield that is the weighted average of the loan rates, net of our fees. That weighted average will change whenever a loan in the pool is prepaid, either in whole or in part, or is purchased out of the pool. A disproportionate incidence of prepayments and repurchases among loans of different interest rates will increase or decrease the effective yield to certificateholders.

### Maturity Considerations

The weighted average life of the certificates will depend upon the extent to which each payment on the loans is applied to principal, rather than interest. For a description of the types of loans that may be included in a pool, see *"The Mortgage Pools"* below.

Fully amortizing loans with equal monthly payments (including both fixed-rate loans and adjustable-rate loans that are reamortized each time the payment is adjusted) have most of their payments allocated to interest in the early years, with greater portions of the payments allocated to principal as the loans remain outstanding. For example, in the case of a fully amortizing loan with equal monthly payments and an original maturity of 30 years, if a borrower makes all scheduled payments (but no prepayments), one-half of the original principal balance of the loan will be repaid by the 23rd to 27th year, depending on the level of the mortgage interest rate of the loan. (Higher mortgage interest rates result in a slower scheduled amortization of principal.) Similarly, on a fully amortizing loan with equal monthly payments that instead has an original term of 15 years, if a borrower makes all scheduled payments (but no prepayments), one-half of the original principal balance of the loan will be repaid by the 10th to 12th year.

Balloon loans have equal monthly payments that are calculated on the basis of an amortization schedule which is a longer period of time (generally, 30 years) than the contractual maturity date for the loan (typically 7 to 10 years). The remaining principal balance becomes due in a lump sum payment on the loan's contractual maturity date. Only a small portion of the principal amount of the loans will have amortized before the balloon payment on the loan is due.

Some mortgage loans provide for the payment of interest only for an initial period, after which the payments are increased so that the principal balance of the loan fully amortizes over the remaining term. There is no amortization of principal during the initial period, and, assuming no prepayments by the borrower, the loan amortizes more slowly than a loan of the same term and interest rate which provides for monthly payments of principal and interest from the outset. Certificates backed by pools of these loans likewise bear interest only for an initial period except to the extent of borrower prepayments.

Most mortgage loans provide for monthly payments by the borrower. Biweekly mortgage loans, however, provide for payments by the borrower every 14 days. The amount that is due every 14 days is one-half of the amount that would have been due on an otherwise identical loan with 12 equal monthly payments. Since payments are made every 14 days, 26 payments are made per year (27 in some years). Therefore, biweekly payments are made as if there were 1 additional payment made each year (1½ in some years) on a comparable monthly payment loan. In addition, because of the manner in which the biweekly payment amount is calculated, a biweekly loan with a higher interest rate will amortize more rapidly than an otherwise identical biweekly loan with a lower interest rate. Consequently, biweekly mortgage loans have a reduced term, when compared with otherwise identical monthly payment loans. This is because the principal balance of each loan is reduced every 14 days, and because the total dollar amount of payments made in a year is more than the total dollar amount of the payments made in a year on a monthly payment mortgage loan. Certificates backed by pools of biweekly mortgage loans have shorter stated maturities, usually in the range of approximately 20 years, as compared with certificates backed by monthly payment loans. Certificates backed by pools of biweekly loans with higher interest rates will have shorter stated terms to maturity as compared with certificates backed by biweekly loans with lower interest rates.

### Prepayments

Loan prepayments may occur for a variety of reasons. Some of the chief reasons are discussed in this section. They are not all equally applicable to all pools, as they relate in part to features of the loans that differ among pools. Because of these variables, we cannot estimate the future prepayment experience of the mortgage loans in our pools. You may wish to refer to our information statement for recent information regarding the prepayment experience of our mortgage loan portfolio. This prepayment experience is not, however, indicative of any one pool of mortgage loans, including the pool backing your certificates.

***Borrower Refinancing.*** Generally, when current interest rates decline below the mortgage interest rates on existing loans, prepayments are likely to increase. In a declining interest rate environment, borrowers often refinance their mortgage loans. When a borrower refinances a loan in a pool, the proceeds from the borrower's new loan pay off the loan in the pool. This results in a prepayment for the certificateholders.

It is increasingly difficult to predict how far interest rates must decline before significant prepayments occur. This difficulty results from several developments. For instance, various lenders (in some cases in conjunction with us) have instituted streamlined refinance procedures and liberalized fee structures and underwriting guidelines. That may increase the number of borrowers who are eligible for refinance loans, and may narrow the interest rate differential that would make refinancing attractive to borrowers. In addition, increased borrower sophistication regarding the benefits of refinancing and extensive mass solicitation of borrowers by lenders (including our mortgage loan servicers) may increase the frequency with which borrowers refinance their mortgage loans. Our policy permits lenders who service mortgage loans in our pools to advertise in a general manner their availability and willingness to make new refinancing loans, but does not permit them to specifically target borrowers whose loans are in our pools.

***Loan Modifications.*** We normally prohibit lenders servicing our loans from repurchasing mortgage loans from our pools for the purpose of making loan modifications or from modifying mortgage loans that are in our pools.

In the case of certain adjustable-rate loan pools, however, a lender may repurchase adjustable-rate loans in order to modify them as part of the lender's borrower retention strategy. Our policy prohibiting lenders from specifically targeting borrowers whose loans are in our pools in their solicitations will apply. We will specify in a prospectus supplement and by a separate subtype designation if a pool of adjustable-rate loans is subject to repurchase for the purpose of modification. See *"The Mortgage Pools—Pool Prefixes,"* below for information about subtype designations. Otherwise, we do not permit lenders to repurchase adjustable-rate loans from our pools for the purpose of modification.

Another exception to our normal prohibition on repurchases for modifications results from the fact that FHA and VA generally permit loans to be modified as a part of their loss mitigation strategy. Prior to any modification being made on an FHA or VA loan which will impact the interest rate, timing or amount of monthly payments or loan term, the FHA or VA loan will be repurchased from the pool. See *"The Mortgage Pools—Mortgage Loan Types,"* below for a description of FHA and VA mortgage loans.

Repurchase of certain adjustable-rate loans and FHA or VA loans for the purpose of modification will result in repayment of principal on the certificates in the same manner as borrower prepayments.

***Other Borrower Considerations.*** Prepayment rates are influenced by a variety of factors, including homeowner mobility and general economic circumstances. Certain mortgage loan features may also impact prepayment rates. For example, loans which permit borrowers to pay only accrued interest for extended periods of time without requiring any principal amortization may impact borrower decisions regarding sale of the property or refinance since the borrower will not have reduced the principal balance of the loan. Other factors that may influence a borrower's decision on prepayment are described below under the subheadings *"—Prepayment Premiums"* and *"—Due-On-Sale Clause."*

Borrowers' credit history may also have an impact on prepayment rates. If a borrower's credit has declined over the term of the loan, or is otherwise impaired, that borrower may find it difficult to qualify for a refinancing loan, even in a declining interest rate environment. Conversely, if a borrower's credit has improved over the term of the loan, that borrower may find it easier to qualify for a refinancing loan at a lower interest rate, even in a rising interest rate environment. In addition, to the extent that a borrower's credit history reflects a greater likelihood of borrower default, it necessarily reflects a greater likelihood of a repurchase of the loan due to a delinquency of four or more consecutive installments (eight or more for biweekly loans), which would result in prepayment of the certificates to the extent of that loan's stated principal balance.

***Repurchases.*** Our option to repurchase delinquent mortgage loans and mortgage loans for which a breach of a representation or warranty has occurred may result in prepayment of principal on the certificates in the same manner as borrower prepayments. The rate of prepayment may also be impacted by the repurchase of those adjustable-rate loans that permit conversion to a fixed rate.

***Prepayment Premiums.*** Some mortgage loans provide that the borrower must pay a premium if the loan is paid in full or in part prior to its maturity. Prepayment premiums apply for the time period specified in the mortgage note (such as for three years after the loan's origination). If this provision is included in a mortgage loan, it may affect a borrower's decision whether or when to sell the property, refinance, or otherwise pay off the loan. Unless the prospectus supplement states otherwise, none of the mortgage loans in the pool will contain prepayment premium provisions. If the mortgage loans contain prepayment premium provisions, all of the mortgage loans in that pool will have prepayment premium features unless the prospectus supplement states otherwise. If a pool of fixed-rate mortgage loans has prepayment premium provisions, we will use a special pool prefix and the prospectus supplement will describe any prepayment premium features.

Prepayment premiums will not be paid to certificateholders unless so stated in the related prospectus supplement.

**Due-on-Sale Clause**

Many fixed-rate loans include a provision (called a due-on-sale clause), stating that the lender can require payment in full if the borrower sells or transfers the related property. There are, however, several laws that limit the enforceability of this provision. On fixed-rate loans, when a borrower sells or transfers the property securing a loan in a pool, we will either enforce the due-on-sale provision of the loan or repurchase the mortgage loan from the pool, except if we are prohibited by law from enforcing the provision. In either case, the principal of the loan will be paid to the certificateholders by the distribution date in the month following the month of prepayment or repurchase of the loan.

We will not, however, in most situations, enforce the due-on-sale clause if the related property is being transferred from one co-borrower to another co-borrower, even if unrelated.

Most adjustable-rate loans contain an exception to the due-on-sale clause which permits a buyer of the related property to assume the loan if the buyer meets the credit underwriting requirements of the lender. For all other adjustable-rate loans, even if the adjustable-rate loans contain due-on-sale clauses which do not permit assumptions, we will not enforce these clauses unless the related prospectus supplement says otherwise.

Loans that are guaranteed or insured by a government agency contain clauses which provide that the loan will be assumable upon the sale of the related property, subject generally to the purchaser's compliance with the credit and underwriting guidelines of the governmental agency, unless the related prospectus supplement says otherwise.

