

ADDITIONAL RISK FACTORS

Protection afforded by the Fannie Mae guaranty is limited. Our guaranty of the senior certificates does not cover uncovered prepayment interest shortfalls or reductions in certificate interest rates that may result from mortgage interest rate modifications or the application of the Soldiers' and Sailors' Civil Relief Act of 1940.

Without Fannie Mae's guaranty, the senior certificates would be paid only from the related mortgage loans and supported only by subordination of the related non-senior certificates. If we were unable to perform our guaranty obligations, payments to holders of the senior certificates would consist solely of payments and other recoveries on the related mortgage loans. In such event, delinquencies and defaults on the mortgage loans would affect payments to holders of the related senior certificates and, if the protection provided by the subordination of the related non-senior certificates were exhausted, holders of the affected senior certificates could lose money on their investment.

FANNIE MAE GUARANTY

Under our guaranty of the senior certificates, we will pay to the holders of the classes of senior certificates the following amounts:

- the applicable Senior Interest Distribution Amounts (defined in the prospectus),
- the applicable Senior Principal Distribution Amounts (defined in the prospectus), and
- any outstanding principal balances of the classes of senior certificates in full no later than the applicable Final Distribution Dates, whether or not sufficient funds are available in the certificate account.

Our guaranty would by its terms be available to the holders of the senior certificates in the event of any liquidation, reorganization, or similar proceeding involving the assets of the master servicer. Although we guarantee the timely payment of the applicable Senior Principal Distribution Amounts to the related classes of senior certificates, these payments may not include the entire stated principal balance of each liquidated loan at the time of its liquidation. Furthermore, our guaranty does not cover any uncovered prepayment interest shortfalls. See "Risk Factors—*Delays or reductions in cash flow can result from default and liquidation*" in the prospectus. **Our guaranty is not backed by the full faith and credit of the United States.**

FINAL DISTRIBUTION DATE

Each final distribution date specified in the chart on page 57 of the prospectus (each, a "Final Distribution Date") is the date by which any outstanding principal balance of the related class of senior certificates is required to be fully paid. Each Final Distribution Date has been determined so that scheduled payments on the related mortgage loans will be sufficient to retire the related class of senior certificates on or before the Final Distribution Date without any call on our guaranty.

DEFINED TERMS

Certain capitalized terms are used but not defined in this senior supplement. See "Index of Defined Terms" in the prospectus for the definitions of the capitalized terms used.

\$619,513,100 (Approximate)

WISCONSIN AVENUE SECURITIES

REMIC Pass-Through Certificates

Fannie Mae REMIC Trust 2002-W1

Carefully consider the risk factors starting on page 10 of this prospectus. Unless you understand and are able to tolerate these risks, you should not invest in the certificates.

This prospectus may not be used to offer and sell senior certificates unless it is accompanied by the senior supplement.

The mezzanine certificates, together with interest thereon, are not guaranteed by Fannie Mae or any of its affiliates or by the United States and do not constitute a debt or obligation of the United States or any of its agencies or instrumentalities.

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

The Certificates

We, the Federal National Mortgage Association or Fannie Mae, will issue the classes of certificates listed in the chart on this page. These classes of certificates are being offered by this prospectus. We will also issue the subordinate classes in connection with the trust. The subordinate classes are not offered by this prospectus.

Subordination

We will not make monthly payments of interest on the mezzanine classes unless the holders of the senior classes of the related group have received all required payments of interest in that month. Furthermore, we will not make monthly payments of principal of the mezzanine classes unless the holders of the senior classes of the related group have received all required payments of principal in that month.

Payments to Certificateholders

We will make monthly payments on the certificates. You, the investor, will receive

- interest accrued on the balance of your certificate to the extent available for payment on your class, and
- principal to the extent available for payment on your class.

The rate of principal payments may vary from time to time. On any particular distribution date, we may not pay principal to certain classes.

Proceeds of the related trust assets are the sole source of payments on the mezzanine certificates. The mezzanine certificates, together with any interest thereon, are not guaranteed by or obligations of Fannie Mae, the United States or any other governmental entity.

The Trust and its Assets

The trust will own certain first lien, one- to four-family, fixed rate and adjustable rate, fully amortizing mortgage loans insured by the Federal Housing Administration or partially guaranteed by the U.S. Department of Veterans Affairs and having the characteristics described in this prospectus.

| Classes of Senior Certificates | Group | Original Class Balance(1) | Principal Type | Interest Rate | Interest Type | CUSIP Number |
|--------------------------------|------------|---------------------------|----------------|---------------|---------------|--------------|
| 1A-1 | Fixed Rate | \$ 46,042,000 | SR/SEQ | 3.42%(2) | FIX | 31392CMF8 |
| 1A-2 | Fixed Rate | 31,035,000 | SR/SEQ | 4.81(2) | FIX | 31392CMG6 |
| 1A-3 | Fixed Rate | 23,199,000 | SR/SEQ | 5.63(2) | FIX | 31392CMH4 |
| 1A-4 | Fixed Rate | 46,397,000 | SR/SEQ | 6.00(2) | FIX | 31392CMJ0 |
| 1A-IO | Fixed Rate | 151,209,550(3) | NTL | (4) | WAC/IO | 31392CMK7 |
| 2A | Fixed Rate | 377,418,000 | SR/SEQ | 7.50(5) | FIX/AFC | 31392CMS0 |
| 2A-IO | Fixed Rate | 389,091,511(3) | NTL | (6) | WAC/IO | 31392CMU5 |
| 3A | ARM | 85,017,000 | SR/PT | (7) | WAC | 31392CMV3 |
| A-R | | 100 | SR/SEQ | 7.50(2) | FIX | 31392CMT8 |
| RM | | 0 | NPR | 0 | NPR | 31392CNC4 |
| RL | | 0 | NPR | 0 | NPR | 31392CND2 |

| Classes of Mezzanine Certificates(8) | Group | Original Class Balance(1) | Principal Type | Interest Rate | Interest Type | CUSIP Number |
|--------------------------------------|------------|---------------------------|----------------|---------------|---------------|--------------|
| M | Fixed Rate | \$ 3,512,000 | MEZZ | 6.00% | FIX | 31392CML5 |
| B-1 | Fixed Rate | 2,702,000 | MEZZ | 6.00 | FIX | 31392CMM3 |
| B-2 | Fixed Rate | 2,431,000 | MEZZ | 6.00 | FIX | 31392CMN1 |
| 3M | ARM | 1,100,000 | MEZZ | (7) | WAC | 31392CMW1 |
| 3B-1 | ARM | 352,000 | MEZZ | (7) | WAC | 31392CMX9 |
| 3B-2 | ARM | 308,000 | MEZZ | (7) | WAC | 31392CMY7 |

- (1) May vary by plus or minus 5% in the case of the fixed rate group certificates and by plus or minus 10% in the case of the ARM group certificates.
- (2) Subject to certain limitations as described in this prospectus.
- (3) Notional balances. These classes are interest only classes.
- (4) The 1A-IO Class will bear interest at a variable annual rate calculated as described in this prospectus. During the first interest accrual period, the 1A-IO Class is expected to bear interest at an annual rate of approximately 1.73559%.
- (5) The 2A Class will bear interest at the lesser of 7.50% and the weighted average net mortgage rate of the Category 2 loans.
- (6) The 2A-IO Class will bear interest at a variable annual rate calculated as described in this prospectus. During the first interest accrual period, the 2A-IO Class is expected to bear interest at an annual rate of approximately 0.66635%.
- (7) The 3A, 3M, 3B-1 and 3B-2 Classes will each bear interest at an annual rate equal to the weighted average net mortgage rate of the adjustable rate loans. During the first interest accrual period, each of these classes is expected to bear interest at an annual rate of approximately 6.70361%.
- (8) Payments of interest and principal on the fixed rate group mezzanine certificates are subordinated to the payments of interest and principal, respectively, on the related senior certificates and payments of interest and principal of the ARM group mezzanine certificates are subordinated to payments of interest and principal, respectively, of the related senior certificates. Payments in respect of the mezzanine certificates are NOT guaranteed by Fannie Mae.

The dealers specified below will offer the certificates from time to time in negotiated transactions at varying prices. We expect the settlement date to be March 27, 2002.



Co-Lead Dealers

NOMURA

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AVAILABLE INFORMATION

You should purchase the certificates only if you have read and understood this prospectus, the senior supplement (if you are purchasing senior certificates) and our Information Statement dated March 30, 2001 and its supplements (the “Information Statement”).

You can obtain the disclosure documents listed above (the “Disclosure Documents”) by writing or calling us at:

Fannie Mae
3900 Wisconsin Avenue, N.W.
Area 2H-3S
Washington, D.C. 20016
1-800-237-8627 or 1-202-752-6547.

The Disclosure Documents, together with the class factors, are available on our website located at <http://www.fanniemae.com>.

You can also obtain the Disclosure Documents by writing or calling the dealers at:

Countrywide Securities Corporation
Prospectus Department
4500 Park Granada
Calabasas, California 91302
1-800-669-6091

or

Nomura Securities International, Inc.
Prospectus Department
2 World Financial Center
Building B, 21st Floor
New York, New York 10021
1-212-667-9300

REFERENCE SHEET

This reference sheet highlights information contained elsewhere in this prospectus. It is not a summary of the transaction and does not contain complete information about the certificates. You should purchase certificates only after reading this prospectus in its entirety and each of the additional disclosure documents listed on page 4.

The Certificates

- The certificates will represent beneficial ownership interests in Fannie Mae REMIC Trust 2002-W1.
- The assets of the trust will consist of certain first lien, one- to four-family, fully amortizing mortgage loans insured by the Federal Housing Administration or partially guaranteed by the U.S. Department of Veterans Affairs and having the characteristics described in this prospectus.
- The loans in the fixed rate group all bear fixed rates of interest. The fixed rate group is, in turn, divided into two sub-groups, the Category 1 loans and the Category 2 loans.
- The loans in the ARM group all bear adjustable rates of interest.

Certain Characteristics of the Mortgage Loans

Each of the mortgage loans was originated in accordance with the underwriting guidelines of the FHA or VA. Substantially all of the mortgage loans were included in Ginnie Mae pools and then purchased from those pools as a result of uncured delinquencies. The mortgage loans are now reperforming as and to the extent described in the section of this prospectus entitled “The Mortgage Loan Groups.”

The table appearing in Exhibit A sets forth certain summary information regarding the assumed characteristics of the mortgage loans.

General

The certificates will consist of the following classes, which represent the entire ownership interest in the trust.

Eleven classes of senior certificates issued and guaranteed by Fannie Mae:

- | | | |
|---------------|---|--------------------------------|
| • A-R Class | } | Residual classes |
| • RM Class | | |
| • RL Class | | |
| • 1A-1 Class | } | Category 1 senior certificates |
| • 1A-2 Class | | |
| • 1A-3 Class | | |
| • 1A-4 Class | | |
| • 1A-IO Class | | |
| • 2A Class | } | Category 2 senior certificates |
| • 2A-IO Class | | |
| • 3A Class | } | ARM group senior certificates |
- Fixed rate group senior certificates

Six classes of mezzanine certificates issued, but not guaranteed, by Fannie Mae:

- M Class
 - B-1 Class
 - B-2 Class
 - 3M Class
 - 3B-1 Class
 - 3B-2 Class
- } Fixed rate group mezzanine certificates
- } ARM group mezzanine certificates

Six classes of subordinate certificates issued, but not guaranteed, by Fannie Mae:

- B-3 Class
 - B-4 Class
 - B-5 Class
 - 3B-3 Class
 - 3B-4 Class
 - 3B-5 Class
- } Fixed rate group subordinate certificates
- } ARM group subordinate certificates

We expect that the aggregate stated principal balance of the loans in the trust in the fixed rate group and the ARM group will total approximately \$540,301,061 and \$88,009,276, respectively, and that the aggregate stated principal balance of the Category 1 and Category 2 loans in the trust will be approximately \$151,209,550 and \$389,091,511, respectively, in each case as of the issue date. The aggregate amounts may vary by plus or minus 5% in the case of the fixed rate group certificates and by plus or minus 10% in the case of the ARM group certificates.

The senior, mezzanine and subordinate certificates will have the initial aggregate principal balances, and will represent the undivided percentage ownership interests in the related mortgage loans, shown below:

| | Approximate initial aggregate principal balance (1) | Approximate initial undivided ownership interest in the related mortgage loans |
|---|--|--|
| Category 1 senior certificates | \$146,673,000 | 97.0% ⁽²⁾ |
| Category 2 senior certificates | \$377,418,100 | 97.0% ⁽³⁾ |
| Fixed rate group mezzanine certificates | \$ 8,645,000 | 1.6% |
| Fixed rate group subordinate certificates | \$ 7,564,961 | 1.4% |
| ARM group senior certificates | \$ 85,017,000 | 96.6% |
| ARM group mezzanine certificates | \$ 1,760,000 | 2.0% |
| ARM group subordinate certificates . . . | \$ 1,232,276 | 1.4% |

(1) The principal balances may vary by plus or minus 5% in the case of the fixed rate group certificates and by plus or minus 10% in the case of the ARM group certificates. However, in the case of the mezzanine and subordinate certificates, the proportion that the original principal balance of each class bears to the aggregate original principal balance of all such classes in the related loan group will remain the same.

(2) Relates to Category 1 loans only.

(3) Relates to Category 2 loans only.

Only the senior and mezzanine certificates are being offered by this prospectus and, in the case of the senior certificates, by the senior supplement. On the settlement date, we also will issue the subordinate certificates to the dealers, which may sell them at any time thereafter in limited private offerings. We have included in this prospectus certain information about the subordinate certificates only to help you understand the senior and mezzanine certificates.

Class Factors

The class factors are numbers that, when multiplied by the initial principal balance of a certificate, can be used to calculate the current principal balance of that certificate (after taking into account payments in the same month). We publish the class factors on or shortly after the 21st day of each month.

Settlement Date

We expect to issue the certificates on March 27, 2002.

Distribution Date

We will make payments on the classes of certificates on the 25th day of each calendar month, or on the next business day if the 25th day is not a business day.

Book-Entry and Physical Certificates

We issue book-entry certificates through The Depository Trust Company, which will electronically track ownership of the certificates and payments on them. We will issue physical certificates in registered, certificated form.

We will issue the classes of certificates in the following forms:

| <u>DTC Book-Entry</u> | <u>Physical</u> |
|--|------------------------|
| All classes of senior and mezzanine certificates other than the A-R, RM and RL Classes | A-R, RM and RL Classes |

Interest Payments

During each interest accrual period, the senior and mezzanine certificates will bear interest at the annual rates set forth or described on the cover of this prospectus. On each distribution date, each class of senior certificates will be entitled to receive the applicable Senior Interest Distribution Amount and each class of mezzanine certificates will be entitled to receive the applicable portion of the Non-Senior Interest Distribution Amount. For a description of the Senior Interest Distribution Amount payable to each class of senior certificates and the applicable portion of the Non-Senior Interest Distribution Amount payable to each class of mezzanine certificates, see “Description of the Senior and Mezzanine Certificates—Interest Payments on the Senior and Mezzanine Certificates—*Interest Calculation*” and “—Certain Definitions Relating to Interest Payments on the Certificates” in this prospectus.

Notional Classes

A notional class will not receive any principal. Its notional principal balance is the balance used to calculate accrued interest. The notional principal balances of the 1A-IO and 2A-IO Classes will equal 100% of the respective aggregate stated principal balances listed below, immediately before the related distribution date:

| <u>Class</u> | |
|--------------|------------------------------|
| 1A-IO | 100% of the Category 1 loans |
| 2A-IO | 100% of the Category 2 loans |

Principal Payments

Senior Principal Distribution Amounts

- With respect to the Category 1 loans, to the 1A-1, 1A-2, 1A-3 and 1A-4 Classes, in that order, to zero.
- With respect to the Category 2 loans, to the A-R and 2A Classes, in that order, to zero.
- With respect to the ARM group, to the 3A Class to zero.