**Subordinate Lien Mortgage Loans**

There are several reasons why borrowers may be more likely to prepay subordinate lien mortgage loans than first lien mortgage loans. Borrowers may not view subordinate lien loans as permanent financing. Compared to a first lien loan, the loan term of a subordinate lien loan is typically shorter (although they can have original maturities of up to 30 years). The interest rate on a subordinate lien loan is typically higher. The principal amount is typically smaller, and its prepayment may, therefore, be easier for the borrower to fund. We are not aware of any reliable statistics or studies on the prepayment rates of subordinate lien mortgage loans.

From time to time, Congress proposes tax legislation that would restrict or prevent borrowers from deducting interest payments on subordinate lien mortgage loans for federal income tax purposes. If such a tax law were enacted, it could result in faster prepayment rates for those loans.

### Special Feature Loans

Some loans include features that may affect the likelihood of their prepayment or other aspects of their performance as part of a pool. Some examples are:

- relocation loans, which are made under arrangements with employers for relocating their employees;
- cooperative share loans, which are secured by pledges of ownership interests and assignments of occupancy rights in cooperative housing corporations; and
- CRA loans, which are pooled with reference to the geographical location of the mortgaged property or other information that enables certificateholders who are financial institutions to demonstrate compliance with the Community Reinvestment Act.

These types of loans are discussed in the section of this prospectus entitled *"The Mortgage Pools—Special Feature Mortgage Loans."*

## THE MORTGAGE POOLS

We have a program in which we combine residential mortgage loans into pools and issue our guaranteed mortgage pass-through certificates, which evidence ownership interests in the pooled loans. We also create pools of participation interests in mortgage loans. For purposes of our description here, a participation interest is considered as if it were a separate mortgage loan, and payments on the participation interest are treated as if they were payments on the underlying loan.

### Pool Prefixes

Each mortgage loan pool, and the related issue of guaranteed mortgage pass-through certificates, is assigned a separate pool number. The pool number contains a two-character prefix that identifies the type of loans in that pool and the basic terms of the certificates. The type of information reflected by the prefix includes whether the loans are conventional or government-insured or guaranteed, whether they bear interest at a fixed-rate or an adjustable-rate and, in the case of fixed-rate pools, the general term to maturity, and in the case of adjustable-rate pools, various other features. We include in a prospectus supplement for each adjustable-rate pool additional information about the loan characteristics of the pool, such as the index, the frequency of rate and payment adjustments, the percent and timing of interest rate caps, any prepayment premiums or interest only payment periods, and any option of the borrower to convert the loan to a fixed-rate loan. Each adjustable-rate pool is also assigned a subtype designation, which provides a summary of the loan characteristics for that pool. While pool prefixes and adjustable-rate subtypes provide a quick and easy reference source for the pool's loan characteristics, **you should rely ONLY on the information in this prospectus, the related prospectus supplement and any information which we have incorporated into these documents by reference when determining whether to purchase certificates.**

Some frequently used prefixes are listed on *Exhibit A* at the end of this prospectus. Current information about prefixes, including prefixes created after the date of this prospectus, and subtypes can be found on our corporate Web site at www.fanniemae.com and our business to business Web site at www.efanniemae.com under the title "About MBS Products."

### Monthly Pool Factor

On or about the fourth day of each month, we will publish the current monthly pool factor for each issue of certificates that remains outstanding. If you multiply the monthly pool factor by the original principal balance of the certificates, you will obtain the current principal balance of the certificates, after giving effect to the monthly principal payment to be passed through on the distribution date in that month. These monthly pool factors are made available each month on our corporate Web site at www.fanniemae.com and our business to business Web site at www.efanniemae.com under the title "Pool Talk" and in various financial publications.

## Minimum Pool Size

Unless we state otherwise in the prospectus supplement for a particular pool, each of our pools will consist of either:

- Fixed-rate loans that have an aggregate unpaid principal balance of at least $1,000,000, or
- Adjustable-rate loans that have an aggregate unpaid principal balance of at least $500,000.

In each case, the aggregate unpaid principal balance is measured as of the first day of the month in which the certificates are issued. No pool will contain both fixed-rate and adjustable-rate loans.

## Mortgage Pool Types

### *Fixed-Rate Pools—Fixed Pass-Through Rate*

Fixed-rate pools consist entirely of fixed-rate loans. Although the loans in a fixed-rate pool bear various fixed rates of interest, certificateholders will receive interest at a single fixed pass-through rate, which is specified in the related prospectus supplement. In most instances, the interest rates of the underlying fixed-rate loans in a single pool are grouped so that they are all within a 2.5 percentage point range. The pass-through rate does not change if prepayments occur, even if those prepayments cause a change in the weighted average interest rate on the remaining loans in the pool. However, because interest is paid based on the outstanding principal balance of the certificates, and principal prepayments are passed through as repayment of principal on the certificates, principal prepayments may affect the yield on the certificates. For a discussion of how prepayments can affect yield, see *"Yield Considerations"* above.

### *Adjustable-Rate Pools—Variable Pool Accrual Rate*

Adjustable-rate pools, also called ARM pools, consist entirely of mortgage loans that bear interest at rates that adjust periodically in response to changes in an index. Some of the frequently used indices are described below.

We will calculate interest for each adjustable-rate pool at a monthly rate, which we call the pool accrual rate. The pool accrual rate is equal to the weighted average of the mortgage interest rates of each loan in that pool net of our servicing fee and our guaranty fee related to that loan. Therefore, the pool accrual rate is not a fixed pass-through rate. We refer to the sum of our servicing fee and our guaranty fee as our fee percentage. We refer to the difference between the loan's mortgage margin and our fee percentage as the MBS margin. While interest on the loans will accrue at a rate equal to the index plus the mortgage margin (except when the loans are in their initial fixed-rate periods or are subject to interest rate caps and floors), the pool accrual rate is reduced by our fee percentage.

There are two ways in which the MBS margin in an adjustable-rate pool may be established.

- In some adjustable-rate pools, the MBS margin is the same for all loans in the pool. We refer to this type of adjustable-rate pool as a fixed MBS margin pool.
- In other adjustable-rate pools, our fee percentage is the same for all loans in the pool, with the result that the MBS margins vary among the loans in the pool. We refer to this type of adjustable-rate pool as a weighted average MBS margin pool.

The prospectus supplement will provide information about the MBS margin for your pool. Each month we make available updated MBS margin information for the pool on our corporate Web site at www.fanniemae.com and our business to business Web site at www.efanniemae.com under "Pool Talk" and in various financial publications.

### The Mortgage Loans

Each mortgage loan in a pool is evidenced by a promissory note and secured by a deed of trust, mortgage or similar security instrument creating a first lien (or, if the prospectus supplement so states, a subordinate lien) on a one- to four-unit residential property. These may include loans secured by pledges of ownership interests and assignments of occupancy rights in cooperative housing corporations. The loans bear interest at either a fixed or an adjustable rate. Each mortgage loan requires the borrower to make monthly payments of principal and interest, except as provided otherwise in the related prospectus supplement. Our pools include loans originated for the purpose of purchase, refinancing and rehabilitation of one- to four-unit residential properties. The properties may be either owner-occupied or non-owner-occupied.

We hold, for the benefit of the certificateholders, the original note endorsed in blank and an assignment to us of the mortgage or deed of trust in form suitable for recordation or filing, but usually not recorded or filed. Depending upon the lender's servicing experience and financial condition, the assignment of mortgage may be in the form of a blanket assignment covering a large number of mortgages, rather than a separate assignment for each loan. A blanket assignment may cover mortgages of properties located in more than one recording or filing jurisdiction. In the case of cooperative share loans, we hold comparable documentation, which includes, if applicable, a recognition agreement and assignment, the stock, share or membership certificate, an executed stock power in blank, and the borrower's original proprietary lease. If the original note is in electronic form, ownership of the note is determined under the rules of a registry established for purposes of tracking ownership interests in electronic documents, as permitted under applicable electronic signature laws. In that case, instead of holding an endorsed note, we will follow the procedures of the registry for taking title to the note. Documents other than the note may also be in electronic form. If they are, we will follow, for each of them, the procedures of the relevant registry for the use of electronic documents.

We either take possession of these documents ourselves or, at our option, have a custodian take possession of these documents for us. If we use a custodian, the custodian must be an institution that is supervised and regulated, or a subsidiary or affiliate of an institution that is supervised and regulated, by the Comptroller of the Currency, the Board of Governors of the Federal Reserve System, the Office of Thrift Supervision, the Federal Deposit Insurance Corporation or the National Credit Union Association. Before issuing a series of certificates, we review the mortgage loan schedule for that series, and afterwards we conduct random spot checks to confirm that the related documents are held by the custodian.

We have the right to change these document delivery and custody requirements at any time so long as we determine that the change will not materially or adversely affect the certificateholders' interests. We have set up these requirements to protect certificateholders' interests in the mortgage loans contained in the related pool. Nevertheless, because the law is unclear regarding a liquidation, reorganization or similar proceeding involving the assets of Fannie Mae, no assurance can be made regarding the status of the certificateholders' interests in the mortgage loans if a proceeding of that type should occur.

### Mortgage Loan Types

Most of the loans included in our pools are conventional mortgage loans—that is, loans that are not insured by the Federal Housing Administration, referred to as the FHA, or guaranteed by the Department of Veterans Affairs, referred to as the VA, the Department of Housing and Urban Development, referred to as HUD, or the Rural Housing Service, referred to as the RHS, formerly known as the Farmers' Home Administration. We refer to non-conventional loans as government loans.

We refer to pools that include exclusively government loans as government pools. Some conventional loan pools may include loans that are guaranteed directly by HUD or RHS.

Both conventional loans and government loans can bear interest at either a fixed or an adjustable rate, and can provide for repayment of the principal on several different bases. The following discussion describes the types of interest rate and loan repayment terms that may be features of the loans in a pool. The prospectus supplement identifies which of these types of loans are included in the pool.

### Fixed-Rate Loans

Each fixed-rate loan is of one of the following types. No fixed-rate pool may include mortgage loans of more than one of these types within the same pool, except that graduated payment mortgage loans and growing equity mortgage loans that have become eligible for inclusion may be pooled with fully amortizing loans.