Non-Senior Principal Distribution Amounts Relating to the Classes of Mezzanine Certificates

- With respect to the fixed rate group, concurrently, to the fixed rate group mezzanine and subordinate certificates, pro rata, with funds available for such purpose to be applied first to the M, B-1 and B-2 Classes, in that order of priority.
- With respect to the ARM group, concurrently, to the ARM group mezzanine and subordinate certificates, pro rata, with funds available for such purpose to be applied first to the 3M, 3B-1 and 3B-2 Classes, in that order of priority.

For a description of the applicable Senior Principal Distribution Amounts for the classes of senior certificates and the applicable Non-Senior Principal Distribution Amounts for the mezzanine certificates, see “Description of the Senior and Mezzanine Certificates—Certain Definitions Relating to Principal Payments on the Certificates” in this prospectus.

Weighted Average Lives (years) *

| <u>Senior Classes</u> | <u>CPR Prepayment Assumption**</u> | | | | | | |
|--------------------------|------------------------------------|------------|------------|------------|------------|------------|------------|
| | <u>0%</u> | <u>9%</u> | <u>12%</u> | <u>15%</u> | <u>18%</u> | <u>24%</u> | <u>30%</u> |
| 1A-1 | 7.7 | 1.6 | 1.2 | 1.0 | 0.8 | 0.6 | 0.5 |
| 1A-2 | 15.8 | 4.8 | 3.7 | 3.0 | 2.5 | 1.9 | 1.5 |
| 1A-3 | 19.4 | 7.9 | 6.2 | 5.0 | 4.2 | 3.1 | 2.4 |
| 1A-4 | 23.0 | 15.3 | 12.8 | 10.8 | 9.2 | 6.9 | 5.3 |
| 1A-IO | 16.1 | 7.7 | 6.4 | 5.3 | 4.5 | 3.4 | 2.7 |
| 2A | 16.4 | 7.7 | 6.3 | 5.2 | 4.4 | 3.3 | 2.5 |
| 2A-IO | 16.4 | 7.9 | 6.4 | 5.4 | 4.6 | 3.5 | 2.7 |
| A-R | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 |
| | <u>0%</u> | <u>10%</u> | <u>20%</u> | <u>25%</u> | <u>30%</u> | <u>35%</u> | <u>40%</u> |
| 3A | 14.1 | 6.6 | 3.8 | 3.0 | 2.5 | 2.0 | 1.7 |
| <u>Mezzanine Classes</u> | <u>CPR Prepayment Assumption**</u> | | | | | | |
| | <u>0%</u> | <u>9%</u> | <u>12%</u> | <u>15%</u> | <u>18%</u> | <u>24%</u> | <u>30%</u> |
| M, B-1 and B-2 | 16.3 | 12.1 | 11.3 | 10.6 | 10.0 | 9.2 | 8.5 |
| | <u>0%</u> | <u>10%</u> | <u>20%</u> | <u>25%</u> | <u>30%</u> | <u>35%</u> | <u>40%</u> |
| 3M, 3B-1 and 3B-2 | 14.1 | 10.8 | 9.1 | 8.5 | 8.1 | 7.8 | 7.4 |

* Determined as specified under “Description of the Senior and Mezzanine Certificates—Weighted Average Lives of the Senior and Mezzanine Certificates” in this prospectus.

** For a description of the Prepayment Assumption, see “Description of the Senior and Mezzanine Certificates—Structuring Assumptions—*Prepayment Assumption*” in this prospectus.

Ratings

We will not issue the certificates unless Standard & Poor's, a division of The McGraw-Hill Companies, Inc. and Moody's Investors Service, Inc. assign to the mezzanine certificates the ratings specified in the following table:

| <u>Class</u> | <u>S&P Rating</u> | <u>Moody's Rating*</u> |
|--------------|-----------------------|------------------------|
| M | AA | Aa2 |
| B-1 | A | A2 |
| B-2 | BBB | Baa2 |
| 3M | AA | — |
| 3B-1 | A | — |
| 3B-2 | BBB | — |

* Moody's has not assigned ratings to the 3M, 3B-1 and 3B-2 Classes.

RISK FACTORS

Risk Factors Affecting Senior and Mezzanine Certificates

Certificates may not be a suitable investment. The certificates are not a suitable investment for every investor. Before investing, you should consider carefully the following:

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

You should exercise particular caution if your circumstances do not permit you to hold the certificates until maturity.

Factors that can affect your yield. Your effective yield on the certificates will depend upon:

- the price you paid for the certificates,
- how quickly or slowly borrowers prepay the related mortgage loans,
- if and when the related mortgage loans are liquidated due to borrower defaults, casualties or condemnations affecting the properties securing those loans,
- the extent of any uncovered prepayment interest shortfalls,
- if and when the related mortgage loans are repurchased;
- the actual characteristics of the related mortgage loans; and

- in the case of the 1A-IO and 2A-IO Classes and the ARM group classes, fluctuations in the weighted average of the net mortgage rates of the related mortgage loans.

In particular, the 1A-IO Class will receive no interest on any distribution date if the weighted average of the net mortgage rates of the Category 1 loans for the related interest accrual period is equal to or less than the weighted average of the interest rates of the 1A-1, 1A-2, 1A-3 and 1A-4 Classes and the mezzanine and subordinate components relating to the Category 1 loans, as described in this prospectus. Similarly, the 2A-IO Class will receive no interest payment on any distribution date if the weighted average of the net mortgage rates of the Category 2 loans is equal to or less than the weighted average of the interest rates of the 2A and A-R Classes and the mezzanine and subordinate components relating to the Category 2 loans, as described in this prospectus.

Mortgage interest rate reductions will reduce the yield on the related classes of certificates. Reductions in the interest rates on the mortgage loans due to loan modifications as a loss mitigation technique or application of the Soldiers' and Sailors' Civil Relief Act of 1940 will reduce the interest rates of the related classes of certificates. Any such reductions affecting the Category 1 loans will reduce the interest rates, and thus the yields, of the 1A-1, 1A-2, 1A-3, 1A-4 and 1A-IO Classes and the fixed rate group mezzanine and subordinate classes. Any such reductions affecting the Category 2 loans will reduce the interest rates, and thus the yields, of the 2A, 2A-IO and A-R Classes and the fixed rate group mezzanine and subordinate certificates. Finally, any such reductions affecting the ARM loans will reduce the interest rates, and thus the yields, of the ARM group classes.

Yields may be lower than expected due to unexpected rate of principal payments. The actual yield on your certificates probably will be lower than you expect:

- if you buy your certificates at a premium and principal payments are faster than you expect, or

- if you buy your certificates at a discount and principal payments are slower than you expect.

Furthermore, in the case of interest only certificates and certificates purchased at a premium, you could lose money on your investment if prepayments of the related mortgage loans occur at a rapid rate.

In addition, in the case of the 1A-IO and 2A-IO Classes, if a disproportionately high rate of prepayments occurs on the Category 1 or Category 2 loans, respectively, bearing relatively high interest rates, the yields on those respective classes will decrease and may be lower than you expect.

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

We used certain assumptions concerning the mortgage loans in preparing certain tabular information in this prospectus. If the actual mortgage loan characteristics differ even slightly from those assumptions, the weighted average life and yield of the related certificates will be affected.

You must decide what principal prepayment assumptions to use in deciding whether to purchase the certificates.

Prepayment considerations and risks. Many factors affect the prepayment rate. The rate of principal payments on the certificates of a particular class generally will depend on the rate of principal payments on the related mortgage loans. Principal payments on the mortgage loans may occur as a result of scheduled amortization or prepayments. The rate of principal payments is likely to vary considerably from time to time as a result of the liquidation of foreclosed mortgage loans, FHA insurance payments and VA guarantee payments, as well as

because borrowers generally may prepay the mortgage loans at any time without penalty.

The prepayment rate of fixed rate loans can be particularly sensitive to prevailing interest rates. In general, when the level of prevailing interest rates declines relative to the interest rates on fixed rate mortgage loans, the rate of prepayment is likely to increase. The prepayment rate is influenced by a number of other factors as well, including general economic conditions and homeowner mobility. In addition, no one can predict the degree to which interest rates must decline before significant prepayments are likely to occur. Increased borrower sophistication regarding the benefits of refinancing and extensive solicitation by lenders may result in an increase in the rate at which the mortgage loans are prepaid due to refinancing. Because of these and other factors, we are unable to estimate what the prepayment experience for the mortgage loans will be.

It is highly *unlikely* that the mortgage loans will prepay:

- at the rates we assume,
- at any constant prepayment rate until maturity, or
- at the same rate.

The mortgage loans generally provide that the lender can require repayment in full if the borrower sells the property that secures the mortgage loan. However, some of the mortgage loans may be assumed by creditworthy purchasers of mortgaged properties from the original borrowers. Additionally, FHA and VA have historically permitted borrowers to sell the mortgaged property without requiring the buyer to assume the mortgage and, at times, without verifying the buyer's creditworthiness. In this way, property sales by borrowers can affect the rate of prepayment. Furthermore, the seller made representations and warranties with respect to the mortgage loans and may have to repurchase the related loans in case of a breach of those representations and warranties. Any such repurchases will increase the rate of prepayment.

The amortization schedules of the mortgage loans may be recast and their terms may be extended. The master servicer has the right

under certain circumstances to recast the amortization schedule (based on a 30-year term) and/or extend the scheduled date of final payment on a mortgage loan (but not beyond February 2042). To the extent the master servicer recasts the amortization schedule or extends the term of a mortgage loan, the weighted average lives of the related classes of certificates could be extended.

Loan characteristics affect weighted average lives and yields on the certificates. Slight variations in mortgage loan characteristics could affect the weighted average lives and yields of the related certificates.

Your yield may be reduced due to uncovered prepayment interest shortfalls. The effective yields on the certificates will be reduced to the extent prepayments of the related mortgage loans result in uncovered prepayment interest shortfalls.

Delay classes have lower yields and market values. Since the classes of certificates do not receive interest immediately following each interest accrual period, they have lower yields and therefore lower market values than they would if there were no such delay.

Unpredictable timing of last payment affects yields on certificates. The actual final payment on each class of certificates is likely to occur earlier, and could occur much earlier, than the maturity date of the latest maturing mortgage loan in the related loan category or loan group. If you assume the actual final payment will occur on that date, your yield may be lower than you expect.

Reinvestment of certificate payments may not achieve same yields as certificates. The rate of principal payments on the certificates is uncertain. You may be unable to reinvest the payments on the certificates at the same yields provided by the certificates.

Delayed information can result in delayed distribution of prepayments. Provided that timely information is available, all principal prepayments received during a calendar month will be passed through to the related certificateholders on the distribution date following the end of that prepayment period. However, in the event that timely information is not available, principal prepayments will be paid on the sec-

ond distribution date following the end of that prepayment period.

Delays or reductions in cash flow can result from default and liquidation. Even assuming that the mortgaged properties provide adequate security for the mortgage loans, substantial delays could be encountered in connection with the liquidation of defaulted mortgage loans, and corresponding delays in distributing the related liquidation proceeds to holders of the related senior and mezzanine certificates could occur. Further, liquidation expenses (such as legal fees, real estate taxes and maintenance and preservation expenses) will reduce the proceeds of the mortgage loans payable to certificateholders.

Certain classes of certificates provide credit enhancement for other classes. For purposes of this discussion, the term “related junior classes” means:

- as to the fixed rate group or ARM group senior certificates—the related mezzanine certificates and subordinate certificates, and
- as to each class of fixed rate group or ARM group mezzanine certificates—each class of related mezzanine certificates with a higher numerical class designation as well as the related subordinate certificates. (The M and 3M Classes are deemed to have a lower numerical designation, and to have a higher payment priority, than the other classes of non-senior certificates in their respective loan groups.)

Credit enhancement will be provided for the senior and mezzanine certificates of a group:

- first, by the right of the holders of the senior and mezzanine certificates in that group to receive certain payments of principal prior to the related junior classes, and
- second, by the allocation of realized losses to the related junior classes.

None of the seller, the trustee, the master servicer or any of their respective affiliates will have any obligation to replace or supplement the credit enhancement. Credit enhancement for the senior and mezzanine certificates of a group is provided from collections on the related mort-

gage loans otherwise payable to the holders of the related junior classes. In the case of the mezzanine certificates of a group, collections on the related mortgage loans comprise the sole source of funds from which the credit enhancement is provided. Accordingly, if the aggregate principal balance of the related junior classes were to be reduced to zero, delinquencies and defaults on the related mortgage loans would affect monthly payments to holders of the outstanding mezzanine certificates.

Some investors may be unable to buy certain classes. Investors whose investment activities are subject to legal investment laws and regulations, or to review by regulatory authorities, may be unable to buy certain certificates. You should get legal advice to determine whether you may purchase the certificates.

Uncertain market for the certificates could make them difficult to sell and cause their values to fluctuate. We cannot be sure that a market for resale of the certificates will develop. Further, if a market develops, it may not continue or be sufficiently liquid to allow you to sell your certificates. As a result, you may be unable to sell your certificates easily or at a price that enables you to obtain your anticipated yield. In particular, it may be difficult to sell senior and mezzanine certificates that are designed for specific investment objectives or strategies or that have been structured to meet the investment requirements of limited categories of investors (including the 1A-IO and 2A-IO Classes). Such certificates may have little or no liquidity. You should purchase certificates only if you understand and can bear the risk that the value of your certificates will vary over time and that your certificates may not be easily sold.

Concentration of mortgaged properties in certain states. The tables on pages 25 and 30 under “The Mortgage Loan Groups—The Fixed Rate Group” and “—The ARM Group” set forth the geographic distribution of the mortgage loans.

As of the issue date, the following states have the largest concentrations of fixed rate loans in the trust. Based on their aggregate stated principal balance,

- 14.86% of the fixed rate group loans are in California,

- 8.54% of the fixed rate group loans are in Texas,
- 7.39% of the fixed rate group loans are in Florida,
- 5.93% of the fixed rate group loans are in New York, and
- 5.54% of the fixed rate group loans are in Michigan.

As of the issue date, the following states have the largest concentrations of ARM loans in the trust. Based on their aggregate stated principal balance,

- 19.13% of the ARM group loans are in California,
- 10.16% of the ARM group loans are in Maryland,
- 7.54% of the ARM group loans are in Illinois, and
- 5.14% of the ARM group loans are in Florida.

If the residential real estate markets in the areas with the heaviest concentrations of mortgage loans should experience an overall decline in property values, the rates of delinquencies, foreclosures, bankruptcies and realized losses on the mortgage loans probably will increase and may increase substantially.

Loan characteristics may differ from descriptions due to permitted variance. The principal amount of mortgage loans delivered to the trust on the settlement date may vary by plus or minus 5% in the case of the fixed rate loans and by plus or minus 10% in the case of the ARM loans. In that event the principal balances of the related certificates will be adjusted accordingly to reflect such variance and maintain the required levels of subordination. In addition, it is expected that additional mortgage loans may be added to, and certain mortgage loans may be deleted from, any of the categories or loan groups between the issue date and the settlement date. As a result, the characteristics of the mortgage loans actually included in the categories or loan groups may differ from the characteristics of the mortgage loans specified in this prospectus.

Declines in real estate values and mortgaged property values diminish security for mortgage loans. An overall decline in residential real estate markets could adversely affect the values of the mortgaged properties that secure the mortgage loans. In that event, the outstanding balances of the mortgage loans could equal or exceed the values of the related mortgaged properties. Residential real estate markets in many states have experienced periods of softness and decline in the recent past. We cannot predict or quantify any future declines in property values. During a period of property value decline, the rates of delinquencies, foreclosures and losses on the mortgage loans would probably be higher than those experienced in the mortgage lending industry in general. Geographic concentration of the mortgage loans may increase the impact of such market changes.

In addition, the actual value of a mortgaged property may decrease in relation to its appraised value at origination due to numerous other factors including

- a rise in interest rates over time,
- the general condition of the mortgaged property, and
- general employment levels.

FHA and VA loans such as the mortgage loans to be included in the trust generally may be originated with loan-to-value ratios of up to 100% (plus certain closing-related costs and expenses). If there is a reduction in the value of a mortgaged property, the loan-to-value ratio may increase relative to the original loan-to-value ratio. In that event, it will be less likely that the outstanding balance of the related mortgage loan would be paid in full from liquidation proceeds.

The FHA may settle claims on defaulted FHA insured mortgage loans in FHA debentures rather than cash. FHA has the option to settle claims made with respect to losses on defaulted FHA-insured loans by delivering FHA debentures rather than cash. The debentures can have maturities of up to 20 years. If a debenture is issued by FHA, the master servicer will be obligated to purchase such debenture from the trust with the proceeds of such purchase being passed through to holders of the related classes of certificates. Any such purchase will be made at a

price equal to the par amount of the debenture plus interest accrued on such amount at the related net mortgage rate less certain servicing advances. However, if the par amount of the debenture is less than the unpaid principal balance of the related mortgage loan, the deficiency will represent a realized loss and will be allocated to the related classes of subordinate certificates until the aggregate principal balance of those certificates is reduced to zero. Any such loss occurring after the aggregate principal balance of the related classes of subordinate certificates has been reduced to zero will be allocated to the related mezzanine certificates. Although the FHA generally has not issued debentures in settlement of claims since 1965, it continues to be authorized to do so.

Collecting and obtaining recovery costs may be difficult due to state and federal laws. Certain states have imposed statutory prohibitions that limit the remedies of a beneficiary under a deed of trust or a mortgagee under a mortgage. In some states, statutes limit the right of the beneficiary or mortgagee to obtain a deficiency judgment against the borrower following foreclosure or sale. (A deficiency judgment is a personal judgment against the borrower generally equal to the difference between the net amount received upon the public sale of the real property and the amount due the lender.) Other statutes require the beneficiary or mortgagee to foreclose in an attempt to satisfy the full debt before bringing a personal action against the borrower. Finally, other statutory provisions limit any deficiency judgment against the borrower following a judicial sale to the excess of the outstanding debt over the fair market value of the property at the time of the public sale. The purpose of these statutes is generally to prevent a beneficiary or a mortgagee from obtaining a large deficiency judgment against the borrower as a result of a low bid, or no bids, at the judicial sale.

Applicable state laws generally regulate interest rates and other charges, require certain disclosures, and require licensing of mortgage loan originators and servicers. In addition, other state laws, public policies and general principles of equity relating to the protection of consumers, unfair and deceptive practices and debt collection practices may apply to the origination, servicing and collection of the mortgage

loans. The seller will be required to repurchase any mortgage loans that, at the time of origination, did not comply with applicable federal and state laws and regulations. Depending on the provisions of the applicable law and the factual circumstances, violations of such laws, policies and principles may

- limit the ability of the trust to collect all or part of the principal of or interest on the related mortgage loans,
- entitle the related borrower to a refund of amounts previously paid, and
- subject the trust to monetary damages and administrative enforcement.

The mortgage loans also are subject to a number of federal laws, which, if violated, may limit the ability of the master servicer to collect all or part of the principal of or interest on the mortgage loans and, in addition, could subject the trust to monetary damages and administrative enforcement.

Under federal and state environmental legislation and applicable case law, it is unclear whether liability for costs of eliminating environmental hazards on real property may be imposed on a secured lender (such as the trust) acquiring title to the real property. Such costs could be substantial.

In light of these legal factors, the amount of collections on the mortgage loans available for payment to investors could be limited or diminished.

Recent Events. The effects that the terrorist attacks of September 11, 2001 and related military action may have on the performance of the mortgage loans and the certificates cannot be determined at this time. Investors should consider the possible effects on delinquency, default and prepayment experience of the mortgage loans. In accordance with the servicing standard set forth in the sale and servicing agreement, the master servicer may defer, reduce or forgive payments and delay foreclosure proceedings in respect of mortgage loans to borrowers affected in some way by recent and possible future events. In addition, activation of a substantial number of United States military reservists or members of the National Guard may significantly increase the proportion of

mortgage loans whose interest rates are reduced by the application of the Soldiers' and Sailors' Civil Relief Act of 1940.

Additional Risk Factors Affecting Mezzanine Certificates

High delinquency rates are more likely to result in foreclosure, bankruptcy or liquidation. If you are considering an investment in the mezzanine certificates, you should consider that the mortgage loans to be included in the trust have experienced high rates of delinquency, including currently uncured delinquencies, and, as a result, these loans are more likely to be subject to foreclosure, bankruptcy and liquidation.

Yields affected by realized losses allocated to non-senior classes. If you are considering an investment in the mezzanine certificates in a group, you also should bear in mind the impact on your yield if any defaulted mortgage loans in the related loan group remain in the trust until the final disposition of the related mortgaged properties. Any realized losses on such loans will be allocated to the related classes of mezzanine and subordinate certificates in the reverse order of their numerical class designations. The proceeds of the final disposition may be insufficient to pay principal to those mezzanine certificates in an amount equal to the full balance of the related mortgage loan. (For purposes of allocating losses or payments to the mezzanine certificates, the M and 3M Classes will be deemed to have a lower numerical designation, and to be of a higher payment priority, than the other classes of non-senior certificates in the related group.)

If the principal balances of the more junior classes in a group were reduced to zero due to the allocation of realized losses, the yields on the related mezzanine certificates would be extremely sensitive to

- the default and realized loss experience on the related mortgage loans, and
- the timing of any such defaults or realized losses.

The rights of holders of each class of mezzanine certificates in a group to receive payments will be subordinate to the rights of holders of more senior classes in that group to the extent described in this prospectus. In general, all real-

ized losses and other shortfalls in collections on the mortgage loans in a group will be allocated:

- first, to the related subordinate classes, and
- second, to the related mezzanine classes,

in the reverse order of their numerical class designations, until their principal balances are reduced to zero. As a purchaser of mezzanine certificates, if you calculate your anticipated yield based on your estimates of the rate of default and amount of realized losses on the related mortgage loans, and your estimates prove to be less than the levels experienced, your actual yield may be lower than your anticipated yield. In fact, your actual yield could be negative in the event of substantial realized losses. The timing of realized losses will also affect your actual yield, even if the default rate and amount of realized losses are consistent with your expectations. In general, the earlier a realized loss occurs, the greater the effect on your yield.

No one can predict the delinquency, foreclosure or realized loss experience of the mortgage loans. **Before investing in the mezzanine certificates, you should fully consider the risk that realized losses on the related mortgage loans could result in your failure to recover your investment in full.**

Liquidation proceeds may be substantially reduced following the default of mortgage loans with unpaid arrearages. Certain mortgage loans will be transferred to the trust net of arrearages representing unreimbursed interest, principal and servicing advances made prior to the issue date. These amounts will not be included in trust property and any collections of such arrearages will be paid to the advancing party. In addition, upon liquidation of a defaulted mortgage loan with unpaid arrearages, liquidation proceeds will be applied first to cover the outstanding arrearages in full, as well as other related servicing and liquidation expenses, before being made available to holders of the related certificates. As a result, liquidation proceeds available for payment to related certificateholders will be reduced, and in some cases may be substantially reduced or even eliminated, following the default of a mortgage loan with unpaid arrearages.

Yields may be affected by disproportionate allocations of prepayments to the senior and mezzanine certificates. The yields and weighted average lives of the certificates probably will be affected by the disproportionately lower allocation of prepayments to the mezzanine certificates in a group as compared to the related senior certificates. This disproportionate allocation will have the effect of accelerating the amortization of the senior certificates while increasing the proportionate interest in the mortgage loans evidenced by the non-senior certificates in that group. This effect is intended to preserve the subordination provided by the non-senior certificates to the related senior certificates. The disproportionate allocation of prepayments will cause the principal balances of the mezzanine certificates in a group to decline more slowly than they would if the mezzanine certificates received their proportionate share of principal prepayments. As a result of the disproportionate allocation of prepayments, the average lives of the related mezzanine certificates will likely be longer than otherwise would be the case. In addition, the performance characteristics of the mezzanine certificates in a group will be different from those of other mortgage pass-through certificates that do not allocate principal prepayments on mortgage loans disproportionately by certificate class.

Failure to comply with FHA and VA regulations may result in realized losses. If the master servicer does not strictly comply with applicable FHA or VA regulations, FHA insurance benefits or VA guaranty payments otherwise available may be reduced or denied which could result in realized losses on the affected mortgage loans to the extent that the losses are not covered by the master servicer from its own funds.

FHA insurance proceeds and VA guaranty payments will be reduced as a result of various factors. Benefits under FHA mortgage insurance or a VA guaranty for a defaulted mortgage loan will be reduced to account for reimbursement of the related servicers for certain costs and expenses as well as for deductions of certain amounts received or retained by the servicers after default.

Delinquencies may have an adverse effect on yield. The yield to maturity on the mezza-

nine certificates in a group will be affected adversely by delinquencies on the related mortgage loans that are not covered by a delinquency advance. As further described in this prospectus, amounts otherwise distributable to holders of the mezzanine certificates in a group will be used to protect the holders of the related senior certificates against payment interruptions due to certain borrower delinquencies. Such delin-

quencies, even if subsequently cured, will affect the time when payments are received by holders of the related mezzanine certificates. In addition, the rate of principal payments on the certificates in a group would be affected by aggregate realized losses under certain realized loss scenarios, because the related senior prepayment percentage would not decrease as scheduled.

GENERAL

The material under this heading summarizes certain features of the Senior and Mezzanine Certificates (each as defined in this prospectus). You will find additional information about the Senior and Mezzanine Certificates in the other sections of this prospectus. You will also find additional information about the Senior Certificates in the Senior Supplement. If we use a capitalized term in this prospectus without defining it, you will find the definition of that term in the Information Statement or in the Trust Agreement.

Structure. We, the Federal National Mortgage Association (“Fannie Mae”), a corporation organized and existing under the Federal National Mortgage Association Charter Act (12 U.S.C. 1716 *et seq.*), will create the Fannie Mae REMIC Trust specified on the cover of this prospectus (the “Trust”) and two separate trusts (the “Middle Tier REMIC” and “Lower Tier REMIC”) pursuant to a trust agreement dated as of March 1, 2002 (the “Trust Agreement”). We will execute the Trust Agreement in our corporate capacity and as trustee (the “Trustee”). We will issue the Senior and Mezzanine Certificates pursuant to the Trust Agreement. We will also issue the Subordinate Classes pursuant to the Trust Agreement. Fannie Mae and Countrywide Home Loans, Inc., as seller (the “Seller” or “Countrywide”) and an affiliate of the Seller, Countrywide Home Loans Servicing LP, as master servicer (the “Master Servicer”), will be parties to a sale and servicing agreement (the “Sale and Servicing Agreement”) dated as of March 1, 2002 (the “Issue Date”).

The Trust (the “Upper Tier REMIC”), the Middle Tier REMIC and the Lower Tier REMIC will each constitute a “real estate mortgage investment conduit” (“REMIC”) under the Internal Revenue Code of 1986, as amended (the “Code”).

- The Certificates other than the A-R, RM and RL Classes will be the “regular interests” in the Upper Tier REMIC.
- The A-R Class will be the “residual interest” in the Upper Tier REMIC.
- The interests in the Middle Tier REMIC other than the RM Class (the “Middle Tier Regular Interests”) will be the “regular interests” in the Middle Tier REMIC.
- The RM Class will be the “residual interest” in the Middle Tier REMIC.
- The interests in the Lower Tier REMIC other than the RL Class (the “Lower Tier Regular Interests”) will be the “regular interests” in the Lower Tier REMIC.
- The RL Class will be the “residual interest” in the Lower Tier REMIC.

The assets of the Upper Tier REMIC will consist of the Middle Tier Regular Interests, and the assets of the Middle Tier REMIC will consist of the Lower Tier Regular Interests. The assets of the Lower Tier REMIC will consist of certain mortgage loans (the “Mortgage Loans”) that are insured by the Federal Housing Administration (“FHA”) or partially guaranteed by the U.S. Department of Veterans Affairs (“VA”) and, as a result of past delinquency, have been repurchased from Ginnie Mae pools. One group of Mortgage Loans bears fixed rates of interest (the “Fixed Rate Group” or the “Fixed Rate Loans”) and the other group bears adjustable rates of interest (the “ARM Group” or the “ARM Loans”). As described in this prospectus, the Fixed Rate Group is further divided into the “Category 1 Loans” and “Category 2 Loans.”

We will sometimes refer to the Classes and Certificates associated with the Fixed Rate Loans as the “Fixed Rate Group Classes” or “Fixed Rate Group Certificates” and to the Classes and Certificates associated with the ARM Loans as the “ARM Group Classes” or “ARM Group Certificates.” Similarly, we will sometimes refer to the Classes and Certificates associated with the Category 1 Loans as the “Category 1 Classes” or “Category 1 Certificates” and to the Classes and Certificates associated with the Category 2 Loans as the “Category 2 Classes” or “Category 2 Certificates.”

Authorized Denominations. We will issue the Senior Certificates (other than the A-R, RM and RL Classes) in minimum denominations of \$1,000 and whole dollar increments above that amount (except that a single Certificate of the 2A Class may be issued in any denomination). We will issue the A-R, RM and RL Classes as a single Certificate (the “Combined Residual Certificate”) in a denomination of \$100. We will issue the Mezzanine Certificates in minimum denominations of \$100,000 and whole dollar increments above that amount.

Characteristics of Senior and Mezzanine Certificates. The Senior and Mezzanine Certificates, other than the A-R, RM and RL Classes, will be represented by one or more certificates (the “DTC Certificates”) to be registered at all times in the name of the nominee of The Depository Trust Company (“DTC”), a New York-chartered limited purpose trust company, or any successor or depository selected or approved by us. We refer to the nominee of DTC as the “Holder” or “Certificateholder” of the Certificates. DTC will maintain the DTC Certificates through its book-entry facilities.

A Holder is not necessarily the beneficial owner of a Certificate. Beneficial owners ordinarily will hold Certificates through one or more financial intermediaries, such as banks, brokerage firms and securities clearing organizations.

The holder of the Combined Residual Certificate will have the right to exchange the Combined Residual Certificate for three separate residual certificates (each, a “Separate Residual Certificate”) relating to each of the A-R, RM and RL Classes.

We will issue the Combined or any Separate Residual Certificate (a “Residual Certificate”) in fully registered, certificated form. The “Holder” or “Certificateholder” of a Residual Certificate is its registered owner. A Residual Certificate can be transferred at the corporate trust office of the transfer agent, or at the office of the transfer agent in New York, New York. State Street Bank and Trust Company in Boston, Massachusetts (“State Street”) will be the initial transfer agent. We may impose a service charge for any registration of transfer of a Residual Certificate and may require payment to cover any tax or other governmental charge. In addition, the Combined Residual Certificate may be exchanged for the Separate Residual Certificates at the corporate trust office of the transfer agent or at the office of the transfer agent in New York, New York. See also “Description of the Senior and Mezzanine Certificates—Special Characteristics of A-R, RM and RL Classes.”

The Holder of the A-R Class will receive the proceeds of any remaining assets of the Upper Tier REMIC, the Holder of the RM Class will receive the proceeds of any remaining assets in the Middle Tier REMIC, and the Holder of the RL Class will receive the proceeds of any remaining assets of the Lower Tier REMIC, in each case only by presenting and surrendering the related Certificate at the office of the paying agent. Fannie Mae will be the initial paying agent.

See “Description of the Certificates—Book-Entry Procedures” and “—Special Characteristics of the A-R, RM and RL Classes” in this prospectus.

Distribution Date. We will make monthly payments on the Certificates on the 25th day of each month (or, if the 25th day is not a business day, on the first business day after the 25th). We refer to each of these dates as a “Distribution Date.” We will make the first payments to Certificateholders the month after we issue the Certificates.

Record Date. On each Distribution Date, we will make each monthly payment on the Certificates to Holders of record on the last day of the preceding month.