- ***Fully amortizing loans***—Each scheduled monthly payment of principal and interest is in the same amount and fully amortizes the principal of the loan over its term. The term is usually 15, 20 or 30 years.
- ***Interest-only initially to fully amortizing equal payment loans***—During an initial period of time, no scheduled principal payment is due on the loan, and the borrower's required monthly payment is set at an amount sufficient to pay only the monthly interest due on the outstanding principal balance at the mortgage interest rate. Consequently, during this initial period, distributions on certificates backed by pools of this type of mortgage loan will consist only of interest and unscheduled principal from partial or full prepayments on the mortgage loans. On the first payment due date following the end of the initial interest-only period, the monthly payment amount will change to an amount necessary to pay interest at the mortgage interest rate plus principal in an amount that fully amortizes the outstanding principal balance of the loan on a level debt service basis over the remainder of its term. Accordingly, distributions on the certificates following the end of the initial interest-only period related to the new monthly payment will include scheduled principal (as well as unscheduled principal).
- ***Balloon loans***—Each scheduled monthly payment of principal and interest, except the final payment, is in the same amount. That amount is not sufficient, however, to amortize the loan fully over its term. The final scheduled payment at maturity is a lump sum or balloon payment that is substantially larger than any previous scheduled payment.
- ***Biweekly loans***—Each scheduled payment of principal and interest is in the same amount and fully amortizes the loan over its term. Payments are due every 14 days. The borrower's biweekly payment is equal to one-half the amount of the monthly payment for a fully amortizing 30 year loan of the same principal amount and interest rate. Because the borrower's payments are due every 14 days, there are 26 payments in a year (or 27 in some years). Biweekly loans generally have two biweekly payments during ten months of the year and three payments in the other two months. In years with 27 payments, biweekly loans have two biweekly payments during nine months and three payments in the other three months.
- ***Graduated payment mortgage loans***—The scheduled monthly payments of principal and interest gradually increase over a fixed period of time, in accordance with a pre-set schedule. The early payment amounts are not sufficient to pay all of the accrued interest, so during the early portion of the term some of the interest is deferred. The only graduated payment mortgage loans that are eligible for inclusion in our fixed-rate pools are those as to which no further interest will be deferred after the issue date of the related certificates.
- ***Growing equity mortgage loans***—The scheduled monthly payments of principal and interest gradually increase over a fixed period of time, in accordance with a pre-set schedule. The amount of the increases is applied solely to principal. The only growing equity mortgage loans that are eligible for inclusion in our fixed-rate pools are those as to which no further payment increases are scheduled to occur after the issue date of the related certificates.

### Adjustable-Rate Loans (ARMs)

Adjustable-rate pools consist entirely of mortgage loans that bear interest at rates which adjust periodically in response to changes in an index. These loans are sometimes called ARMs.

#### *Types of adjustable-rate loans*

Each adjustable-rate loan is of one of the following types. An adjustable-rate pool will include loans of one of these types. Unless the prospectus supplement states otherwise, adjustable-rate pools will not include mortgage loans which commingle one or more of the features described below. The prospectus supplement will describe each of the following features to the extent they apply to a particular issue of certificates.

- ***Fully amortizing ARMs***—The interest rate adjusts periodically during the term of the loan. Each time the rate is adjusted, the monthly payment amount is adjusted to cover accrued interest and full amortization of principal on a level payment basis over the remaining loan term, based on the current interest rate. Unless we specify otherwise in the applicable prospectus supplement, each loan included in an ARM pool is a fully amortizing adjustable-rate loan.

- ***Interest-only initially to fully amortizing loans***—For an initial period of time, the interest rate is a fixed rate and no scheduled principal payment is due on the loan. The borrower's required monthly payment is set at an amount sufficient to pay only the monthly interest due on the outstanding principal balance at the fixed rate. Consequently, during this initial period, distributions on certificates backed by pools of this type of mortgage loan will consist only of interest and unscheduled principal from partial or full prepayments on the mortgage loans. Beginning on the payment due date of the last scheduled interest-only payment, the interest rate on the loan will begin adjusting in accordance with the provisions of the mortgage note to a rate based on the index and margin specified in the mortgage note. On the first payment due date following the end of the initial interest-only period, the monthly payment amount will change to an amount necessary to pay interest at the new mortgage interest rate plus principal in an amount that fully amortizes the outstanding principal balance of the loan on a level debt service basis over the remainder of its term. Accordingly, distributions on the certificates following the end of the initial interest-only period related to the new monthly payment will include scheduled principal and monthly interest based on the pool accrual rate then in effect (as well as unscheduled principal).

- ***Deferred interest/negative amortization ARMs***—As with ARMs that do not permit negative amortization, the interest rate and payment amount adjust periodically during the term of the loan. There is, however, either an adjustment schedule in which the payment amounts are adjusted less frequently than the interest rate or a payment cap, limiting the amount by which the payment can increase as a result of an interest rate increase, or, in some cases, both. In either case, this feature creates the possibility that after an interest rate adjustment, the monthly payment will be insufficient to cover the accrued interest. Whenever that occurs, the portion of interest that is not included in the payment amount will be added to principal (referred to as negative amortization).

- ***Fully amortizing ARMs with fixed-rate conversion option***—The interest rate and payments adjust in the same manner as fully amortizing ARMs, described above, unless the loan is converted. The borrower has the option to convert the interest rate to a fixed rate at specified times.

#### *How adjustable-rate loans work*

Adjustable-rate loans bear interest at rates that adjust periodically in response to changes in an index. Some of the frequently used indices are described below.

- ***Initial fixed-rate period.*** For an initial period, interest on most adjustable-rate loans accrues at a fixed rate, which may not be based on the index value in effect at the time of the loan's origination. The prospectus supplement will state the length of time from loan origination to the first interest rate change for the loans in the pool and the frequency of subsequent interest rate adjustments.
- ***Calculation of the adjustable interest rate.*** After the initial fixed-rate period, if any, the interest rate on the loan is adjusted at regular intervals specified in the mortgage note. On each rate change date the interest rate is adjusted to equal the sum of the index value most recently available as of a date specified in the mortgage note plus an amount specified in the mortgage note and referred to as the mortgage margin. The result is rounded according to the rounding convention stated in the mortgage note (usually to the nearest, next lower or next higher ⅛ or ¼ percent). Unless the prospectus supplement states otherwise, the index value used in this calculation is the index value that was most recently available as of the date that is 45 days before the adjustment date (referred to as the lookback period).
- ***Interest rate caps and floors.*** Most adjustable-rate loans contain periodic interest rate caps and floors, which limit the amount by which the interest can increase or decrease on each interest rate change date. The prospectus supplement will describe the periodic interest rate caps and floors that apply to the initial rate adjustment and to each subsequent interest rate adjustment. Adjustable-rate loans also include a lifetime interest rate cap. The interest rate on the adjustable-rate loan can never exceed the lifetime interest rate cap, regardless of the applicable index value. Some adjustable-rate loans also have lifetime interest rate floors below which the interest rate cannot be set.
- ***Options to convert to fixed rate.*** Some adjustable-rate mortgage loans permit the borrower to convert the loan to a fixed interest rate at certain times specified in the mortgage loan documents. If the borrower exercises the right to convert the ARM to a fixed rate, we will repurchase the loan from the pool during the calendar month before the loan begins to accrue interest at the new fixed rate at a price equal to its stated principal balance, together with one month's interest at its then-current pool accrual rate. As a result, the weighted average life of the certificates for a pool of convertible ARMs may be significantly shorter than for a comparable pool of non-convertible ARMs. In general, the new fixed rate is based on a spread of at least 0.375% above the net yield we require or the Federal Home Loan Mortgage Corporation requires when purchasing 30-year fixed-rate loans under short-term mandatory delivery commitments in effect at the time the ARM converts to its fixed rate. (If the original term of the convertible ARM is 15 years or less, the required net yield for 15 year fixed-rate loans is used.) Unless stated in the related prospectus supplement, we will not include convertible ARM loans in a pool. The prospectus supplement for a convertible ARM pool will specify the times when the ARMs may begin to accrue interest at a fixed rate.
- ***Negative amortization.*** Unless we specify otherwise in the prospectus supplement, the pool will contain no loans that have a possibility of negative amortization.
    - ***Payment change frequency and payment caps.*** If the mortgage note permits negative amortization, there may be times when the monthly payment is insufficient to pay all of the interest that has accrued during the month. This usually occurs in two instances, when payments are not adjusted as frequently as the interest rate adjusts or when a payment cap applies, or both. Payment caps and floors limit the amount by which the borrower's payment can increase or decrease with each interest rate change, frequently to 7.5% above or below the amount of the monthly payment before the interest rate change. If a payment cap or floor applies, the prospectus supplement will so state. In either case, when this happens, the amount by which the payment is insufficient to pay the interest due is deferred and added to the principal balance of the mortgage loan. Interest then accrues on the new higher mortgage loan balance. Unless the prospectus supplement states

otherwise, all payment adjustments on ARM loans will be effective in the month after each interest rate change and no payment caps will apply to the loans in the pool.

  - ***Periodic reamortization.*** Most adjustable-rate loans that permit negative amortization provide for a full reamortization of principal periodically, usually five or ten years from the first payment due date for the loan, and then, every five years for the remainder of the loan term. These loans also usually provide that, between these dates of planned reamortization, if the addition of deferred interest to principal would cause the then principal balance of the loan to exceed a specified amount over the original principal balance, then the loan is reamortized. The levels that are most frequently specified to trigger this unscheduled reamortization are 110%, 115% and 125% of the original principal balance. Reamortization is the adjustment of the monthly payment amount to an amount sufficient to pay the then remaining principal balance of the loan, together with interest at the then applicable rate, in equal monthly payments for its remaining term. This readjustment is made without regard to the caps on payment adjustments that would otherwise apply. If a loan permits negative amortization, the prospectus supplement will indicate the dates for scheduled reamortizations and the trigger level for unscheduled reamortizations.