Class Factors. On or shortly after the twenty-first calendar day of each month, we will publish a factor (carried to eight decimal places) for each Class of Certificates. When the factor is multiplied by the original principal balance (or notional principal balance) of a Certificate of that Class, the product will equal the current principal balance (or notional principal balance) of that Certificate after taking into account payments on the Distribution Date in the same month.

Optional Clean-up Calls. Subject to certain conditions and limitations described in the Sale and Servicing Agreement, the Master Servicer, in its capacity as servicer of the Mortgage Loans, may elect to purchase from the Lower Tier REMIC all of the Fixed Rate Loans or ARM Loans on or after the first Distribution Date when the aggregate principal balance of the Fixed Rate Loans or ARM Loans, as applicable, has been reduced to 5% or less of the aggregate principal balance of the Fixed Rate Loans or ARM Loans, respectively, as of the Issue Date (such first date with respect to a Loan Group, the related “Optional Termination Date”). If the Fixed Rate Loans or ARM Loans are purchased in this way, it will have the same effect on the related Classes as a prepayment in full of the related Mortgage Loans and will result in the early termination of the related Classes of Certificates.

THE MORTGAGE LOAN GROUPS

The mortgage loans to be delivered to the Trust on the Settlement Date will consist of two groups of mortgage loans identified as of the Issue Date (the “Initial Mortgage Pool”), as modified to account for additions and deletions of mortgage loans on or prior to the Settlement Date. The Seller has provided us with detailed information regarding the Initial Mortgage Pool. We summarize this information below, although we have not verified it. As a result, Fannie Mae does not warrant, and can give no assessment as to the truth or accuracy of, the information.

The term “Mortgage Loans” as used in this prospectus generally refers to all of the mortgage loans actually included in the Trust. However, solely for purposes of the statistical information set forth under the heading “—General” below, the term “Mortgage Loans” refers to the mortgage loans included in the Initial Mortgage Pool.

Similarly, the terms “Fixed Rate Group” or “Fixed Rate Loans” and “ARM Group” or “ARM Loans” as used in this prospectus generally refer to all of the mortgage loans in the Fixed Rate Group and ARM Group, respectively, actually included in the Trust. However, solely for the purposes of the statistical information set forth under the headings “—The Fixed Rate Group” and “—The ARM Group” below, the terms “Fixed Rate Group” or “Fixed Rate Loans” and “ARM Group” or “ARM Loans” refer to the mortgage loans in the Fixed Rate Group and ARM Group, respectively, that are included in the Initial Mortgage Pool.

General

As of the Issue Date, the Initial Mortgage Pool consists of approximately 6,961 Fixed Rate Loans having an aggregate principal balance of approximately \$540,301,061, and approximately 1,041 ARM Loans having an aggregate principal balance of approximately \$88,009,276. As of the Issue Date, the Category 1 Loans and Category 2 Loans consist of approximately 1,781 Mortgage Loans and 5,180 Mortgage Loans, respectively, having aggregate principal balances of approximately \$151,209,550 and \$389,091,511, respectively. The aggregate amount of the mortgage loans actually delivered to the Trust on the Settlement Date may vary by plus or minus 5% with respect to the Fixed Rate Group and by plus or minus 10% with respect to the ARM Group. It is expected that additional mortgage loans will be added to, and certain mortgage loans may be removed from, the Initial Mortgage Pool between the Issue Date and the Settlement Date. Notwithstanding any such additions or removals, the characteristics of the Mortgage Loans actually included in the Loan Groups or Categories on the Settlement Date are not expected to differ materially from the characteristics described in this prospectus.

The Mortgage Loans are first lien, one- to four-family, fully amortizing loans. With respect to the Initial Mortgage Pool, as of the Issue Date, approximately 79.25% of the Fixed Rate Group (including approximately 72.52% of the Category 1 Loans and approximately 81.87% of the Category 2 Loans) and approximately 90.25% of the ARM Group are insured by FHA (the “FHA Loans”) and approximately 20.75% of the Fixed Rate Group (including approximately 27.48% of the Category 1 Loans and approximately 18.13% of the Category 2 Loans) and approximately 9.75% of the ARM Group are partially guaranteed by VA (the “VA Loans”). At the time of origination, all of the FHA

Loans conformed to HUD origination guidelines and all of the VA Loans to VA origination guidelines. Each Mortgage Loan is evidenced by a promissory note or similar evidence of indebtedness (a “Mortgage Note”) that is secured by a first mortgage or deed of trust on a one-to-four-family residential property. Each Mortgage Note requires the borrower to make monthly payments of principal and interest. We refer to the property that secures repayment of a Mortgage Loan as the “Mortgaged Property.”

Each of the Mortgage Loans was originated in accordance with the underwriting guidelines of FHA or VA, as the case may be, and was eligible to be included in a Ginnie Mae pool at the time of origination as permitted by the rules of Ginnie Mae. Substantially all the Mortgage Loans were pooled with Ginnie Mae and then purchased from Ginnie Mae pools when the Mortgage Loans had uncured delinquencies in accordance with Ginnie Mae guidelines.

The Mortgage Loans generally have terms not more than 30 years. Each Mortgage Loan provides that the obligor on the related Mortgage Note (the “borrower”) must make payments by a scheduled day of each month. This day is fixed at the time of origination. In addition, each Mortgage Loan provides that each borrower must pay interest on its outstanding principal balance at the rate specified or described in the related Mortgage Note (the “Mortgage Interest Rate”). In the event the Master Servicer agrees to a reduction in the interest rate with respect to any Mortgage Loan as a loss mitigation alternative or if the interest rate of any Mortgage Loan is reduced due to the application of the Soldiers’ and Sailors’ Civil Relief Act of 1940, the Mortgage Interest Rate for that Mortgage Loan thereafter will be the rate as so reduced. Interest is calculated on the basis of a 360-day year consisting of twelve 30-day months. If a borrower makes a scheduled payment earlier or later than the scheduled due date, the amortization schedule will not change, nor will the relative application of such payment to principal and interest.

Generally, the regulations applicable to FHA loans permit borrowers to finance up to 97% of the outstanding principal balance of the purchase price, although certain special FHA loan programs permit borrowers to finance 100% of the purchase price plus closing costs. The VA loan programs generally permit borrowers to finance 100% of the purchase price plus closing costs. If closing costs are financed, then the related loan-to-value may exceed 100%.

Certain of the Mortgage Loans to be transferred to the Trust are subject to certain arrearages arising from unreimbursed interest, principal and servicing advances made prior to the Issue Date. These arrearages will not be the property of the Trust and any collections of such arrearage amounts will be paid to the advancing party. Additionally, any arrearage amounts not paid as described above will be paid out of recoveries on the Mortgage Loans (including collections, insurance proceeds and liquidation proceeds) prior to the deposit of any such recoveries into the Trust. With respect to the Initial Mortgage Pool, as of February 1, 2002, 6,016 Fixed Rate Loans representing an aggregate Issue Date principal balance of approximately \$470,757,527 have arrearages in an aggregate amount of approximately \$10,069,343, and 982 ARM Loans representing an aggregate Issue Date principal balance of approximately \$83,588,346 have arrearages in an aggregate amount of approximately \$2,036,994. (The numbers representing the aggregate arrearage amounts are approximations only, and are based on estimates that include (i) outstanding principal and interest payments due on the related Mortgage Loans on or prior to February 1, 2002, *plus* (ii) the aggregate amount of outstanding servicing advances with respect to those loans as of February 1, 2002. These estimates do not include certain related expenses incurred but not paid prior to February 1, 2002 that, if paid, would constitute servicing advances.)

The Fixed Rate Group

The following tables set forth certain additional information, as of the Issue Date (unless otherwise stated), with respect to the Fixed Rate Loans in the Initial Mortgage Pool. References to “Issue Date Principal Balance” mean the aggregate of the Stated Principal Balances of the Fixed Rate Group as of the Issue Date. The sum of the columns in the following tables may not equal the totals due to rounding.

Fixed Rate Loans—Contractual Delinquency

| Contractual Delinquency (Days) † | Number of Mortgage Loans† | Issue Date Principal Balance | Percentage by Issue Date Principal Balance | Weighted Average Mortgage Interest Rate | WAM (months) | Weighted Average Mortgage Loan Age (months) | Balance-Weighted # of Payments Last 3 Months† | Balance-Weighted # of Payments Last 6 Months† |
|----------------------------------|---------------------------|------------------------------|--|---|--------------|---|---|---|
| Current | 2,146 | \$161,013,138 | 29.80% | 8.182% | 291 | 63 | 4.7 | 7.7 |
| 30- 59 | 1,961 | 148,523,413 | 27.49 | 8.157 | 294 | 61 | 3.7 | 6.5 |
| 60- 89 | 1,391 | 109,903,875 | 20.34 | 8.204 | 301 | 55 | 3.1 | 5.7 |
| 90-119 | 616 | 50,448,967 | 9.34 | 8.211 | 305 | 52 | 2.5 | 4.9 |
| 120-149 | 277 | 23,256,573 | 4.30 | 8.133 | 309 | 45 | 2.4 | 4.5 |
| 150 or more | 570 | 47,155,095 | 8.73 | 8.278 | 305 | 53 | 3.3 | 4.8 |
| Total | <u>6,961</u> | <u>\$540,301,061</u> | <u>100.00%</u> | | | | | |

† As of February 1, 2002.

Fixed Rate Loans—Number of Payments Made in Last 3 Months*

| Number of Payments Made in Last 3 Months† | Number of Mortgage Loans† | Issue Date Principal Balance | Percentage by Issue Date Principal Balance | Weighted Average Mortgage Interest Rate | WAM (months) | Weighted Average Mortgage Loan Age (months) | Balance-Weighted # of Payments Last 3 Months† | Balance-Weighted # of Payments Last 6 Months† |
|---|---------------------------|------------------------------|--|---|--------------|---|---|---|
| 1 | 501 | \$ 40,715,097 | 7.54% | 8.107% | 305 | 52 | 1.0 | 4.4 |
| 2 | 1,335 | 102,635,994 | 19.00 | 8.093 | 296 | 60 | 2.0 | 5.3 |
| 3 or more | 5,125 | 396,949,970 | 73.47 | 8.222 | 297 | 59 | 4.4 | 6.8 |
| Total | <u>6,961</u> | <u>\$540,301,061</u> | <u>100.00%</u> | | | | | |

* As of February 1, 2002, the balance weighted number of payments on the Fixed Rate Loans (based on their Issue Date Principal Balances) made in the last three months is approximately 3.7.

† As of February 1, 2002.

Fixed Rate Loans—Number of Payments Made in Last 6 Months*

| Number of Payments Made in Last 6 Months† | Number of Mortgage Loans† | Issue Date Principal Balance | Percentage by Issue Date Principal Balance | Weighted Average Mortgage Interest Rate | WAM (months) | Weighted Average Mortgage Loan Age (months) | Balance-Weighted # of Payments Last 3 Months† | Balance-Weighted # of Payments Last 6 Months† |
|---|---------------------------|------------------------------|--|---|--------------|---|---|---|
| 1 | 3 | \$ 267,527 | 0.05% | 7.762% | 337 | 5 | 1.0 | 1.0 |
| 2 | 1 | 89,997 | 0.02 | 7.500 | 258 | 102 | 2.0 | 2.0 |
| 3 | 333 | 28,701,324 | 5.31 | 8.198 | 307 | 51 | 1.9 | 3.0 |
| 4 | 761 | 61,378,746 | 11.36 | 8.116 | 304 | 51 | 2.3 | 4.0 |
| 5 | 1,260 | 100,173,388 | 18.54 | 8.092 | 298 | 58 | 2.8 | 5.0 |
| 6 or more | 4,603 | 349,690,079 | 64.72 | 8.229 | 295 | 60 | 4.3 | 7.4 |
| Total | <u>6,961</u> | <u>\$540,301,061</u> | <u>100.00%</u> | | | | | |

* As of February 1, 2002, the balance weighted number of payments made on the Fixed Rate Loans (based on their Issue Date Principal Balances) in the last six months is approximately 6.3.

† As of February 1, 2002.

Fixed Rate Loans—Issue Date Principal Balances*

| Range of Issue Date Principal Balances (\$) | Number of Mortgage Loans | Issue Date Principal Balance | Percentage by Issue Date Principal Balance | Weighted Average Mortgage Interest Rate | WAM (months) | Weighted Average Mortgage Loan Age (months) |
|---|--------------------------|------------------------------|--|---|--------------|---|
| \$0.01– 25,000 | 331 | \$ 5,319,728 | 0.98% | 9.288% | 138 | 169 |
| \$ 25,000.01– 50,000 | 1,460 | 56,832,830 | 10.52 | 8.689 | 240 | 101 |
| \$ 50,000.01– 75,000 | 1,956 | 121,875,539 | 22.56 | 8.216 | 283 | 72 |
| \$ 75,000.01–100,000 | 1,469 | 126,236,665 | 23.36 | 8.055 | 303 | 55 |
| \$100,000.01–150,000 | 1,399 | 167,854,020 | 31.07 | 8.020 | 315 | 43 |
| \$150,000.01–200,000 | 289 | 49,023,910 | 9.07 | 8.229 | 326 | 33 |
| \$200,000.01–250,000 | 46 | 10,017,835 | 1.85 | 8.589 | 337 | 23 |
| \$250,000.01–300,000 | 9 | 2,471,403 | 0.46 | 8.596 | 337 | 23 |
| 300,000.01 or more | 2 | 669,133 | 0.12 | 9.224 | 341 | 19 |
| Total | <u>6,961</u> | <u>\$540,301,061</u> | <u>100.00%</u> | | | |

* As of the Issue Date, the average principal balance of the Fixed Rate Loans is approximately \$77,618.

Fixed Rate Loans—Mortgage Interest Rates*

| Range of Mortgage Interest Rates (%) | Number of Mortgage Loans | Issue Date Principal Balance | Percentage by Issue Date Principal Balance | Weighted Average Mortgage Interest Rate | WAM (months) | Weighted Average Mortgage Loan Age (months) |
|--------------------------------------|--------------------------|------------------------------|--|---|--------------|---|
| 6.001– 6.500 | 92 | \$ 8,488,340 | 1.57% | 6.500% | 294 | 48 |
| 6.501– 7.000 | 641 | 54,097,353 | 10.01 | 6.970 | 295 | 55 |
| 7.001– 7.500 | 1,193 | 100,598,323 | 18.62 | 7.447 | 300 | 56 |
| 7.501– 8.000 | 1,397 | 111,255,197 | 20.59 | 7.955 | 297 | 58 |
| 8.001– 8.500 | 1,581 | 124,127,445 | 22.97 | 8.441 | 302 | 54 |
| 8.501– 9.000 | 1,176 | 91,111,333 | 16.86 | 8.911 | 311 | 46 |
| 9.001– 9.500 | 476 | 34,158,844 | 6.32 | 9.447 | 287 | 71 |
| 9.501–10.000 | 156 | 7,254,849 | 1.34 | 9.991 | 210 | 146 |
| 10.001–10.500 | 121 | 4,865,615 | 0.90 | 10.500 | 195 | 162 |
| 10.501–11.000 | 37 | 1,373,449 | 0.25 | 10.992 | 182 | 174 |
| 11.001–11.500 | 31 | 1,145,412 | 0.21 | 11.500 | 156 | 204 |
| 11.501–12.000 | 20 | 623,717 | 0.12 | 12.000 | 135 | 225 |
| 12.001–12.500 | 10 | 364,508 | 0.07 | 12.500 | 144 | 216 |
| 12.501–13.000 | 11 | 308,084 | 0.06 | 13.000 | 128 | 232 |
| 13.001–13.500 | 6 | 191,373 | 0.04 | 13.500 | 137 | 223 |
| 13.501–14.000 | 5 | 120,343 | 0.02 | 14.000 | 136 | 224 |
| 15.001–15.500 | 7 | 192,142 | 0.04 | 15.500 | 124 | 236 |
| 16.001–16.500 | 1 | 24,734 | 0.00 | 16.500 | 119 | 241 |
| Total | <u>6,961</u> | <u>\$540,301,061</u> | <u>100.00%</u> | | | |

* As of the Issue Date, the weighted average Mortgage Interest Rate of the Fixed Rate Loans is approximately 8.189%.

Fixed Rate Loans—Remaining Term*

| Range of Remaining Terms (months) | Number of Mortgage Loans | Issue Date Principal Balance | Percentage by Issue Date Principal Balance | Weighted Average Mortgage Interest Rate | WAM (months) | Weighted Average Mortgage Loan Age (months) |
|---|--------------------------------|------------------------------------|---|---|-----------------|--|
| 1-120 | 415 | \$ 11,005,646 | 2.04% | 8.227% | 88 | 128 |
| 121-150 | 88 | 3,865,171 | 0.72 | 9.416 | 134 | 130 |
| 151-180 | 268 | 12,288,585 | 2.27 | 9.418 | 170 | 176 |
| 181-210 | 253 | 11,396,522 | 2.11 | 9.642 | 195 | 160 |
| 211-240 | 320 | 18,508,118 | 3.43 | 8.872 | 228 | 120 |
| 241-270 | 975 | 64,374,990 | 11.91 | 7.919 | 256 | 103 |
| 271-300 | 1,098 | 82,765,143 | 15.32 | 8.200 | 287 | 72 |
| 301-360 | 3,544 | 336,096,885 | 62.21 | 8.090 | 328 | 32 |
| Total | <u>6,961</u> | <u>\$540,301,061</u> | <u>100.00%</u> | | | |

* As of the Issue Date, the weighted average remaining term of the Fixed Rate Loans is approximately 297 months.

Fixed Rate Loans—Mortgage Loan Age (months) *

| Range of Mortgage Loan Ages (months) | Number of Mortgage Loans | Issue Date Principal Balance | Percentage by Issue Date Principal Balance | Weighted Average Mortgage Interest Rate | WAM (months) | Weighted Average Mortgage Loan Age (months) |
|---|--------------------------------|------------------------------------|---|---|-----------------|--|
| 0 | 2 | \$ 251,708 | 0.05% | 8.200% | 323 | 0 |
| 1- 14 | 203 | 21,358,744 | 3.95 | 7.802 | 346 | 10 |
| 15- 24 | 916 | 94,913,922 | 17.57 | 8.730 | 338 | 20 |
| 25- 36 | 1,051 | 101,100,126 | 18.71 | 8.127 | 328 | 31 |
| 37- 60 | 1,490 | 127,444,395 | 23.59 | 7.633 | 310 | 47 |
| 61-120 | 2,308 | 153,975,822 | 28.50 | 8.055 | 262 | 87 |
| 121-180 | 555 | 26,979,864 | 4.99 | 9.293 | 210 | 147 |
| 181-240 | 287 | 12,262,441 | 2.27 | 9.928 | 165 | 194 |
| 241-320 | 134 | 1,960,124 | 0.36 | 9.887 | 80 | 279 |
| 321-360 | 15 | 53,915 | 0.01 | 8.277 | 25 | 334 |
| Total | <u>6,961</u> | <u>\$540,301,061</u> | <u>100.00%</u> | | | |

* As of the Issue Date, the weighted average mortgage loan age of the Fixed Rate Loans is approximately 58 months.

Fixed Rate Loans—Geographical Concentrations by State

| State | Number of Mortgage Loans | Issue Date Principal Balance | Percentage by Issue Date Principal Balance | Weighted Average Mortgage Interest Rate | WAM (months) | Weighted Average Mortgage Loan Age (months) | Balance- Weighted # of Payments Last 3 Months† | Balance- Weighted # of Payments Last 6 Months† |
|------------------|--------------------------------|------------------------------------|---|---|-----------------|--|---|---|
| California | 741 | \$ 80,305,333 | 14.86% | 8.084% | 301 | 55 | 3.8 | 6.6 |
| Texas | 750 | 46,116,260 | 8.54 | 8.315 | 279 | 70 | 3.7 | 6.3 |
| Florida | 579 | 39,953,033 | 7.39 | 8.299 | 290 | 66 | 4.0 | 6.6 |
| New York | 278 | 32,026,360 | 5.93 | 8.819 | 314 | 43 | 4.2 | 6.8 |
| Michigan | 484 | 29,917,018 | 5.54 | 8.413 | 303 | 53 | 3.4 | 6.3 |
| Illinois | 264 | 22,325,341 | 4.13 | 8.342 | 305 | 49 | 3.8 | 6.3 |
| Ohio | 319 | 21,992,177 | 4.07 | 7.941 | 292 | 63 | 3.4 | 6.1 |
| Nevada | 198 | 19,755,599 | 3.66 | 7.924 | 315 | 44 | 3.1 | 5.5 |
| New Jersey | 183 | 18,793,713 | 3.48 | 8.543 | 313 | 44 | 3.9 | 6.3 |
| Maryland | 196 | 18,175,452 | 3.36 | 8.034 | 286 | 69 | 3.5 | 6.0 |
| Other | 2,969 | 210,940,774 | 39.04 | 8.069 | 295 | 61 | 3.6 | 6.2 |
| Total | <u>6,961</u> | <u>\$540,301,061</u> | <u>100.00%</u> | | | | | |

† As of February 1, 2002.

Fixed Rate Loans—Mortgage Loan Type

| Mortgage Loan Type | Number of Mortgage Loans | Issue Date Principal Balance | Percentage by Issue Date Principal Balance | Weighted Average Mortgage Interest Rate | WAM (months) | Weighted Average Mortgage Loan Age (months) | Balance- Weighted # of Payments Last 3 Months† | Balance- Weighted # of Payments Last 6 Months† |
|-----------------------|--------------------------------|------------------------------------|---|---|-----------------|--|---|---|
| FHA | 5,548 | \$428,198,580 | 79.25% | 8.252% | 301 | 55 | 3.7 | 6.3 |
| VA | 1,413 | 112,102,482 | 20.75 | 7.948 | 282 | 72 | 3.5 | 6.2 |
| Total | <u>6,961</u> | <u>\$540,301,061</u> | <u>100.00%</u> | | | | | |

† As of February 1, 2002.

Fixed Rate Loans—Bankruptcy Status

| Bankruptcy Status† | Number of Mortgage Loans† | Issue Date Principal Balance | Percentage by Issue Date Principal Balance | Weighted Average Mortgage Interest Rate | WAM (months) | Weighted Average Mortgage Loan Age (months) | Balance- Weighted # of Payments Last 3 Months† | Balance- Weighted # of Payments Last 6 Months† |
|-----------------------|---------------------------------|------------------------------------|---|---|-----------------|--|---|---|
| Other | 6,163 | \$483,340,214 | 89.46% | 8.173% | 298 | 57 | 3.7 | 6.4 |
| Bankruptcy | 798 | 56,960,847 | 10.54 | 8.324 | 285 | 71 | 3.4 | 5.5 |
| Total | <u>6,961</u> | <u>\$540,301,061</u> | <u>100.00%</u> | | | | | |

† As of February 1, 2002.

The ARM Group

Each ARM Loan has a Mortgage Interest Rate that is subject to adjustment on the dates specified in the related Mortgage Note (each, an “Interest Adjustment Date”) to equal the sum of the index (which is the weekly average yield on United States Treasury securities adjusted to a constant maturity of one year or “1-Year CMT”) plus a fixed percentage amount specified in the Mortgage Note (the “Interest Rate Margin”), subject to the limitations described in this paragraph. Generally, the index value used will be the value most recently published 30 days prior to the applicable Interest Adjustment Date. The Mortgage Interest Rate on each ARM Loan will not increase or decrease by more than 1% on any Interest Adjustment Date. In no event will the Mortgage Interest Rate on any ARM Loan exceed the maximum interest rate over the life of the loan that is specified in the related Mortgage Note (the “Mortgage Interest Rate Life Cap”).

The following tables set forth certain additional information, as of the Issue Date (unless otherwise stated), with respect to the ARM Loans in the Initial Mortgage Pool. References to “Issue Date Principal Balance” mean the aggregate of the Stated Principal Balances of the ARM Group as of the Issue Date. The sum of the columns in the following tables may not equal the totals due to rounding.

ARM Loans—Contractual Delinquency

| Contractual Delinquency (Days) † | Number of Mortgage Loans† | Issue Date Principal Balance | Percentage by Issue Date Principal Balance | Weighted Average Mortgage Interest Rate | WAM (months) | Weighted Average Mortgage Loan Age (months) | Balance-Weighted # of Payments Last 3 Months† | Balance-Weighted # of Payments Last 6 Months† |
|----------------------------------|---------------------------|------------------------------|--|---|--------------|---|---|---|
| Current | 293 | \$25,085,902 | 28.50% | 7.408% | 282 | 78 | 4.4 | 6.8 |
| 30– 59 | 200 | 16,501,554 | 18.75 | 7.241 | 282 | 78 | 3.5 | 5.8 |
| 60– 89 | 225 | 18,040,084 | 20.50 | 7.218 | 274 | 86 | 2.8 | 5.2 |
| 90–119 | 135 | 11,719,137 | 13.32 | 7.369 | 287 | 73 | 2.8 | 4.9 |
| 120–149 | 46 | 3,616,721 | 4.11 | 7.067 | 280 | 80 | 2.9 | 4.9 |
| 150 or more | 142 | 13,045,879 | 14.82 | 7.298 | 290 | 70 | 3.2 | 5.3 |
| Total | <u>1,041</u> | <u>\$88,009,276</u> | <u>100.00%</u> | | | | | |

† As of February 1, 2002.

ARM Loans—Number of Payments Made in Last 3 Months*

| Number of Payments Made in Last 3 Months† | Number of Mortgage Loans† | Issue Date Principal Balance | Percentage by Issue Date Principal Balance | Weighted Average Mortgage Interest Rate | WAM (months) | Weighted Average Mortgage Loan Age (months) | Balance-Weighted # of Payments Last 3 Months† | Balance-Weighted # of Payments Last 6 Months† |
|---|---------------------------|------------------------------|--|---|--------------|---|---|---|
| 1 | 62 | \$ 5,683,776 | 6.46% | 7.172% | 291 | 69 | 1.0 | 4.3 |
| 2 | 196 | 16,932,398 | 19.24 | 7.220 | 286 | 74 | 2.0 | 4.7 |
| 3 or more | 783 | 65,393,102 | 74.30 | 7.335 | 281 | 79 | 4.1 | 6.1 |
| Total | <u>1,041</u> | <u>\$88,009,276</u> | <u>100.00%</u> | | | | | |

* As of February 1, 2002, the balance weighted number of payments on the ARM Loans (based on their Issue Date Principal Balances) made in the last three months is approximately 3.5.

† As of February 1, 2002.

ARM Loans—Number of Payments Made in Last 6 Months*

| Number of Payments Made in Last 6 Months† | Number of Mortgage Loans† | Issue Date Principal Balance | Percentage by Issue Date Principal Balance | Weighted Average Mortgage Interest Rate | WAM (months) | Weighted Average Mortgage Loan Age (months) | Balance-Weighted # of Payments Last 3 Months† | Balance-Weighted # of Payments Last 6 Months† |
|---|---------------------------|------------------------------|--|---|--------------|---|---|---|
| 3 | 68 | \$ 6,152,130 | 6.99% | 7.185% | 289 | 71 | 2.2 | 3.0 |
| 4 | 144 | 12,492,610 | 14.19 | 7.321 | 284 | 76 | 2.5 | 4.0 |
| 5 | 242 | 20,231,820 | 22.99 | 7.295 | 282 | 78 | 2.9 | 5.0 |
| 6 or more | 587 | 49,132,716 | 55.83 | 7.316 | 281 | 79 | 4.1 | 6.8 |
| Total | <u>1,041</u> | <u>\$88,009,276</u> | <u>100.00%</u> | | | | | |

* As of February 1, 2002, the balance weighted number of payments made on the ARM Loans (based on their Issue Date Principal Balances) in the last six months is approximately 5.7.

† As of February 1, 2002.

ARM Loans—Issue Date Principal Balances*

| Range of Issue Date Principal Balances (\$) | Number of Mortgage Loans | Issue Date Principal Balance | Percentage by Issue Date Principal Balance | Weighted Average Mortgage Interest Rate | WAM (months) | Weighted Average Mortgage Loan Age (months) |
|---|--------------------------------|------------------------------------|---|---|-----------------|--|
| \$ 0.01– 25,000 | 1 | \$ 24,793 | 0.03% | 7.250% | 188 | 172 |
| \$ 25,000.01– 50,000 | 119 | 4,895,013 | 5.56 | 7.250 | 258 | 101 |
| \$ 50,000.01– 75,000 | 331 | 20,878,162 | 23.72 | 7.363 | 271 | 89 |
| \$ 75,000.01–100,000 | 297 | 25,860,125 | 29.38 | 7.266 | 281 | 79 |
| \$100,000.01–150,000 | 261 | 30,939,222 | 35.15 | 7.348 | 290 | 70 |
| \$150,000.01–200,000 | 30 | 5,003,044 | 5.68 | 7.074 | 307 | 53 |
| \$200,000.01–250,000 | 2 | 408,918 | 0.46 | 6.500 | 336 | 24 |
| Total | <u>1,041</u> | <u>\$88,009,276</u> | <u>100.00%</u> | | | |

* As of the Issue Date, the average principal balance of the ARM Loans is approximately \$84,543.

ARM Loans—Mortgage Interest Rates*

| Range of Mortgage Interest Rates (%) | Number of Mortgage Loans | Issue Date Principal Balance | Percentage by Issue Date Principal Balance | Weighted Average Mortgage Interest Rate | WAM (months) | Weighted Average Mortgage Loan Age (months) |
|---|--------------------------------|------------------------------------|---|---|-----------------|--|
| 4.501–5.000 | 1 | \$ 103,078 | 0.12% | 5.000% | 343 | 17 |
| 5.001–5.500 | 3 | 299,743 | 0.34 | 5.500 | 338 | 22 |
| 5.501–6.000 | 9 | 983,576 | 1.12 | 5.950 | 320 | 40 |
| 6.001–6.500 | 81 | 7,889,609 | 8.96 | 6.401 | 317 | 43 |
| 6.501–7.000 | 234 | 19,842,816 | 22.55 | 6.875 | 270 | 90 |
| 7.001–7.500 | 353 | 27,526,401 | 31.28 | 7.281 | 271 | 89 |
| 7.501–8.000 | 314 | 27,432,971 | 31.17 | 7.811 | 291 | 69 |
| 8.001–8.500 | 33 | 2,841,768 | 3.23 | 8.209 | 267 | 92 |
| 8.501–9.000 | 13 | 1,089,315 | 1.24 | 8.923 | 293 | 67 |
| Total | <u>1,041</u> | <u>\$88,009,276</u> | <u>100.00%</u> | | | |

* As of the Issue Date, the weighted average Mortgage Interest Rate of the ARM Loans is approximately 7.302%.

ARM Loans—Mortgage Interest Rate Life Caps*

| Range of Mortgage Interest Rates Life Caps (%) | Number of Mortgage Loans | Issue Date Principal Balance | Percentage by Issue Date Principal Balance | Weighted Average Mortgage Interest Rate | WAM (months) | Weighted Average Mortgage Loan Age (months) |
|---|--------------------------------|------------------------------------|---|---|-----------------|--|
| 9.001– 9.500 | 6 | \$ 486,732 | 0.55% | 6.907% | 262 | 98 |
| 9.501–10.000 | 36 | 3,088,350 | 3.51 | 7.045 | 272 | 88 |
| 10.001–10.500 | 149 | 12,672,987 | 14.40 | 7.025 | 271 | 89 |
| 10.501–11.000 | 196 | 17,222,383 | 19.57 | 7.298 | 288 | 72 |
| 11.001–11.500 | 224 | 19,120,160 | 21.73 | 7.483 | 286 | 74 |
| 11.501–12.000 | 181 | 15,767,091 | 17.92 | 7.305 | 290 | 70 |
| 12.001–12.500 | 144 | 11,738,778 | 13.34 | 7.373 | 289 | 71 |
| 12.501–13.000 | 56 | 4,692,057 | 5.33 | 7.356 | 282 | 78 |
| 13.001–13.500 | 31 | 2,128,348 | 2.42 | 7.316 | 236 | 124 |
| 13.501–14.000 | 10 | 714,076 | 0.81 | 7.459 | 226 | 134 |
| 14.001–14.500 | 8 | 378,314 | 0.43 | 6.948 | 186 | 174 |
| Total | <u>1,041</u> | <u>\$88,009,276</u> | <u>100.00%</u> | | | |

* As of the Issue Date, the weighted average mortgage interest rate life cap in the ARM Loans is approximately 11.541%.