- ***Rate adjustments upon assumption.*** Adjustable-rate loans generally permit the purchaser of the real property that secures the loan to assume the loan, provided that the purchaser is reasonably satisfactory to the lender. For additional information about the rules that apply in this circumstance, see *"Yield Considerations—Due-on-Sale Clause."* In some cases, the lender is permitted at the time of the assumptions, to reset the maximum and minimum interest rates and payment or lifetime interest rate caps based on then prevailing market interest rates. If a pool includes loans that provide for resets of any of these features at the time a loan is assumed, the prospectus supplement will disclose the particular parameters that are permitted to be reset at the time of an assumption of the loan.

***ARM indices***

Some of the most frequently used indices are described below. The prospectus supplement for each pool will specify the index used (which may be one described below or a different one) to determine the mortgage interest rates for the mortgage loans in the pool. We make no representations as to the continued availability of these indices nor the date on which the index is published or made publicly available.

- *US Treasury Indices:* The weekly average yield on United States Treasury securities adjusted to a constant maturity of one year (One-Year Treasury Index), three years (Three-Year Treasury Index), five years (Five-Year Treasury Index) and ten years (Ten-Year Treasury Index), in each case as made available by the Federal Reserve Board.[1] These indices are sometimes referred to as the constant maturity Treasury indices or "CMT" indices.
- *WSJ LIBOR Indices:* The average of the London Interbank Offered Rates for six-month (Six-Month WSJ LIBOR Index) and one-year (One-Year WSJ LIBOR Index) United States dollar-denominated deposits, as published in *The Wall Street Journal.*

[1] These indices are published by the Board of Governors of the Federal Reserve System in Federal Reserve Statistical Release: Selected Interest Rates No. H.15 (519). This release usually appears on Monday (or Tuesday if Monday is not a business day) of every week. You can obtain a copy by writing the Publications Department at the Board of Governors of the Federal Reserve System, 21st and "C" Streets, NW, Washington, D.C. 20551 or by calling (202) 452-3244 or by accessing their website at www.federalreserve.gov/releases.

• *COFI Index:* The monthly weighted average cost of savings, borrowings and advances of members of the Federal Home Loan Bank of San Francisco, as made available by such Bank (COFI Index).[2]

The following table lists some historical values for the indices described above. The values listed for the One-Year Treasury Index, the Three-Year Treasury Index, the Five-Year Treasury Index and the Ten-Year Treasury Index are the ones published in the first week of that month. Each value listed for the COFI Index is the weighted average cost of funds for the particular month, but the index value is not published until the last business day of the following month. The values listed for One-Year WSJ LIBOR Index and Six-Month WSJ LIBOR Index are those published on the first business day of the month.

| Year-Month | One-Year Treasury Index | Three-Year Treasury Index | Five-Year Treasury Index | Ten-Year Treasury Index | COFI Index | One-Year WSJ LIBOR Index | Six-Month WSJ LIBOR Index |
|---|---|---|---|---|---|---|---|
| 1996 – June | 5.70% | 6.34% | 6.55% | 6.77% | 4.809% | | 5.7187% |
| – December | 5.41 | 5.75 | 5.90 | 6.12 | 4.842 | | 5.5625 |
| 1997 – June | 5.86 | 6.44 | 6.60 | 6.75 | 4.853 | | 6.0000 |
| – December | 5.50 | 5.77 | 5.82 | 5.86 | 4.963 | | 5.9375 |
| 1998 – June | 5.43 | 5.56 | 5.57 | 5.57 | 4.881 | | 5.7421 |
| – December | 4.46 | 4.42 | 4.39 | 4.64 | 4.655 | | 5.1535 |
| 1999 – June | 4.93 | 5.43 | 5.51 | 5.56 | 4.504 | | 5.2512 |
| – December | 5.73 | 6.08 | 6.13 | 6.20 | 4.852 | | 6.0713 |
| 2000 – June | 6.30 | 6.60 | 6.49 | 6.26 | 5.357 | | 7.1088 |
| – December | 6.00 | 5.61 | 5.52 | 5.56 | 5.617 | | 6.6000 |
| 2001 – June | 3.70 | 4.55 | 5.00 | 5.48 | 4.498 | 4.1675% | 3.9300 |
| – July | 3.60 | 4.38 | 4.82 | 5.29 | 4.274 | 4.1875 | 3.9000 |
| – August | 3.56 | 4.14 | 4.65 | 5.13 | 4.106 | 3.8200 | 3.6888 |
| – September | 3.44 | 3.94 | 4.47 | 4.84 | 3.974 | 3.5819 | 3.4600 |
| – October | 2.49 | 3.22 | 3.94 | 4.66 | 3.628 | 2.6425 | 2.5225 |
| – November | 2.11 | 2.92 | 3.73 | 4.37 | 3.368 | 2.2719 | 2.1463 |
| – December | 2.23 | 3.50 | 4.25 | 4.92 | 3.074 | 2.3863 | 2.0300 |
| 2002 – January | 2.24 | 3.69 | 4.47 | 5.15 | 2.823 | 2.4425 | 1.9813 |
| – February | 2.25 | 3.65 | 4.40 | 5.05 | 2.744 | 2.4913 | 2.0338 |
| – March | 2.28 | 3.61 | 4.30 | 4.90 | * | 2.4300 | 2.0300 |
| – April | 2.70 | 4.31 | 4.88 | 5.38 | * | 3.0025 | 2.3300 |

* Not available as of the date of this prospectus.

## Special Feature Mortgage Loans

The following types of mortgage loans are sometimes treated separately in establishing loan pools. These loans may have either a fixed or an adjustable interest rate, and may have payment structures of one or more of the types described above with respect to fixed- and adjustable-rate loans.

### *Relocation Loans*

Some employers enter into an agreement with a lender for the lender to make mortgage loans to one or more employees who are moving to a new job location. The mortgage loans are to finance the purchase of a home at the new job location. In general, these employees are highly mobile and expect to be relocated frequently. These loans may involve financial contribution by the employer, which can include subsidies and interest rate buydowns. We cannot estimate the future prepayment performance of relocation loans or how their performance might compare with that of loans that are not relocation

[2] The COFI Index is published in the monthly Federal Home Loan Bank of San Francisco Bulletin. You can obtain a copy by writing to the Office of Public Information, Federal Home Loan Bank of San Francisco, P.O. Box 7948, 600 California Street, San Francisco, California 94120 or by calling (415) 616-1000. You can also obtain the COFI Index by calling (415) 616-2600 or by accessing the FHLB-SF website at www.fhlbsf.com.

loans. However, since the employer frequently has a financial interest in the loan, a beneficial change in the interest rate environment may cause the employer to encourage the employee to refinance the loan. We are not aware of any studies or statistics on the prepayment rates of relocation loans. In addition to the factors affecting loan prepayment rates in general, the prepayment of relocation loans depends on the circumstances of individual employees and employers and the characteristics of the specific relocation programs involved. Furthermore, a change in the economy or in the employer's business, such as an economic downturn or accelerated expansion of the employer's business, could cause an employer to suspend its relocation program or to move employees more frequently.

A pool typically will consist entirely of relocation loans. The pool prefix, in the case of fixed-rate pools, and a subtype, in the case of adjustable-rate pools, will indicate if this is the case. Relocation loans may also be included in pools without a pool prefix or subtype that indicates their inclusion. When this occurs, unless the prospectus supplement states otherwise, the relocation loans in that pool will not exceed 10%, by aggregate principal balance, of the pool on its issue date.

***Cooperative Share Loans***

In some communities, residents of residential units in multi-tenant housing projects own their dwellings through ownership in a cooperative housing corporation. Unlike borrowers under traditional mortgage loans, the borrowers do not buy the real estate but rather acquire interests in the cooperative housing corporation with rights to occupy their respective dwelling units.

A cooperative share loan is secured by two things: the stock or certificate of membership (or other similar evidence of ownership) issued by the cooperative housing corporation to the borrower as tenant-stockholder or resident-member and the proprietary lease, occupancy agreement or other similar agreement granting the borrower as tenant-stockholder or resident-member the right to occupy a particular dwelling unit in the housing project owned by the cooperative housing corporation. The borrower's ownership interest and occupancy rights are subject to restrictions on sale or transfer.

In addition to making the monthly mortgage payment, the borrower generally must pay a proportional share of any mortgage loan of the cooperative housing corporation secured by the housing project and of real estate taxes. If the borrower fails to do so, the cooperative housing corporation can terminate the borrower's occupancy rights. In addition, the borrower's occupancy rights are subordinate to any mortgage loan of the cooperative housing corporation secured by the housing project. If the corporation should default on its project mortgage loan, the corporation's lender could foreclose on the housing project and terminate the occupancy rights of the borrower. This increases the likelihood of a repurchase of the cooperative share loan out of the pool due to borrower default, and a resulting prepayment of principal on the related certificates.

It is often the case that a single lender will have made several cooperative share loans to residents of the same housing project, and those loans may be included in the same pool. In that case, the certificateholders that have invested in the related series of certificates would be significantly at risk for multiple loan repurchases, and resulting prepayment of principal on the certificates, with respect to a default by that particular cooperative housing corporation.

A pool typically will consist entirely of cooperative share loans. The pool prefix, in the case of fixed-rate pools, and a subtype, in the case of adjustable-rate pools, will indicate if this is the case. Cooperative share loans may also be included in pools without a pool prefix or subtype that indicates their inclusion. When this occurs, unless the prospectus supplement states otherwise, the cooperative share loans in that pool will not exceed 10%, by aggregate principal balance, of the pool on its issue date.

***Buydown Mortgage Loans***

To induce people to buy the homes, builders and sellers of homes, or other interested parties, including lenders, may agree to pay some of the costs of the loan, including subsidizing the monthly mortgage payments for an agreed period of time. This arrangement may enable borrowers to qualify for loans, even though their available funds ordinarily would not enable them to do so.

A pool typically will consist entirely of loans having significant temporary interest rate buydowns of more than two percent (2%) below the note rate, or a buydown which is extended for more than 2 years. The pool prefix, in the case of fixed-rate pools, and a subtype, in the case of adjustable-rate pools, will indicate if this is the case. Buydown mortgage loans may also be included in pools without a pool prefix or subtype that indicates their inclusion. When this occurs, unless the prospectus supplement states otherwise, the buydown loans in that pool will not exceed 10%, by aggregate principal balance, of the pool on its issue date.

#### *Community Reinvestment Act Mortgage Loans*

Many lenders that sell loans to us are required to provide credit to low- and moderate-income borrowers or to borrowers residing in low- and moderate-income neighborhoods and localities, under the Community Reinvestment Act. Our origination guidelines that apply to mortgage loans originated to meet the Community Reinvestment Act objectives are generally consistent with our guidelines for other mortgage loans. In addition, the mortgaged properties may be concentrated in low-and moderate-income neighborhoods and localities. The prospectus supplement may include loan-level details regarding the locations of the properties securing the mortgage loans, the borrowers' income levels and loan balances, or information on how and when these loan-level details can be obtained at a later time.

#### *Reperforming Government Mortgage Loans*

Some pools are composed entirely of FHA and VA mortgage loans that were 90 days or more delinquent during the 12 months prior to issuance of the certificates. The pool prefix or the prospectus supplement will indicate if this is the case. These loans are referred to as reperforming mortgage loans because all the mortgage loans in the pool will be current as of the date of issuance of the related certificates. Reperforming FHA and VA mortgage loans may experience more delinquencies and a faster rate of prepayment than mortgage loans without similar delinquency histories, although we have no statistical data to indicate if this is the case.

## FANNIE MAE PURCHASE PROGRAM

The mortgage loans we purchase must meet standards required by the law under which we were chartered, which we refer to as the Charter Act. These standards require that the mortgage loans be, in our judgment, of a quality, type and class consistent with the purchase standards imposed by private institutional mortgage investors. Consistent with those requirements, and with the purposes for which we were chartered, we establish eligibility criteria and policies for the mortgage loans we purchase, for the sellers from whom we purchase loans, and for the servicers who service our mortgage loans. See *"Fannie Mae,"* above, for information regarding the Charter Act and the charter purpose.

### Selling and Servicing Guides

Our eligibility criteria and policies, summarized below, are set forth in our Selling and Servicing Guides and updates and amendments to these Guides. We amend our Guides and our eligibility criteria and policies from time to time. This means it is possible that not all the mortgage loans in a particular pool will be subject to the same eligibility standards. It also means that the standards described in the Guides may not be the same as the standards that applied when loans in a particular pool were originated. We may also waive or modify our eligibility and loan underwriting requirements or policies when we purchase mortgage loans.

## Mortgage Loan Eligibility Standards—Conventional Loans

### *Dollar Limitations*

The Charter Act requires that we establish maximum original principal balance dollar limitations for the conventional loans that we purchase. These limitations, which we refer to as our conforming loan limits, typically are adjusted annually. As of January 1, 2002, our conforming loan limit for conventional loans secured by first liens on residences containing one dwelling unit is $300,700, except for mortgage loans secured by property in Alaska, Guam, Hawaii or the Virgin Islands where it is $451,050. Our conforming loan limit as of January 1, 2002 for conventional loans secured by first liens on residences containing two dwelling units is $384,900, three dwelling units is $465,200 and four dwelling units is $578,150, except for mortgage loans secured by property in Alaska, Guam, Hawaii, or the Virgin Islands where for two dwelling units it is $577,350, for three dwelling units it is $697,800 and for four dwelling units it is $867,225. Our conforming loan limit for mortgage loans secured by subordinate liens on single-family one- to four-unit residences is 50% of the amount for first lien loans secured by one unit residences, or, as of January 1, 2002, $150,350, except in Alaska, Guam, Hawaii and the Virgin Islands, where it is $225,525. In addition, the aggregate original principal balance of all the mortgage loans we own that are secured by the same residence cannot exceed the amount of our first lien conforming loan limit for single-family one- to four-unit residences. Aside from the limits imposed under the Charter Act, we may, from time to time, impose maximum dollar limitations on specific types of mortgage loans that we purchase.

### *Loan-to-Value Ratios*

The Charter Act requires that we obtain credit enhancement whenever we purchase a conventional mortgage loan secured by a single-family one- to four-unit residence with a loan-to-value ratio over 80%. The credit enhancement may take several forms, including mortgage insurance issued by an insurer acceptable to us covering the amount in excess of 80%, repurchase arrangements with the seller of the mortgage loans, and seller-retained participation interests. In our discretion, we may impose credit enhancement requirements that are more restrictive than those of the Charter Act.

Our loan-to-value ratio requirements for loans we purchase vary depending upon a variety of factors which, for example, can include the type of loan, the loan purpose, loan amount, number of dwelling units in the property securing the loan, repayment terms and borrower credit history. Depending upon these factors, the loan-to-value ratio can be as high as 100%.

### *Underwriting Guidelines*

We have established underwriting guidelines for mortgage loans that we purchase. These guidelines are designed to provide a comprehensive analysis of the characteristics of a borrower and a mortgage loan, including such factors as the borrower's credit history, the purpose of the loan, the property value and the loan amount.

We review and change our underwriting guidelines, from time to time, including expanding our underwriting criteria in order to make home loans more accessible to borrowers who are members of groups that have been underserved by mortgage lenders, including low and moderate income families, people with no prior credit history and those with less than perfect credit history, rural residents and people with special housing needs. In our discretion, we may grant waivers from our underwriting guidelines when we purchase any particular mortgage loan.

## Mortgage Loan Eligibility Standards—Government Insured Loans

### *Dollar Limitations*

The Charter Act sets no maximum dollar limitations on the loans that we can purchase if the loans are government loans.

The maximum loan amount for FHA-insured single-family mortgage loans is established by statute. As of January, 2002, the basic maximum loan amount for most FHA-insured single-family mortgage loans is $144,336 for a one-unit dwelling, $184,752 for a two-unit dwelling, $223,296 for a three-unit dwelling, and $277,512 for a four-unit dwelling. In high-cost areas, as designated by HUD/FHA, the maximum loan amount may be increased up to $261,609 for a one-unit dwelling, $334,863 for a two-unit dwelling, $404,724 for a three-unit dwelling, and $502,990 for a four-unit dwelling. In addition, the maximum loan amount for FHA-insured mortgages secured by property located in Alaska, Guam, Hawaii, and the Virgin Islands may be adjusted up to 150% of HUD/FHA's high-cost area limits. We purchase FHA mortgages up to the maximum original principal amount that the FHA will insure for the area in which the property is located.

The VA does not establish a maximum loan amount for VA guaranteed loans secured by single-family one- to four-unit properties. We will purchase VA mortgages up to our current maximum original principal amount for conforming loans secured by similar one- to four- unit properties.

The RHS has no maximum dollar limit for loans it guarantees. We will purchase RHS mortgages up to our current maximum original principal amount for conforming loans secured by similar one- to four-unit properties.

***Loan-to-Value Ratios***

The maximum loan-to-value ratio for FHA-insured and VA-guaranteed mortgage loans we purchase is the maximum established by the FHA or VA for the particular program under which the mortgage was insured or guaranteed. The maximum loan-to-value ratio for RHS guaranteed mortgage loans we purchase is 100%.

***Underwriting Guidelines***

FHA-insured, VA-guaranteed and RHS mortgage loans that we purchase must be originated in accordance with the applicable requirements and underwriting standards of the agency providing the insurance or guaranty. Each insured or guaranteed loan that we purchase must have in effect a valid mortgage insurance certificate or loan guaranty certificate. In the case of VA loans, the unguaranteed portion of the VA loan amount cannot be greater than 75% of the purchase price of the property or 75% of the VA's valuation estimate, whichever is less.

**Seller and Servicer Eligibility**

Before we approve a company to become a seller or servicer for us, we require that it demonstrate to our satisfaction, the following:

- that it has a proven ability to originate or service, as applicable, the type of mortgages for which our approval is being requested;
- that it employs a staff with adequate experience in that area;
- that it has as one of its principal business purposes the origination or servicing, as applicable, of residential mortgages;
- that it is properly licensed, or otherwise authorized, to originate, sell or service, as applicable, residential mortgages in each of the jurisdictions in which it does business;
- that its financial condition is acceptable to us;
- that it has quality control and management systems to evaluate and monitor the overall quality of its loan production and servicing activities; and
- that it is covered by a fidelity bond and errors and omissions insurance acceptable to us.

We enter into a written mortgage selling and servicing contract with each seller and servicer we approve, under which, among other things, it agrees to maintain the foregoing attributes to our satisfaction.

### Servicing Arrangements

We are responsible for servicing and administering the mortgage loans. In most cases, we contract with other entities to perform those functions under our supervision and on our behalf. Often, the entity with whom we contract is the seller that sold the loans to us. Even if we hire a servicer, we will remain responsible to certificateholders for all the servicing and administrative functions related to the mortgage loans.

Servicers must meet the eligibility standards and performance obligations in our Guides. All servicers are obligated to diligently perform all services and duties customary to servicing mortgage loans. We monitor the servicer's performance and we have the right to remove any servicer at any time we consider its removal to be in the certificateholders' best interest. Duties performed by the servicer include general loan servicing responsibilities, collection and remittance of payments on the mortgage loans, administration of mortgage escrow accounts, collection of insurance claims and foreclosure, if necessary.

### Servicing Compensation and Payment of Certain Expenses

Each month, we retain the portion of interest collected on the loans that is not required to be paid to certificateholders to pay various expenses of the trust, including the amount of the fee payable to the servicer and the fee payable to us for providing our guaranty. We also retain prepayment premiums, assumption fees, late payment charges and other similar charges, to the extent they are collected from borrowers, as additional servicing compensation unless the prospectus supplement states otherwise. We pay all the expenses we incur in connection with our servicing responsibilities, including (but not limited to) fees for any party with which we contract to service the mortgage loans on our behalf. We are not entitled to reimbursement for such expenses from the related trust fund except for our servicing compensation and guaranty fees described above.