ARM Loans—Mortgage Interest Rate Margins*

| Range of Mortgage Interest Rate Margins (%) | Number of Mortgage Loans | Issue Date Principal Balance | Percentage by Issue Date Principal Balance | Weighted Average Mortgage Interest Rate | WAM (months) | Weighted Average Mortgage Loan Age (months) |
|--|--------------------------------|------------------------------------|---|---|-----------------|--|
| 1.751–2.000 | 442 | \$34,251,576 | 38.92% | 7.033% | 258 | 102 |
| 2.001–2.250 | 15 | 1,239,461 | 1.41 | 7.282 | 264 | 96 |
| 2.251–2.500 | 93 | 7,058,194 | 8.02 | 7.425 | 265 | 95 |
| 2.501–2.750 | 432 | 40,734,998 | 46.28 | 7.455 | 305 | 55 |
| 2.751–3.000 | 59 | 4,725,048 | 5.37 | 7.759 | 294 | 66 |
| Total | <u>1,041</u> | <u>\$88,009,276</u> | <u>100.00%</u> | | | |

* As of the Issue Date, the weighted average mortgage interest rate margin of the ARM Loans is approximately 2.439%.

ARM Loans—Next Interest Rate Adjustment Date*

| Next Interest Rate Adjustment Date | Number of Mortgage Loans | Issue Date Principal Balance | Percentage by Issue Date Principal Balance | Weighted Average Mortgage Interest Rate | WAM (months) | Weighted Average Mortgage Loan Age (months) |
|------------------------------------|--------------------------|------------------------------|--|---|--------------|---|
| April 2002 | 218 | \$18,306,054 | 20.80% | 7.285% | 280 | 80 |
| May 2002 | 15 | 1,071,873 | 1.22 | 7.085 | 253 | 107 |
| June 2002 | 3 | 274,982 | 0.31 | 6.517 | 316 | 44 |
| July 2002 | 238 | 20,994,590 | 23.85 | 7.024 | 292 | 68 |
| August 2002 | 6 | 418,879 | 0.48 | 7.344 | 266 | 94 |
| September 2002 | 14 | 808,279 | 0.92 | 7.255 | 232 | 128 |
| October 2002 | 272 | 22,833,284 | 25.94 | 7.607 | 280 | 80 |
| November 2002 | 9 | 806,389 | 0.92 | 6.927 | 256 | 104 |
| December 2002 | 6 | 463,585 | 0.53 | 6.358 | 247 | 113 |
| January 2003 | 250 | 21,425,071 | 24.34 | 7.331 | 283 | 77 |
| February 2003 | 3 | 184,174 | 0.21 | 6.578 | 282 | 78 |
| March 2003 | 7 | 422,116 | 0.48 | 7.198 | 253 | 107 |
| Total | <u>1,041</u> | <u>\$88,009,276</u> | <u>100.00%</u> | | | |

* As of the Issue Date, the weighted average next interest rate adjustment date of the ARM Loans is September 2002.

ARM Loans—Remaining Term*

| Range of Remaining Terms (months) | Number of Mortgage Loans | Issue Date Principal Balance | Percentage by Issue Date Principal Balance | Weighted Average Mortgage Interest Rate | WAM (months) | Weighted Average Mortgage Loan Age (months) |
|-----------------------------------|--------------------------|------------------------------|--|---|--------------|---|
| 151-180 | 9 | \$ 439,266 | 0.50% | 7.096% | 170 | 184 |
| 181-210 | 34 | 1,947,702 | 2.21 | 7.288 | 191 | 169 |
| 211-240 | 61 | 4,307,427 | 4.89 | 7.094 | 234 | 126 |
| 241-270 | 347 | 27,638,333 | 31.40 | 7.099 | 259 | 101 |
| 271-300 | 273 | 23,137,458 | 26.29 | 7.608 | 283 | 77 |
| 301-360 | 317 | 30,539,091 | 34.70 | 7.289 | 317 | 43 |
| Total | <u>1,041</u> | <u>\$88,009,276</u> | <u>100.00%</u> | | | |

* As of the Issue Date, the weighted average remaining term of the ARM Loans is approximately 282 months.

ARM Loans—Mortgage Loan Age (months) *

| Range of Mortgage Loan Ages (months) | Number of Mortgage Loans | Issue Date Principal Balance | Percentage by Issue Date Principal Balance | Weighted Average Mortgage Interest Rate | WAM (months) | Weighted Average Mortgage Loan Age (months) |
|--------------------------------------|--------------------------|------------------------------|--|---|--------------|---|
| 1- 14 | 3 | \$ 347,156 | 0.39% | 6.643% | 350 | 10 |
| 15- 24 | 51 | 5,812,219 | 6.60 | 6.496 | 338 | 22 |
| 25- 36 | 46 | 4,707,976 | 5.35 | 6.884 | 330 | 30 |
| 37- 60 | 226 | 20,470,544 | 23.26 | 7.629 | 307 | 53 |
| 61-120 | 622 | 50,795,802 | 57.72 | 7.320 | 269 | 91 |
| 121-180 | 85 | 5,465,471 | 6.21 | 7.195 | 218 | 142 |
| 181-240 | 8 | 410,107 | 0.47 | 7.022 | 170 | 190 |
| Total | <u>1,041</u> | <u>\$88,009,276</u> | <u>100.00%</u> | | | |

* As of the Issue Date, the weighted average mortgage loan age of the ARM Loans is approximately 78 months.

ARM Loans—Geographical Concentrations by State

| State | Number of Mortgage Loans | Issue Date Principal Balance | Percentage by Issue Date Principal Balance | Weighted Average Mortgage Interest Rate | WAM (months) | Weighted Average Mortgage Loan Age (months) | Balance- Weighted # of Payments Last 3 Months† | Balance- Weighted # of Payments Last 6 Months† |
|------------------|--------------------------------|------------------------------------|---|---|-----------------|--|---|---|
| California | 153 | \$16,834,416 | 19.13% | 7.331% | 281 | 79 | 3.6 | 5.8 |
| Maryland | 91 | 8,938,758 | 10.16 | 7.308 | 286 | 74 | 3.1 | 5.6 |
| Illinois | 70 | 6,636,616 | 7.54 | 7.398 | 287 | 73 | 3.2 | 5.5 |
| Florida | 66 | 4,521,933 | 5.14 | 7.255 | 277 | 83 | 3.4 | 5.6 |
| Indiana | 55 | 3,852,708 | 4.38 | 7.004 | 272 | 88 | 3.4 | 6.1 |
| Ohio | 46 | 3,308,834 | 3.76 | 6.985 | 287 | 73 | 2.8 | 5.5 |
| Virginia | 37 | 3,147,281 | 3.58 | 7.390 | 288 | 72 | 3.6 | 5.6 |
| Georgia | 40 | 3,083,121 | 3.50 | 7.200 | 295 | 65 | 3.2 | 5.2 |
| Colorado | 30 | 2,944,516 | 3.35 | 7.067 | 294 | 66 | 3.0 | 6.2 |
| Arizona | 35 | 2,745,091 | 3.12 | 7.350 | 275 | 85 | 4.0 | 6.0 |
| Other | 418 | 31,996,003 | 36.36 | 7.360 | 280 | 80 | 3.6 | 5.8 |
| Total | <u>1,041</u> | <u>\$88,009,276</u> | <u>100.00%</u> | | | | | |

† As of February 1, 2002.

ARM Loans—Mortgage Loan Type

| Mortgage Loan Type | Number of Mortgage Loans | Issue Date Principal Balance | Percentage by Issue Date Principal Balance | Weighted Average Mortgage Interest Rate | WAM (months) | Weighted Average Mortgage Loan Age (months) | Balance- Weighted # of Payments Last 3 Months† | Balance- Weighted # of Payments Last 6 Months† |
|-----------------------|--------------------------------|------------------------------------|---|---|-----------------|--|---|---|
| FHA | 951 | \$79,431,445 | 90.25% | 7.306% | 284 | 76 | 3.5 | 5.7 |
| VA | 90 | 8,577,832 | 9.75 | 7.270 | 266 | 94 | 3.6 | 5.7 |
| Total | <u>1,041</u> | <u>\$88,009,276</u> | <u>100.00%</u> | | | | | |

† As of February 1, 2002.

ARM Loans—Bankruptcy Status

| Bankruptcy Status† | Number of Mortgage Loans | Issue Date Principal Balance | Percentage by Issue Date Principal Balance | Weighted Average Mortgage Interest Rate | WAM (months) | Weighted Average Mortgage Loan Age (months) | Balance- Weighted # of Payments Last 3 Months† | Balance- Weighted # of Payments Last 6 Months† |
|-----------------------|--------------------------------|------------------------------------|---|---|-----------------|---|---|---|
| Bankruptcy | 188 | \$16,631,333 | 18.90% | 7.356% | 282 | 78 | 3.5 | 5.7 |
| Other | 853 | 71,377,944 | 81.10 | 7.290 | 282 | 78 | 3.4 | 5.7 |
| Total | <u>1,041</u> | <u>\$88,009,276</u> | <u>100.00%</u> | | | | | |

† As of February 1, 2002.

FHA and VA Loan Programs

FHA Loans. The FHA Loans will be insured by the Federal Housing Administration within HUD as authorized under the National Housing Act of 1934, as amended, and the United States Housing Act of 1937, as amended. No FHA Loan may have an interest rate or original principal amount exceeding the applicable FHA limits at the time of its origination.

FHA is an organizational unit within HUD. FHA was established to encourage improvement in housing standards and conditions to exert a stabilizing influence on the mortgage market. FHA provides insurance for private lenders against loss on eligible mortgages. Under the FHA mortgage insurance program, an FHA home mortgage may be made to borrowers meeting certain credit standards by an approved mortgage lender. FHA insures payment to the holder of that loan in the event of default by the borrower.

Although new FHA loans are made only to creditworthy borrowers, FHA historically has permitted a borrower to sell his or her home to a new homeowner, subject to the existing FHA loan without requiring a determination whether the new homeowner would be a creditworthy borrower. In

those instances, the original borrower is not relieved of liability for the mortgage note, although no assurance can be made that the note can be enforced against the original borrower. Moreover, to the extent the new homeowner has not executed an agreement to assume the mortgage debt, the mortgage note cannot be enforced against the new homeowner. The mortgage loan, however, would remain secured by the related mortgaged property and the FHA insurance would remain in effect. The regulations governing assumptions on FHA loans have varied in many respects over the years during which the FHA Loans in the Trust were originated.

Insurance premiums for FHA loans are either paid at origination by the originator or are collected by the applicable servicer from the borrower and paid to FHA. The regulations governing FHA insured single-family mortgage insurance programs generally provide that insurance benefits are payable upon foreclosure (or other acquisition of possession) and conveyance of the mortgaged property to HUD. With respect to a defaulted FHA loan, the related servicer may be limited in its ability to initiate foreclosure proceedings. Historically, pursuant to an assignment program adopted by HUD pursuant to a consent decree in 1976 (the "Assignment Program"), HUD in certain circumstances offered qualified borrowers who had defaulted on an FHA loan an opportunity to avoid foreclosure and retain their homes. Under the Assignment Program, FHA serviced FHA insured mortgage loans that had defaulted and been assigned to HUD under the Assignment Program. In addition, HUD gave forbearance, for a period of no longer than 36 months, to mortgagors who had demonstrated a temporary inability to make full payments due to circumstances beyond the mortgagor's control such as a reduction in income or increase in expenses. In April 1996, the Assignment Program was terminated and replaced with mandatory loss mitigation procedures, whereby the servicer of defaulted FHA insured loans must choose from a variety of tools, including special forbearance, mortgage modification, "streamline refinancing," pre-foreclosure sales, and deeds-in-lieu of foreclosure to cure a default prior to filing an FHA insurance claim. The new loss mitigation procedures also permit lenders in certain circumstances to submit partial claims for FHA Insurance benefits.

The Master Servicer or, if applicable, the related servicer will act as the "contract of insurance holder" for the benefit of the Trust and, as such, will submit all claims to HUD. Under certain circumstances, as set forth in the regulations, HUD is authorized to request or require a servicer to pursue a deficiency judgment against any defaulting borrower. In this regard, HUD may request or require (as the case may be under the regulations) the servicer to pursue a deficiency judgment in connection with the foreclosure. Under neither case would the servicer be responsible for collecting on the judgment. Further, HUD may reimburse the servicer for all additional costs of seeking the judgment. Each servicer is the mortgagee with respect to each FHA loan that it services for purposes of the FHA insurance solely to facilitate servicing. Furthermore, no holder, by virtue of holding a Certificate, will have any right against FHA or HUD with respect to the contract of mortgage insurance applicable to any FHA Loan, and each Certificateholder, by its acceptance of a Certificate, or an interest therein, will be deemed to have agreed to the foregoing.

The amount of insurance benefits generally paid by the FHA is equal to the entire unpaid principal balance of the defaulted FHA loan plus delinquent interest and minus two months' interest thereon, in each case at the debenture rate specified by the FHA, and will be applied first to reimburse the servicer for certain unpaid costs, expenses and advances, and may be subject to certain additional adjustments imposed by the FHA. When entitlement to insurance benefits results from foreclosure (or other acquisition of possession) and conveyance to HUD, the servicer is generally compensated for no more than two-thirds of its foreclosure costs, attorneys' fees (which costs are evaluated based upon our guidelines), and certain other costs, and is compensated for accrued and unpaid mortgage interest for a limited period prior to the institution of foreclosure or other acquisition in general only to the extent it was allowed pursuant to a forbearance plan approved by HUD.

FHA has the option, in most cases, to pay insurance claims in cash or in debentures issued by FHA. Presently, claims for most programs are being paid in cash and, for the most part, claims have not been paid in debentures since 1965. The debentures can have maturities of up to 20 years. If a debenture is issued by FHA, the Master Servicer will be obligated to purchase such debenture from the

Trust with the proceeds of such purchase being passed through to Certificateholders. Any such purchase will be made at a price equal to the par amount of the debenture plus interest accrued on such amount at the related Net Mortgage Rate less certain advances. However, if the par amount of the debenture is less than the unpaid principal balance of the related Mortgage Loan, the deficiency will represent a Realized Loss and will be allocated to the Classes of Subordinate Certificates until the aggregate principal balance of those Certificates is reduced to zero. Any such loss occurring after the aggregate principal balance of the Classes of Subordinate Certificates has been reduced to zero will be allocated to the Mezzanine Certificates.

For each FHA Loan, the applicable debenture rate, as announced from time to time by FHA is the rate in effect at the date of the insurance commitment or endorsement for insurance, whichever rate is higher. The FHA debenture rate that applies to a particular FHA Loan generally is lower than the Mortgage Interest Rate on that loan.

VA Loans

The Veterans Administration is an Executive Branch Department of the United States headed by the Secretary of Veterans Affairs. The VA currently administers a variety of federal assistance programs on behalf of eligible veterans and their dependents and beneficiaries, including the VA loan guaranty program. Under the VA loan guaranty program, a VA Loan may be made to any eligible veteran by an approved private sector mortgage lender. With respect to any VA loan guaranteed after March 1, 1988, a borrower generally may sell the related property subject to the existing VA loan only with the prior approval of the VA. In general, the new borrower must be creditworthy and must agree to assume the loan obligation. With respect to a VA loan guaranteed before March 1, 1988, however, the borrower generally has an unrestricted right to sell the related mortgaged property subject to the existing VA loan. The existing borrower is released from liability on the mortgage note only if the new homeowner qualifies as an acceptable credit risk and agrees to assume the loan obligation. If the existing borrower is not released from liability, there can be no assurance that the mortgage note can be enforced against such mortgagor, and to the extent the new homeowner does not execute an agreement to assume the mortgage debt, the note cannot be enforced against the new homeowner. The mortgage loan, however, would remain secured by the related mortgaged property and the VA guaranty would remain in effect.