### Seller Representations and Warranties

Our sellers make representations and warranties to us about the mortgage loans we purchase. In general, the representations and warranties relate to:

- compliance with our eligibility standards and with our underwriting guidelines;
- characteristics of the mortgage loans in each pool;
- compliance with applicable federal and state laws and regulations in the origination of the loans, including consumer protection laws;
- authority of the lender to do business in jurisdiction where the property is located;
- right of the lender to sell the loan free of liens of lender's creditors;
- validity and enforceability of the loan documents; and
- the lien position of the mortgage.

We rely on these representations and warranties at the time of purchase to ensure that loans meet our eligibility standards. After purchase, we perform random quality control reviews of selected loans to monitor compliance with our guidelines, our eligibility standards and applicable laws and regulations. We can require a seller to repurchase a loan if we find that it has breached its warranties and representations. For a discussion of how these repurchases can affect the performance of the certificates, see *"Risk Factors—We could withdraw some mortgage loans from the pool due to a breach of representations and warranties,"* above.

## CERTAIN FEDERAL INCOME TAX CONSEQUENCES

The certificates and payments on the certificates generally are subject to taxation. Therefore, you should consider the tax consequences of holding a certificate before you acquire one. The following discussion describes certain U.S. federal income tax consequences to beneficial owners of certificates. The discussion is general and does not purport to deal with all aspects of federal taxation that may be relevant to particular investors. This discussion may not apply to your particular circumstances for various reasons including the following:

- This discussion reflects federal tax laws in effect as of the date of this prospectus. Changes to any of these laws after the date of this prospectus may affect the tax consequences discussed below.
- This discussion addresses only certificates acquired by beneficial owners at original issuance and held as capital assets (generally, property held for investment).
- This discussion does not address tax consequences to beneficial owners subject to special rules, such as dealers in securities, certain traders in securities, banks, tax-exempt organizations, life insurance companies, persons that hold certificates as part of a hedging transaction or as a position in a straddle or conversion transaction, or persons whose functional currency is not the U.S. dollar.
- This discussion may be supplemented by a discussion in any applicable prospectus supplement.
- This discussion does not address taxes imposed by any state, local or foreign taxing jurisdiction.

For these reasons, you should consult your own tax advisors regarding the federal income tax consequences of holding and disposing of certificates as well as any tax consequences arising under the laws of any state, local or foreign taxing jurisdiction.

For purposes of this discussion, the term mortgage loan, in the case of a participation interest, means the interest in the underlying mortgage loan represented by that participation interest; and in applying a federal income tax rule that depends on the origination date of a mortgage loan or the characteristics of a mortgage loan at its origination in such a case, the term mortgage loan means the underlying mortgage loan and not the participation interest.

### Internal Revenue Service Guidance Regarding the Certificates

In Revenue Ruling 84-10, 1984-1 C.B. 155, the Internal Revenue Service set forth certain federal income tax consequences relating to investments in the certificates issued with respect to a pool. Pursuant to Revenue Ruling 84-10, a pool will not be classified as an association taxable as a corporation for federal income tax purposes. Instead, a pool will be classified as a trust under subpart E of part I of subchapter J of the Internal Revenue Code of 1986, as amended (the "Code"), and each beneficial owner of a certificate will be considered to be the beneficial owner of a pro rata undivided interest in each of the mortgage loans included in that particular pool.

Although Revenue Ruling 84-10 does not specifically address participation interests in mortgage loans, other IRS pronouncements clearly indicate that the holdings of Revenue Ruling 84-10 are equally applicable to a certificate backed by a pool consisting (in whole or in part) of participation interests. Revenue Ruling 84-10 also does not contemplate (i) the mandatory repurchase of ARMs from pools pursuant to a borrower's exercise of an option to convert an ARM to a fixed-rate mortgage loan, (ii) the difference between the biweekly payments of interest received under biweekly loans from mortgagors and the monthly payments of interest made to beneficial owners of certificates, or (iii) the differences between the principal and interest amounts received from mortgagors under mortgage loans that provide for the daily accrual of interest and the monthly payments of principal and interest made to beneficial owners of certificates. However, our special tax counsel, Arnold & Porter, has rendered an opinion to us that the conclusions of Revenue Ruling 84-10 will be applicable to ARM pools and biweekly mortgage pools and pools that include mortgage loans providing for the daily accrual of interest.

## Application of Revenue Ruling 84-10

Pursuant to the holdings of Revenue Ruling 84-10, a beneficial owner of a particular issue of certificates must report on its federal income tax return its pro rata share of the entire income from each mortgage loan in that particular pool, consistent with the beneficial owner's method of accounting. The items of income from a mortgage loan include interest, original issue discount (discussed below), prepayment premiums, assumption fees and late payment charges, plus any amount paid by us as interest under our guaranty. A beneficial owner can deduct its pro rata share of the expenses of the trust as provided in section 162 or section 212 of the Code, consistent with its method of accounting and subject to the discussion below.

A beneficial owner must also allocate its basis in a certificate among the mortgage loans included in that pool in proportion to the relative fair market values of those mortgage loans. If the basis allocated to a mortgage loan is less than the principal amount of that mortgage loan, the beneficial owner may have market discount with respect to that mortgage loan, and if the basis exceeds the principal amount, the beneficial owner may have premium with respect to that mortgage loan. (Market discount and premium are discussed below.)

### *Original Issue Discount*

Certain mortgage loans may be issued with original issue discount within the meaning of section 1273(a) of the Code. Original issue discount generally arises only with respect to ARMs that provide for an incentive interest rate (sometimes referred to as a teaser rate) or mortgage loans, including ARMs, that provide for the deferral of interest. If a mortgage loan is issued with original issue discount, a beneficial owner must include the original issue discount in income as it accrues, generally in advance of the receipt of cash attributable to such income.

### *Market Discount*

A beneficial owner that acquires a mortgage loan for less than its principal amount generally has market discount in the amount of the difference between the principal amount and the beneficial owner's basis in that mortgage loan. In general, three consequences arise if a beneficial owner acquires an interest in a mortgage loan with market discount. First, the beneficial owner must treat any principal payment with respect to a mortgage loan acquired with market discount as ordinary income to the extent of the market discount that accrued while such beneficial owner held an interest in that mortgage loan. Second, the beneficial owner must treat gain on the disposition or retirement of such a certificate as ordinary income under the circumstances discussed below under *"—Sales and Other Dispositions of Certificates."* Third, a beneficial owner that incurs or continues indebtedness to acquire a certificate at a market discount may be required to defer the deduction of all or a portion of the interest on the indebtedness until the corresponding amount of market discount is included in income. Alternatively, a beneficial owner may elect to include market discount in income on a current basis as it accrues, in which case the three consequences discussed above will not apply. If a beneficial owner makes this election, the beneficial owner must also apply the election to all debt instruments acquired by the beneficial owner on or after the beginning of the first taxable year to which the election applies. A beneficial owner may revoke the election only with the consent of the IRS.

A beneficial owner must determine the amount of accrued market discount for a period using a straight-line method, based on the maturity of the mortgage loan, unless the beneficial owner elects to determine accrued market discount using a constant yield method. The IRS has authority to provide regulations for determining the accrual of market discount in the case of debt instruments, including mortgage loans, that provide for more than one principal payment, but has not yet issued such regulations. In addition, the legislative history to the Tax Reform Act of 1986 states that market discount on certain types of debt instruments may be treated as accruing in proportion to remaining accruals of original issue discount, if any, or if none, in proportion to remaining distributions of interest. You should consult your own tax advisors regarding the method a beneficial owner should use to determine accrued market discount.

Notwithstanding the above rules, market discount on a mortgage loan is considered to be zero if the discount is less than 0.25 percent of the principal balance of the mortgage loan multiplied by the number of complete years from the date the beneficial owner acquires an interest in the mortgage loan to the maturity of the mortgage loan (referred to as the market discount de minimis amount). The IRS has authority to provide regulations to adjust the computation of the market discount de minimis amount in the case of debt instruments, including mortgage loans, that provide for more than one principal payment, but has not yet issued such regulations. The IRS could assert, nonetheless, that the market discount de minimis amount should be calculated using the remaining weighted average life of a mortgage loan rather than its final maturity. You should consult your own tax advisors regarding the ability to compute the market discount de minimis amount based on the final maturity of a mortgage loan.

***Premium***

A beneficial owner that acquires a mortgage loan for more than its principal amount generally has premium with respect to that mortgage loan in the amount of the excess. In that event, the beneficial owner may elect to treat the premium as amortizable bond premium. This election is available only with respect to an undivided interest in a mortgage loan that was originated after September 27, 1985. If the election is made, a beneficial owner must also apply the election to all debt instruments the interest on which is not excludible from gross income (fully taxable bonds) held by the beneficial owner at the beginning of the first taxable year to which the election applies and to all fully taxable bonds thereafter acquired by the beneficial owner. A beneficial owner may revoke the election only with the consent of the IRS.

If a beneficial owner makes this election, the beneficial owner reduces the amount of any interest payment that must be included in the beneficial owner's income by the portion of the premium allocable to the period based on the mortgage loan's yield to maturity. Correspondingly, a beneficial owner must reduce its basis in the mortgage loan by the amount of premium applied to reduce any interest income. The amount of premium to be allocated among the interest payments on an ARM is determined by reference to an equivalent fixed-rate debt instrument constructed as of the date the beneficial owner acquires an interest in the ARM.

If a beneficial owner does not elect to amortize premium, (i) the beneficial owner must include the full amount of each interest payment in income, and (ii) the premium must be allocated to the principal distributions on the mortgage loan and, when each principal distribution is received, a loss equal to the premium allocated to that distribution will be recognized. Any tax benefit from premium not previously recognized will be taken into account in computing gain or loss upon the sale or disposition of the certificate. See *"—Sales and Other Dispositions of Certificates."*

***Accrual Method Election***

A beneficial owner may elect to include in income its entire return on a mortgage loan (i.e., the excess of all remaining payments to be received on the mortgage loan over the amount of the beneficial owner's basis in the mortgage loan) based on the compounding of interest at a constant yield. Such an election for a mortgage loan with amortizable bond premium (or market discount) will result in a deemed election to amortize premium for all the beneficial owner's debt instruments with amortizable bond premium (or to accrue market discount currently for all the beneficial owner's debt instruments with market discount) as discussed above.

### *Expenses of the Trust*

A beneficial owner's ability to deduct its share of the fee payable to the servicer, the fee payable to us for providing our guaranty and other expenses to administer the pool is limited under section 67 of the Code in the case of (i) estates and trusts, and (ii) individuals owning an interest in a certificate directly or through an investment in a pass-through entity (other than in connection with such individual's trade or business). Pass-through entities include partnerships, S corporations, grantor trusts, certain limited liability corporations and non-publicly offered regulated investment companies, but do not include estates, nongrantor trusts, cooperatives, real estate investment trusts and publicly offered regulated investment companies.

Generally, a beneficial owner can deduct its share of these costs only to the extent that these costs, when aggregated with certain of the beneficial owner's other miscellaneous itemized deductions, exceed two percent of the beneficial owner's adjusted gross income. For this purpose, an estate or nongrantor trust computes adjusted gross income in the same manner as in the case of an individual, except that deductions for administrative expenses of the estate or trust that would not have been incurred if the property were not held in such trust or estate are treated as allowable in arriving at adjusted gross income.

In addition, section 68 of the Code may provide for certain limitations on itemized deductions otherwise allowable for a beneficial owner who is an individual. Further, a beneficial owner may not be able to deduct any portion of these costs in computing its alternative minimum tax liability.

## Sales and Other Dispositions of Certificates

Upon the sale, exchange or other disposition of a certificate, the beneficial owner generally will recognize gain or loss equal to the difference between the amount realized upon the disposition and the beneficial owner's adjusted basis in the certificate. The adjusted basis of a certificate generally will equal the cost of the certificate to the beneficial owner, increased by any amounts of original issue discount and market discount included in the beneficial owner's gross income with respect to the certificate, and reduced by distributions on the certificate previously received by the beneficial owner as principal and by any premium that has reduced the beneficial owner's interest income with respect to the certificate. Any such gain or loss generally will be capital gain or loss, except (i) as provided in section 582(c) of the Code (which generally applies to banks) or (ii) to the extent any gain represents original issue discount or accrued market discount not previously included in income (to which extent such gain would be treated as ordinary income). Any capital gain (or loss) will be long-term capital gain (or loss) if at the time of disposition the beneficial owner held the certificate for more than one year. The ability to deduct capital losses is subject to limitations.

The Taxpayer Relief Act of 1997 amended section 1271 of the Code to provide that amounts received by a beneficial owner on retirement of any mortgage loan of a natural person are considered to be amounts received in exchange therefor. The legislation applies to mortgage loans originated after June 8, 1997, and any interest in a mortgage loan acquired after June 8, 1997. The application of section 1271 to a retirement of a mortgage loan that was acquired at a discount is unclear, and you should consult your own tax advisors regarding the application of section 1271 to a certificate in such a case.

## Special Tax Attributes

In Revenue Ruling 84-10, the IRS ruled on the status of the certificates under specific sections of the Code. In particular, the IRS ruled as follows:

1. A Certificate owned by a domestic building and loan association is considered as representing 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 underlying each mortgage loan is

(or, from the proceeds of the mortgage loans, will become) the type of real property described in that section of the Code.

2. A certificate owned by a real estate investment trust is considered as representing real estate assets within the meaning of section 856(c)(5)(B) of the Code, and the interest income is considered interest on obligations secured by mortgages on real property within the meaning of section 856(c)(3)(B) of the Code.

If a certificate represents an interest in a pool that contains a cooperative share loan, an escrow mortgage loan, a buydown loan, a government loan, or a loan secured by a manufactured home, you should also consider the following tax consequences applicable to an undivided interest in those loans.

***Cooperative Share Loans***

The IRS has ruled that a cooperative share loan will be treated as a loan secured by an interest in real property, within the meaning of section 7701(a)(19)(C)(v) of the Code, provided that the dwelling unit that the cooperative's stock entitles the tenant-shareholder to occupy is to be used as a residence. The IRS also has ruled that stock in a cooperative qualifies as an interest in real property within the meaning of section 856(c)(5)(C) of the Code. Accordingly, interest on cooperative share loans qualifies as interest on obligations secured by mortgages on real property for purposes of section 856(c)(3)(B) of the Code.

***Escrow Mortgage Loans***

In certain cases, a mortgage loan may be secured by additional collateral consisting of an escrow account held with a financial institution, referred to as an escrow mortgage loan. The escrow account could consist of an interest rate buydown account that meets the requirements of our Selling Guide or any other escrow account described in the related prospectus supplement. A beneficial owner's investment in an escrow mortgage loan generally should be treated as a loan secured by an interest in real property within the meaning of section 7701(a)(19)(C)(v) of the Code, provided the escrow account does not represent an account with the beneficial owner. In addition, an investment in an escrow mortgage loan by a real estate investment trust generally should be treated in its entirety as a real estate asset within the meaning of section 856(c)(5)(B) of the Code, provided the fair market value of the real property securing the escrow mortgage loan equals or exceeds the principal amount of such escrow mortgage loan at the time the real estate investment trust makes a commitment to acquire a certificate. Because of uncertainties regarding the tax treatment of escrow mortgage loans, you should consult with your tax advisors concerning the federal income tax treatment of investments in escrow mortgage loans.

***Buydown Loans***

Sometimes a lender, builder, seller or other third party may provide the funds for the interest rate buydown accounts that secure certain escrow mortgage loans, sometimes referred to as buydown loans. Under our Selling Guide, the borrower is liable for the entire payment on a buydown loan, without offset by any payments due from the buydown account. Accordingly, we plan to treat buydown loans entirely as the obligation of the borrower.

The IRS could take the position, however, that a buydown loan should be treated as if the borrower were obligated only to the extent of the net payment after application of the interest rate buydown account. If the IRS were able to maintain this position successfully, a beneficial owner of a buydown loan would be treated as holding two instruments: one representing the lender's rights with respect to the buydown account, and the other representing the borrower's debt to the extent of the net payment by the borrower. With respect to the instrument represented by the borrower's debt, this treatment would require the beneficial owner to accelerate the recognition of a portion of the interest payable after the buydown period. Moreover, during the buydown period and to the extent of the buydown account, the rulings described above regarding sections 856(c)(3)(B), 856(c)(5)(B) and

7701(a)(19)(C)(v) of the Code would be inapplicable. Because of uncertainties regarding the tax treatment of buydown loans, you should consult with your tax advisors concerning the federal income tax treatment of investments in buydown loans.

***Government Mortgage Loans***

Because no information is available with respect to the loan-to-value ratios of government mortgage loans contained in pools denoted by prefix TJ, TK, TQ or TT, no representations can be made regarding the qualification of such loans under sections 856(c)(3)(B), 856(c)(5)(B) and 7701(a)(19)(C)(v) of the Code.

***Loans Secured by Manufactured Homes***

For certain purposes of the Code, a mortgage loan secured by a manufactured home is treated as secured by an interest in real property if the manufactured home satisfies the conditions set forth in section 25(e)(10) of the Code. That section requires a manufactured home to have a minimum of 400 square feet of living space and a minimum width in excess of 102 inches and to be of a kind customarily used at a fixed location. Although Revenue Ruling 84-10 does not specifically refer to mortgage loans secured by manufactured homes, the conclusions discussed above regarding sections 856(c)(3)(B), 856(c)(5)(B) and 7701(a)(19)(C)(v) of the Code should be applicable to a beneficial owner's investment in a mortgage loan that is secured by property described in section 25(e)(10). With respect to mortgage loans secured by manufactured homes, the conditions of section 25(e)(10) will be satisfied.

**Mortgage Loan Servicing**

The IRS issued guidance on the tax treatment of mortgage loans in cases in which the fee retained by the servicer of the mortgage loans exceeds what is established under tax law to be reasonable compensation for the services to be performed. This guidance is directed primarily to servicers and, in most cases, should not have a significant effect on beneficial owners of mortgage loans.

Under the IRS guidance, if a servicing fee on a mortgage loan is determined to exceed reasonable compensation, the payments of the excess servicing fee are treated as a series of stripped coupons and the mortgage loan is treated as a stripped bond within the meaning of section 1286 of the Code. In general, if a mortgage loan is treated as a stripped bond, any discount with respect to that mortgage loan will be treated as original issue discount. Any premium with respect to such a mortgage loan may be treated as amortizable bond premium regardless of the date the mortgage loan was originated, because a stripped bond is treated as originally issued on the date a beneficial owner acquires the stripped bond. See *"—Application of Revenue Ruling 84-10—Premium."* In addition, the excess portion of servicing compensation will be excluded from the income of owners and thus will not be subject to the limitations on the deductibility of miscellaneous itemized deductions. See *"—Application of Revenue Ruling 84-10—Expenses of the Trust."*

A mortgage loan is effectively not treated as a stripped bond, however, if the mortgage loan meets either the 100 basis point test or the de minimis test. A mortgage loan meets the 100 basis point test if the total amount of servicing compensation on the mortgage loan does not exceed reasonable compensation for servicing by more than 100 basis points. A mortgage loan meets the de minimis test if (i) the discount at which the mortgage loan is acquired is less than 0.25 percent of the remaining principal balance of the mortgage loan multiplied by its weighted average remaining life; or (ii) in the case of wholly self-amortizing mortgage loans, the acquisition discount is less than $1/6$ of one percent times the number of whole years to final stated maturity. In addition, servicers are given the opportunity to elect to treat mortgage servicing fees up to a specified number of basis points (which depends on the type of mortgage loans) as reasonable servicing. No guidance has been provided as to the effect, if any, of such safe harbors and any elections thereunder on beneficial owners of mortgage loans.

The IRS guidance contains a number of ambiguities. For example, it is not clear whether the rules described above are to be applied on an individual loan or an aggregate basis. You should consult your tax advisors about the IRS guidance and its application to investments in the certificates.