The VA Loans are partially guaranteed by the VA under the Servicemen's Readjustment Act of 1944, as amended. The Servicemen's Readjustment Act of 1944, as amended, permits a veteran (or in certain instances the spouse of a veteran) to obtain a mortgage loan guaranty by the VA covering mortgage financing of the purchase of a one-to-four family dwelling unit at interest rates permitted by the VA. The program has no mortgage loan limits, requires no down payment from the purchaser and permits the guaranty of mortgage loans of up to 30 years' duration. However, no VA Loan will have an original principal amount greater than five times the amount of the related guaranty. VA guarantees payment of a fixed percentage of the loan indebtedness to the holder of that loan, up to a maximum dollar amount, in the event of default by the veteran borrower.

With respect to a defaulted VA Loan, the servicer is, absent exceptional circumstances, authorized to announce its intention to foreclose only when the default has continued for three months. However, notwithstanding the foregoing, the regulations require the servicer to take immediate action if it determines that the property to be foreclosed upon has been abandoned by the debtor or has been or may be subject to extraordinary waste or if there exist conditions justifying the appointment of a receiver for the property. Additionally, under some circumstances, the VA may decline to accept conveyance of a mortgaged property unless the lender forgoes a portion of the outstanding indebtedness, in which case the Certificateholders may experience a Realized Loss as to the related Mortgage Loan.

When a delinquency is reported to VA and no realistic alternative to foreclosure is developed by the loan holder or through the VA's supplemental servicing of the loan, the VA determines, through an

economic analysis, whether the VA will (a) authorize the holder to convey the property securing the VA loan to the Secretary of Veterans Affairs following termination or (b) pay the loan guaranty amount to the holder. The decision as to disposition of properties securing defaulted VA loans is made on a case-by-case basis using the procedures set forth in applicable statutes, regulations and guidelines. If the property is conveyed to the VA, then the VA pays the lender the full unpaid principal balance of the related VA loan plus accrued and unpaid interest and certain expenses, less certain adjustments imposed by the VA.

The amount payable under the guaranty will be the percentage (the “VA Entitlement Percentage”) of the VA loan originally guaranteed applied to the indebtedness outstanding as of the applicable date of computation specified in the VA regulations, subject to any applicable caps. As of the date hereof, the maximum guaranties that may be issued by the VA under a VA loan are generally (a) as to loans with an original principal balance of \$45,000 or less, 50% of such loan, (b) as to loans with an original principal balance of greater than \$45,000, but not more than \$56,250, \$22,500; (c) as to loans with an original principal balance of more than \$56,250, except those loans that are described in (d), below, the lesser of \$36,000 and 40% of the loan, and (d) as to loans with an original principal balance of more than \$144,000 (for loans made to purchase or construct an owner-occupied, single-family home or condominium unit), the lesser of \$50,750 and 25% of the loan. The liability on the guaranty is reduced or increased *pro rata* with any reduction or increase in the unpaid principal balance of indebtedness, but in no event will the amount payable on the guaranty exceed the amount of the original guaranty.

FHA Loan Servicing Procedures

The Master Servicer will be required to be diligent in pursuing claims or causing claims to be pursued for defaulted FHA Loans and abide by FHA collection and default timetables.

Under the FHA mortgage insurance program’s loss mitigation procedures, the lender may accelerate an insured loan following a default only after the lender or its agent has contacted the borrower to discuss the reasons for the default and to seek its cure. The lender may enter into a modification agreement with the borrower that extends the maturity date of the loan term for up to ten years beyond the original maturity date and that reduces the applicable Mortgage Interest Rate. Such an extension would extend the weighted average lives of the Certificates and may reduce the weighted average Net Mortgage Rate of the Mortgage Loans. Other tools available to the lender to avoid foreclosure include special forbearance, “streamline refinancing,” pre-foreclosure sales, and deeds-in-lieu of foreclosure. The loss mitigation procedures also permit lenders in certain circumstances to submit partial claims for FHA insurance benefits.

If the borrower does not cure the default and loss mitigation techniques are not effective, the lender may accelerate the loan and obtain a deed-in-lieu of foreclosure or begin a foreclosure action. The lender may rescind the acceleration of maturity after full payment is due and reinstate the loan only if the borrower brings the loan current, executes a modification agreement or agrees to an acceptable repayment plan.

Generally, an action to initiate foreclosure on any FHA insured mortgage loan must be filed with the local jurisdiction within six months after the date of default. Once the foreclosure process is complete, the lender may submit a claim to FHA. When a lender files an insurance claim with the FHA, the FHA reviews the claim, the complete loan file and documentation of the lender’s efforts to obtain recourse, certification of compliance with applicable state and local laws in carrying out any foreclosure, evidence that the lender has properly filed proofs of claims, where the borrower is bankrupt or deceased, and evidence of marketable title. If the FHA has reason to believe that title is not marketable, the FHA may deny the claim. The FHA may contest any insurance claim or make a demand for a refund of payments made under a claim subject to certain limitations.

The Secretary of HUD may deny a claim for insurance in whole or in part for any violations of the regulations governing the FHA program; however, the Secretary of HUD may waive such violations if

it determines that enforcement of the regulations would impose an injustice upon a lender which has substantially complied with the regulations in good faith.

VA Loan Servicing Procedures

Servicers of VA loans, including the Master Servicer, are required to service them in a manner consistent with prudent residential mortgage loan servicing standards generally accepted in the servicing industry. A servicer is required to be diligent in abiding by VA collection and default timetables. Consistent with these servicing standards, a servicer in its discretion may waive late payment charges or assumption fees and arrange with a borrower a schedule for repayment of due and unpaid principal and interest so long as, by such action, the Master Servicer does not knowingly or intentionally cause the termination of the REMIC status of the related REMIC or the imposition of an entity-level tax on the Trust.

A notice to VA of intent to begin action need not be given within any prescribed period of time. This flexibility affords a servicer time to work with a deserving borrower to avoid liquidation. Barring exceptional circumstances, the notice should not be given until a default has continued for 90 days. If the mortgaged property is in jeopardy, however, the notice should be filed as soon as the risk becomes known to the servicer. Except upon express waiver by VA, a servicer may not begin foreclosure until VA has been notified 30 days in advance of this intent to liquidate. In the case of a mortgage loan assumption, a servicer must make a good faith effort to notify the original borrower of its intention by certified mail. Failure to notify the original borrower may result in the loss of the VA guaranty with respect to that mortgaged property. The servicer must request a liquidation appraisal at least 30 days prior to the projected foreclosure sale in addition to furnishing VA with a VA “status of account” form to estimate the projected claim amount that is necessary to prepare the bid amount.

In the event that a borrower’s income has decreased such that a borrower cannot maintain payments at the current amount or make up any delinquent payments, the servicer may modify the payment terms of the related loan only if it determines that such modification will allow the borrower to keep the loan current. The servicer cannot release the borrower from personal liability, but may include accrued and unpaid interest in the mortgage loan indebtedness that is extended or reamortized. A modification is permissible to the extent that at least 80% of the loan balance extended will amortize over the remaining term of the mortgage loan.

A servicer must deliver to VA the lender’s “election to convey” within 15 days of the foreclosure sale or the servicer loses its right to transfer the related mortgaged property. Upon receipt of advice that VA elects not to specify a bid amount, the Master Servicer may waive or satisfy a portion of the indebtedness on behalf of the Trust in order to reduce the amount owing to an amount that would allow VA to specify a bid amount under applicable regulations.

Fannie Mae Mortgage Purchase Program

General

We summarize below certain aspects of our program for purchasing residential mortgage loans for inclusion in a given pool. We may grant exceptions to the requirements of the program for a particular transaction. In several instances, the characteristics of the Mortgage Loans included in the Trust do not match the criteria described below. For more specific details regarding the Mortgage Loans included in the Trust see “The Mortgage Loan Groups—General” above.

Eligible Lenders

We purchase mortgage loans from the following types of eligible institutions:

- federally and state-chartered savings and loan associations, mutual savings banks, commercial banks and similar financial institutions whose accounts are insured by the Federal Deposit Insurance Corporation or the National Credit Union Administration;

- state-insured financial institutions; and
- financial institutions, principally mortgage bankers, and finance companies that are Fannie Mae-approved mortgage sellers.

We determine whether to approve a particular financial institution as a lender under our purchase program by applying certain criteria which generally include depth of mortgage origination experience, servicing experience and financial capacity.

We will enter into a Fannie Mae Mortgage Selling and Servicing Contract with each approved lender.

Eligible Mortgage Loans

We may include both residential property loans and cooperative share loans in a given pool. Unless we make an exception, each mortgage loan that we include in a pool will comply with the terms of our current Selling Guide and, if underwritten through Desktop Underwriter*, our Guide to Underwriting with Desktop Underwriter (or any of our multifamily guides in the case of a Mortgage Loan secured by a multifamily property). Generally, we do not include construction loans or land development loans in our pools.

A “residential property loan” is a mortgage loan that is secured by a mortgage or similar instrument on (1) a single-family residence (including a unit in a condominium project or planned unit development) or a manufactured home or (2) a multifamily project with five or more apartments. A “cooperative share loan” is a mortgage loan secured by the stock, shares, membership agreement or other contractual agreements that evidence the borrower’s ownership in the cooperative as well as the assignment of the occupancy rights to the borrower’s dwelling unit in the cooperative. Each mortgage loan will be documented by an FHA or VA mortgage or other instrument that we accept. Each mortgage loan also will comply with all applicable federal and local laws, including laws covering usury, equal credit opportunity and disclosure.

We do not require that payments on every mortgage loan that we can include in a pool be due on the first day of the month.

Generally, the mortgage loans do not have maturity dates later than 30 years after origination.

Additional Considerations

Our Selling Guide requires that each lender that sells us conventional mortgage loans under our purchase program assume responsibility for underwriting these loans using the same underwriting criteria that we apply to our portfolio purchases. (We can, however, grant exceptions to these criteria.) Using a random selection process, we review the quality of the credit and property underwriting applied to these loans.

Servicing of Mortgage Loans

Countrywide Home Loans Servicing LP

Countrywide Home Loans Servicing LP (“Countrywide Servicing”) will act as Master Servicer. The principal executive officers of Countrywide Servicing are located at 7105 Corporate Drive, Plano, TX 75024. Countrywide Servicing is a Texas limited partnership directly owned by Countrywide GP, Inc. and Countrywide LP, Inc., each a Nevada corporation and a direct wholly owned subsidiary of the Seller. The Seller is a direct wholly owned subsidiary of Countrywide Credit Industries, Inc., a Delaware corporation (“Countrywide Credit”). Countrywide GP, Inc. owns a 0.1% interest in Countrywide Servicing and is the general partner. Countrywide LP, Inc. owns a 99.9% interest in Countrywide Servicing and is a limited partner.

* Desktop Underwriter® is our automated underwriting software application.

The Seller established Countrywide Servicing in February 2000 to service Countrywide originated mortgage loans that would otherwise have been serviced by Countrywide Home Loans. In January and February 2001, the Seller transferred to Countrywide Servicing all of its rights and obligations relating to mortgage loans serviced on behalf of Fannie Mae and Freddie Mac, respectively. The Seller is currently in the process of transferring to Countrywide Servicing all of its rights and obligations to the bulk of its non-agency loan servicing portfolio. While the Seller expects to continue to directly service a portion of its loan portfolio, it is expected that the servicing rights for most of the Seller's newly originated mortgage loans will be transferred to Countrywide Servicing upon sale or securitization of the related mortgage loans. Countrywide Servicing is engaged in the business of servicing mortgage loans and will not originate or acquire loans, an activity that will continue to be performed by the Seller. In addition to acquiring mortgage servicing rights from the Seller, it is expected that Countrywide Servicing will service mortgage loans for non-Countrywide affiliated parties as well as subservice mortgage loans on behalf of other master servicers.

In connection with the establishment of Countrywide Servicing, certain employees of the Seller became employees of Countrywide Servicing. Countrywide Servicing has engaged the Seller as a sub-servicer to perform certain loan servicing activities on its behalf.

Countrywide Servicing is an approved mortgage loan servicer for Fannie Mae, Freddie Mac, Ginnie Mae, the U.S. Department of Housing and Urban Development ("HUD") and VA and is licensed to service mortgage loans in each state where a license is required. Its loan servicing activities are guaranteed by Countrywide Credit Industries and the Seller (when required by the owner of the mortgage loans). As of October 1, 2001, Countrywide Servicing had a net worth of approximately \$4.0 billion.

In its capacity as Master Servicer, Countrywide Servicing will be responsible for servicing the Mortgage Loans in accordance with the terms set forth in the Sale and Servicing Agreement. Countrywide Servicing will be the primary servicer for approximately 51.2% of the Fixed Rate Loans and approximately 48.9% of the ARM Loans and the Master Servicer for the remainder, which are primarily serviced by various other third party primary servicers. Notwithstanding any sub-servicing arrangement, Countrywide Servicing will remain liable for its servicing duties and obligations under the Sale and Servicing Agreement as if Countrywide Servicing alone were servicing the Mortgage Loans.

The Seller

The Seller is engaged primarily in the mortgage banking business, and as such, originates, purchases, sells and services (either directly or through subsidiaries) mortgage loans. Countrywide Home Loans originates mortgage loans through a retail branch system and through mortgage loan brokers and correspondents nationwide. The Seller's mortgage loans are principally first-lien, fixed or adjustable rate mortgage loans secured by single-family residences. References in the remainder of this prospectus to Countrywide or the Seller should be read to include the Seller and its consolidated subsidiaries, including Countrywide Servicing.

The principal executive offices of the Seller are located at 4500 Park Granada, Calabasas, California 91302.

The Seller services substantially all of the mortgage loans it originates or acquires. In addition, the Seller has purchased in bulk the rights to service mortgage loans originated by other lenders. The Seller has in the past and may in the future sell to other mortgage bankers a portion of its portfolio of loan servicing rights. As of December 31, 2001, the Seller provided servicing for approximately \$335.26 billion aggregate principal amount of mortgage loans, substantially all of which are being serviced for unaffiliated persons.

Foreclosure and Delinquency Experience

The following table summarizes the delinquency and foreclosure experience of FHA insured and VA guaranteed mortgage loans that the Master Servicer either serviced or master serviced. The delinquency and foreclosure percentages may be affected by the size and relative lack of seasoning of the servicing portfolio, which increased from approximately \$44.1 billion at February 28, 1997, to approximately \$52.1 billion at February 28, 1998, to approximately \$54.2 billion at February 29, 1999, to approximately \$59.0 billion at February 28, 2000, to approximately \$63.7 billion at February 28, 2001, and decreased to approximately \$62.1 billion at December 31, 2001. Accordingly, you should not use this information to assess the likelihood, amount or severity of delinquency or losses on the Mortgage Loans. We cannot promise you that the foreclosure and delinquency experience on the Mortgage Loans will be similar to the figures in the table. Furthermore, the foreclosure and delinquency experience reflected in the table may not be representative of the foreclosure and delinquency experience of the Mortgage Loans, each of which was repurchased out of Ginnie Mae pools for reasons of uncured delinquency in accordance with Ginnie Mae guidelines.

| | At February 28 (29), | | | | | At |
|--|----------------------|--------------|--------------|--------------|---------------|----------------------|
| | 1997 | 1998 | 1999 | 2000 | 2001 | December 31, 2001 |
| Delinquent Mortgage Loans and Pending Foreclosures at Period End(1): | | | | | | |
| 30-59 days | 3.67% | 4.48% | 4.98% | 4.95% | 5.73% | 6.98% |
| 60-89 days | 0.91% | 1.03% | 1.18% | 1.45% | 1.88% | 2.78% |
| 90 days or more (excluding foreclosures pending) | 1.31% | 1.63% | 1.98% | 1.97% | 2.47% | 4.03% |
| Total of delinquencies | <u>5.89%</u> | <u>7.14%</u> | <u>8.14%</u> | <u>8.37%</u> | <u>10.08%</u> | <u>13.79%</u> |
| Foreclosures pending | <u>1.18%</u> | <u>1.13%</u> | <u>1.15%</u> | <u>1.15%</u> | <u>1.23%</u> | <u>1.50%</u> |
| Total delinquencies and foreclosures pending | <u>7.07%</u> | <u>8.27%</u> | <u>9.29%</u> | <u>9.52%</u> | <u>11.31%</u> | <u>15.29%</u> |

(1) As a percentage of the total number of loans serviced.