**Information Reporting and Backup Withholding**

With each distribution, we will furnish to each certificateholder a statement setting forth the portions of such distribution allocable to principal and to interest. In addition, we will furnish or make available, within a reasonable time after the end of each calendar year, to each certificateholder who at any time during such year received a distribution from us, a statement setting forth that holder's pro rata share of income and administrative expense for such calendar year.

Payments of interest and principal, as well as payments of proceeds from the sale of certificates, may be subject to the backup withholding tax under section 3406 of the Code if the recipient of the payment is not an exempt recipient and fails to furnish certain information, including its taxpayer identification number, to us or our agent, or otherwise fails to establish an exemption from such tax. Any amounts deducted and withheld from such a payment would be allowed as a credit against the beneficial owner's federal income tax. Furthermore, certain penalties may be imposed by the IRS on a holder or owner who is required to supply information but who does not do so in the proper manner.

**Foreign Investors**

Additional rules apply to a beneficial owner that is not a U.S. Person (a "Non-U.S. Person"). "U.S. Person" means a citizen or resident of the United States, a corporation, partnership or other entity created or organized in or under the laws of the United States or any political subdivision thereof, an estate the income of which is subject to U.S. federal income tax regardless of the source of its income, or a trust if a court within the United States can exercise primary supervision over its administration and at least one U.S. Person has the authority to control all substantial decisions of the trust.

Payments on a certificate made to, or on behalf of, a beneficial owner that is a Non-U.S. Person generally will be exempt from U.S. federal income and withholding taxes, provided the following conditions are satisfied:

- the beneficial owner does not hold the certificate in connection with its conduct of a trade or business in the United States;
- the beneficial owner is not, with respect to the United States, a personal holding company or a corporation that accumulates earnings in order to avoid U.S. federal income tax;
- the beneficial owner is not a U.S. expatriate or former U.S. resident who is taxable in the manner provided in section 877(b) of the Code;
- the beneficial owner is not an excluded person (i.e., a 10-percent shareholder of Fannie Mae within the meaning of section 871(h)(3)(B) of the Code or a controlled foreign corporation related to Fannie Mae within the meaning of section 881(c)(3)(C) of the Code);
- the beneficial owner signs a statement under penalties of perjury certifying that it is a Non-U.S. Person or, in the case of an individual, that the beneficial owner is neither a citizen nor resident of the United States, and provides the name, address and taxpayer identification number, if any, of the beneficial owner;
- the last U.S. Person in the chain of payment to the beneficial owner (the withholding agent) receives such non-U.S. beneficial ownership statement from the beneficial owner or a financial institution holding on behalf of the beneficial owner and does not have actual knowledge that such statement is false; and

- the certificate represents an undivided interest in a pool of mortgage loans all of which were originated after July 18, 1984.

That portion of interest income of a beneficial owner who is a Non-U.S. Person on a certificate that represents an interest in one or more mortgage loans originated before July 19, 1984 will be subject to a U.S. withholding tax at the rate of 30 percent or lower treaty rate, if applicable. Regardless of the date of origination of the mortgage loans, backup withholding will not apply to payments made to a beneficial owner that is a Non-U.S. Person if the beneficial owner or a financial institution holding on behalf of the beneficial owner provides a non-U.S. beneficial ownership statement to the withholding agent.

A non-U.S. beneficial ownership statement may be made on an IRS Form W-8BEN or a substantially similar substitute form. The beneficial owner or financial institution holding on behalf of the beneficial owner must inform the withholding agent of any change in the information on the statement within 30 days of such change. In all cases, the withholding agent must file the Form W-8BEN or substitute form with the IRS.

## ERISA CONSIDERATIONS

The Employee Retirement Income Security Act and the Code impose requirements on employee benefit plans subject to ERISA (such as employer-sponsored retirement plans) and upon other types of benefit plans and arrangements subject to section 4975 of the Code (such as individual retirement accounts). ERISA and the Code also impose these requirements on some entities in which these benefit plans or arrangements invest. We refer to these plans, arrangements and entities, collectively, as plans. Any person who is a fiduciary of a plan also is subject to the requirements imposed by ERISA and the Code. Before a plan invests in any certificate, the plan fiduciary must consider whether the governing instruments for the plan permit the investment, whether the certificates are a prudent and appropriate investment for the plan under its investment policy and whether such an investment might result in a transaction prohibited under ERISA or the Code for which no exemption is available.

The U.S. Department of Labor has issued a regulation covering the acquisition by a plan of a guaranteed governmental mortgage pool certificate, defined to include certificates which are backed by, or evidencing an interest in, specified mortgages or participation interests therein and are guaranteed by Fannie Mae as to the payment of interest and principal. Under the regulation, investment by a plan in a guaranteed governmental mortgage pool certificate does not cause the assets of the plan to include the mortgage loans underlying the certificate or cause the sponsor, trustee and other servicers of the mortgage pool to be subject to the fiduciary responsibility provisions of ERISA or the prohibited transaction provisions of ERISA or section 4975 of the Code in providing services with respect to the mortgages in the pool. Our counsel, Morrison & Foerster LLP, has advised us that the certificates qualify under the definition of guaranteed governmental mortgage pool certificates and, as a result, the purchase and holding of certificates by plans will not cause the underlying mortgage loans or the assets of Fannie Mae to be subject to the fiduciary requirements of ERISA or to the prohibited transaction provisions of ERISA and the Code.

## LEGAL OPINION

If you purchase certificates, we will send you, upon request, an opinion of our general counsel (or one of our deputy general counsels) as to the validity of the certificates, the issue supplement and the trust indenture for that issue.

**Exhibit A**

## Frequently Used Single-Family MBS Pool Prefixes

Below is a listing of some of the most frequently used pool prefixes. For a complete listing and description of pool prefixes, please refer to our corporate Web site at www.fanniemae.com and our business to business Web site at www.efanniemae.com.

**AS** ...... Conventional adjustable-rate mortgages.

**BL** ...... Conventional long term, level payment biweekly mortgages, maturing or due in 30 years or less.

**CA** ...... Conventional long term, level payment mortgages; assumable.

**CI** ....... Conventional intermediate term, level payment mortgages; maturing or due in 15 years or less.

**CL** ...... Conventional long term, level payment mortgages; maturing or due in 30 years or less.

**CN** ...... Conventional short term, level payment mortgages; maturing or due in 10 years or less.

**CT** ...... Conventional intermediate term, level payment mortgages; maturing or due in 20 years or less.

**CX** ...... Conventional balloon, level payment mortgages; maturing or due in 7 years or less.

**GA** ...... Government, adjustable rate mortgages.

**GL** ...... Government, level payment mortgages; maturing or due in 30 years or less.

**GO** ...... Government, level payment mortgages; each pool is comprised entirely of loans which were delinquent for 90 days or more during the 12 months prior to the pool issue date. All loans are current as of the pool issue date.

**K0** ...... Conventional, long term, level payment mortgages; maturing or due in greater than 15 years but less or equal to 30 years. The pool issue balance is comprised entirely of loans that have a 3-year prepayment premium provision.

**K1** ...... Conventional, intermediate term, level payment mortgages; maturing or due in 15 years or less. The pool issue balance is comprised entirely of loans that have a 3-year prepayment premium provision.

**K2** ...... Conventional, long term, level payment mortgages; maturing or due in greater than 15 years. The pool issue balance is comprised entirely of loans that have a 5-year prepayment premium provision.

**K3** ...... Conventional, intermediate term, level payment mortgages; maturing or due in 15 years or less. The pool issue balance is comprised entirely of loans that have a 5-year prepayment premium provision.

**KI** ....... Conventional, intermediate term, level payment mortgages; maturing or due in 15 years or less. The pool issue balance is comprised entirely of loans that have a prepayment premium provision.

**KL** ...... Conventional, long term, level payment mortgages; maturing or due in 30 years or less. The pool issue balance is comprised entirely of loans that have a prepayment premium provision.

**LB** ...... Adjustable-rate mortgages, LIBOR, lifetime caps are pool specific.

**RE** ...... Conventional long term, level payment relocation mortgages.

**W2** ...... Adjustable-rate mortgages; 1-year CMT; 2% per interest rate adjustment; lifetime caps are pool specific.

**WC** . . . . . . Adjustable-rate mortgages; 1-year CMT; 2% per interest rate adjustment; lifetime caps are pool specific. Convertible to fixed rate any month beginning on the first interest rate change date and ending on the fifth interest rate change date.

**WD** . . . . . Adjustable-rate mortgages; 1-year CMT; extended fixed initial period; annual changes thereafter; various caps at first adjustment; 2% per interest rate adjustment thereafter; lifetime caps are pool specific.

**WE** . . . . . Adjustable-rate mortgages; COFI adjustable monthly; lifetime caps are pool specific.

**WS** . . . . . . Conventional adjustable-rate mortgages; includes a wide variety of ARM types and indices.

**WT** . . . . . . Adjustable-rate mortgages; six-month CD; semi-annual rate/payment change; 1% per interest rate adjustment; lifetime caps are pool specific; convertible to fixed rate any month beginning on the second interest rate change date and ending on the tenth interest rate change date.

No one is authorized to give information or to make representations in connection with this offering other than those contained in this prospectus. You must not rely on any unauthorized information or representation. This prospectus does not constitute an offer or solicitation with regard to the MBS certificates if it is illegal to make such an offer or solicitation to you under state law. By delivering this prospectus at any time, no one implies that the information contained herein is correct after its date.

Neither Securities and Exchange Commission nor any state securities commission has approved or disapproved the MBS certificates or determined if this prospectus or any supplement to this prospectus is truthful and complete. Any representation to the contrary is a criminal offense.

Additional prospectuses and information regarding outstanding pools are available upon request by calling us at 800-237-8627 or (202) 752-6547.

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# Guaranteed Mortgage Pass-Through Certificates (Single-Family Residential Mortgage Loans)

## SINGLE-FAMILY MBS PROSPECTUS

FannieMae®