DESCRIPTION OF THE SENIOR AND MEZZANINE CERTIFICATES

General

The REMIC Certificates will consist of:

- eleven classes of guaranteed senior certificates designated as the 1A-1, 1A-2, 1A-3, 1A-4, 1A-IO, 2A, 2A-IO, 3A, A-R, RM and RL Classes (collectively, the “Senior Classes”),
- six classes of mezzanine certificates designated as the M, B-1, B-2, 3M, 3B-1 and 3B-2 Classes (the “Mezzanine Classes”), and
- six classes of subordinate certificates designated as the B-3, B-4, B-5, 3B-3, 3B-4 and 3B-5 Classes (the “Subordinate Classes”).

We refer to the Mezzanine and Subordinate Classes or Certificates together as the “Non-Senior Classes” or “Non-Senior Certificates,” respectively. Fannie Mae does not guarantee the Mezzanine Classes or the Subordinate Classes. The Senior Classes, the Mezzanine Classes and the Subordinate Classes (collectively, the “Classes” or the “Certificates”) in the aggregate represent the entire beneficial ownership interest in the Trust.

Moreover, if references to the Senior, Mezzanine, Subordinate and Non-Senior Classes or Certificates are preceded by the descriptive terms listed below, they will refer to the Classes or Certificates set forth opposite each descriptive term:

| | |
|------------------|--|
| Fixed Rate Group | 1A-1, 1A-2, 1A-3, 1A-4, 1A-IO, 2A, 2A-IO, A-R, M, B-1 or B-2 Class |
| Category 1 | 1A-1, 1A-2, 1A-3, 1A-4 or 1A-IO Class |
| Category 2 | 2A or 2A-IO |
| ARM Group | 3A, 3M, 3B-1 or 3B-2 Class |

In addition, references to the Fixed Rate Group Senior Classes include the A-R Class.

The initial aggregate principal balances of the Category 1, Category 2 and ARM Group Senior Classes will be approximately \$146,673,000, \$377,418,100 and \$85,017,000, respectively, and will initially evidence undivided ownership interests of approximately 97.0%, 97.0% and 96.6%, respectively, in the related Categories or, in the case of the 3A Class, the ARM Loan Group. The initial aggregate principal balances of the Fixed Rate Group and ARM Group Mezzanine Classes will be approximately \$8,645,000 and \$1,760,000, respectively, and will initially evidence undivided ownership interests of approximately 1.6% and 2.0% in the Fixed Rate Group and ARM Group, respectively. The initial aggregate principal balances of the Fixed Rate Group and ARM Group Subordinate Classes will be approximately \$7,564,961 and \$1,232,276, respectively, and will initially evidence undivided ownership interests of approximately 1.4% and 1.4%, respectively, in the related Loan Groups. Only the Senior and Mezzanine Classes are being offered by this prospectus and, in the case of the Senior Classes, by the Senior Supplement. On the Settlement Date, we will issue the Subordinate Classes to the Dealers, which may sell them at any time thereafter in limited private offerings.

Book-Entry Procedures

DTC. DTC is a limited-purpose trust company organized under the laws of the State of New York and is a member of the U.S. Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code and a “clearing agency” registered under Section 17A of the Securities Exchange Act of 1934, as amended. DTC holds securities for DTC participants and facilitates the clearance and settlement of transactions between DTC participants through electronic book-entry changes to accounts of DTC participants.

Title to DTC Certificates. The DTC Certificates will be registered at all times in the name of the nominee of DTC. Under its normal procedures, DTC will record the amount of DTC Certificates held by each firm which participates in the book-entry system of DTC (each, a “DTC Participant”), whether held for its own account or on behalf of another person. Initially, we will act as paying agent for the DTC Certificates. We will also perform certain administrative functions in connection with the DTC Certificates.

A “beneficial owner” or an “investor” is anyone who acquires a beneficial ownership interest in the DTC Certificates. As an investor, you will not receive a physical certificate. Instead, your interest will be recorded on the records of the brokerage firm, bank, thrift institution or other financial intermediary (a “financial intermediary”) that maintains an account for you. In turn, the record ownership of the financial intermediary that holds your DTC Certificates will be recorded by DTC. If the intermediary is not a DTC Participant, the record ownership of the intermediary will be recorded by a DTC Participant acting on its behalf. Therefore, you must rely on these various arrangements to transfer your beneficial ownership interest in the DTC Certificates only under the procedures of your financial intermediary and of DTC Participants. In general, ownership of DTC Certificates will be subject to the prevailing rules, regulations and procedures governing the DTC and DTC Participants.

Method of Payment. We will direct payments on the DTC Certificates to DTC in immediately available funds. In turn, DTC will credit the payments to the accounts of the appropriate DTC Participants, in accordance with the DTC’s procedures. These procedures currently provide for payments made in same-day funds to be settled through the New York Clearing House. DTC Participants and financial intermediaries will direct the payments to the investors in DTC Certificates that they represent.

Holding Through International Clearing Systems. Beneficial interests in the DTC Certificates may be held through organizations participating in the international clearing systems described below. Electronic securities and payment transfer, processing, depository and custodial arrangements among these systems and DTC, either directly or indirectly through custodians and depositories, may enable beneficial interests in the DTC Certificates to be issued, held and transferred among these systems as described below. Special procedures among these systems allow clearance and settlement of beneficial interests in certain securities traded across borders in the secondary market. Cross-market transfers of beneficial interests in the DTC Certificates may be cleared and settled using these procedures. However, we can give no assurance that cross-market transfers of beneficial interests in the DTC Certificates will be possible.

Each relevant system has its own separate operating procedures and arrangements with participants and accountholders that govern the relationship between them and such system and to which we are not and will not be a party. The clearing systems may impose fees in respect of the maintenance and operation of the accounts in which beneficial interests in the DTC Certificates are maintained.

If beneficial interests in the DTC Certificates are cleared and settled through more than one clearing system, time zone differences may result in the securities account of an investor in one system being credited during the settlement processing day immediately following the settlement date of the other system and the cash account being credited for value on the settlement date but only being available as of the day following that settlement date.

Although clearing systems have procedures to facilitate transfers of beneficial interests in securities among their respective participants and accountholders, we understand that they are under no obligation to perform or continue to perform those procedures, which may be modified or discontinued at any time. We will have no responsibility for the performance by any system, or their respective direct or indirect participants or accountholders, of their respective obligations under the results and procedures governing their operations.

Euroclear and Clearstream. The Euroclear System (“Euroclear”) was created in 1968 to hold securities for its participants and to clear and settle transactions between its participants through

simultaneous electronic book-entry delivery against payment. Euroclear is operated by Morgan Guaranty Trust Company of New York, Brussels office (“Morgan”), and all Euroclear securities clearance and cash accounts are with Morgan. They are governed by the terms and conditions governing the use of Euroclear and the related operating procedures of Euroclear, and applicable Belgian law. Clearstream Banking, société anonyme (“Clearstream”), was incorporated in 1970 under the laws of Luxembourg as a limited liability company. A participant’s overall contractual relations with Clearstream are governed by the general terms and conditions, related operating rules and procedures and applicable Luxembourg law.

Euroclear and Clearstream each hold securities for their customers and facilitate the clearance and settlement of securities transactions by electronic book-entry transfer between their respective account holders. Euroclear and Clearstream have established an electronic bridge between their two systems across which their respective participants may settle trades with each other.

Certificated Classes

We will issue the A-R, RM and RL Classes in fully registered, certificated form and not in book-entry form. The “Holder” or “Certificateholder” of the A-R, RM or RL Class is its registered owner. The A-R, RM or RL Class can be transferred at the corporate trust office of our transfer agent. We may impose a service charge for any registration of transfer of an A-R, RM or RL Class and may require payment to cover any tax or other governmental charge. See also “General—*Authorized Denominations*” and “—Special Characteristics of the A-R, RM and RL Classes” below.

Interest Payments on the Senior and Mezzanine Certificates

This section describes the payments of interest that we will make on the Certificates. We define certain capitalized terms used in this section under the heading “—*Certain Definitions Relating to Interest Payments on the Certificates*” below. See also “Index to Defined Terms” in this prospectus.

Categories of Classes—Interest. For the purpose of interest payments, the Senior and Mezzanine Classes will be categorized as follows:

| <u>Interest Type*</u> | <u>Classes</u> |
|---------------------------------------|---|
| Fixed Rate | 1A-1, 1A-2, 1A-3, 1A-4, A-R, M, B-1 and B-2 |
| Fixed Rate/Available Funds | 2A |
| Weighted Average Coupon | 3A, 3M, 3B-1 and 3B-2 |
| Weighted Average Coupon/Interest Only | 1A-IO and 2A-IO |

* See “—Class Definitions and Abbreviations” below.

Interest Calculation. Except as described below, we will pay interest on the Senior and Mezzanine Certificates at the applicable annual rates shown on the cover or described in this prospectus. We calculate interest based on a 360-day year consisting of twelve 30-day months. We pay interest monthly, on each Distribution Date, beginning in the month after the Settlement Date specified in the Reference Sheet.

Fixed Rate Group Classes. During each Interest Accrued Period, we will pay interest on the 1A-1, 1A-2, 1A-3 and 1A-4 Classes at the applicable annual rates specified on the cover of this prospectus.

During each Interest Accrual Period we will pay interest on the 2A Class at the *lesser* of 7.50% and the Net WAC of the Category 2 Loans.

During the initial Interest Accrual Period, we expect to pay interest on the 1A-IO Class at an approximate annual rate of 1.73559%. During each subsequent Interest Accrual Period, we will pay interest on the 1A-IO Class at an annual rate equal to the Net WAC of the Category 1 Loans *minus* the weighted average of the interest rates of the 1A-1, 1A-2, 1A-3 and 1A-4 Classes and the Fixed Rate

Group Mezzanine and Subordinate Classes (weighted on the basis of the principal balances of the 1A-1, 1A-2, 1A-3 and 1A-4 Classes and the related Subordination Component Principal Balance, in each case before giving effect to any reductions thereof on that Distribution Date).

During the initial Interest Accrual Period, we expect to pay interest on the 2A-IO Class at an approximate annual rate of 0.66635%. During each subsequent Interest Accrual Period, we will pay interest on the 2A-IO Class at an annual rate equal to the Net WAC of the Category 2 Loans *minus* the weighted average of the interest rates of the 2A and A-R Classes and the Fixed Rate Group Mezzanine and Subordinate Classes (weighted on the basis of the principal balances of the 2A and A-R Classes and the related Subordination Component Principal Balance, in each case before giving effect to any reductions thereof on that Distribution Date).

Our determination of the interest rates for the 1A-IO and 2A-IO Classes for the related Interest Accrual Period will be final and binding in the absence of manifest error. You may obtain each such interest rate by telephoning us at 1-800-237-8627 or 1-202-752-6547.

As a result of the above formulas, if Category 1 or Category 2 Loans with Net Mortgage Rates above the Net WAC for the related Loan Category are prepaid at a disproportionately high rate relative to related Mortgage Loans with Net Mortgage Rates below such Net WAC, the interest rates on the 1A-IO Class or 2A-IO Class, as applicable, will be reduced.

Uncovered Prepayment Interest Shortfalls and reductions in the amount of interest payable on the Category 1 or Category 2 Loans due to reductions in their Mortgage Interest Rates as a result of permitted loan modifications or application of the Soldiers' and Sailors' Civil Relief Act of 1940 (the "Relief Act") will reduce the amount of interest payable on the Category 1 or Category 2 Senior Classes, respectively, and on the Fixed Rate Group Mezzanine and Subordinate Classes. We will allocate any such reductions in interest with respect to the Category 1 or Category 2 Loans, pro rata, among the Category 1 or Category 2 Senior Classes, as applicable, and to the Fixed Rate Group Mezzanine and Subordinate Classes, based on the amount of interest that would have been payable on the related Classes without giving effect to such reductions. In certain cases, the reductions in yield to the affected investors could be substantial.

The ARM Group Classes. During the initial Interest Accrual Period, we expect to pay interest on the 3A Class and the ARM Group Mezzanine Classes at an approximate annual rate of 6.70361%. During each subsequent Interest Accrual Period, we will pay interest on the 3A Class and the ARM Group Mezzanine Classes at an annual rate equal to the Net WAC of the ARM Loans.

Uncovered Prepayment Interest Shortfalls and reductions in the amount of interest payable on the ARM Loans due to reductions in their Mortgage Interest Rates as a result of permitted loan modifications or application of the Relief Act will reduce the amount of interest payable on the ARM Group Classes. We will allocate any such reductions in interest with respect to the ARM Loans, pro rata, among all of the ARM Group Senior, Mezzanine and Subordinate Classes, based on the amount of interest that would have been payable on those Classes without giving effect to such reductions. In certain cases, the reductions in yield to the affected investors could be substantial.

Interest Payment Priorities. On each Distribution Date, we will pay interest on the Fixed Rate Group Certificates as follows:

- A. from interest collections related to the Category 1 Loans, accrued and unpaid interest at the applicable annual rates to the Category 1 Senior Classes,
- B. from interest collections related to the Category 2 Loans, accrued and unpaid interest at the applicable annual rates to the A-R Class and the 2A Class, and

C. from remaining interest collections relating to the Fixed Rate Loans after application of A. and B. above, accrued and unpaid interest at the applicable annual rates as follows:

first, to the M Class;

second, to the B-1 Class;

third, to the B-2 Class; and

fourth, to the Fixed Rate Group Subordinate Classes.

On each Distribution Date, from interest collections on the ARM Loans, we will pay accrued and unpaid interest on the ARM Group Certificates at the applicable annual rates in the following order of priority:

first, to the 3A Class;

second, to the 3M Class;

third, to the 3B-1 Class;

fourth, to the 3B-2 Class; and

fifth, to the ARM Group Subordinate Certificates.

Certain Definitions Applicable to Interest Calculations. The “Net Mortgage Rate” for any Mortgage Loan as of any date of determination is the Mortgage Interest Rate then in effect for that loan less the applicable Servicing Fee Rate and guaranty fee rate.

For any Interest Accrual Period, the “Net WAC” of the Mortgage Loans of a Loan Group or Category means the weighted average of the Net Mortgage Rates of the related Mortgage Loans during that period, weighted on the basis of their Stated Principal Balances at the beginning of that period.

The “Stated Principal Balance” of any Mortgage Loan as of any date of determination is the unpaid principal balance of that loan (or, if delinquent, its scheduled unpaid principal balance) as of the Issue Date, reduced by all amounts representing principal received or advanced by or on behalf of the Master Servicer and previously paid to Certificateholders with respect to that loan.

Interest Accrual Period. Interest to be paid on each Distribution Date will accrue on the Certificates during the calendar month preceding the month in which that Distribution Date occurs (the “Interest Accrual Period”).

See “Risk Factors—*Delay classes have lower yields and market values*” in this prospectus.

Notional Classes. The 1A-IO and 2A-IO Classes are Notional Classes. A Notional Class will have no principal balance. During each Interest Accrual Period, each Notional Class will bear interest on its notional balance at the annual rate described in this prospectus. For any Distribution Date, the notional principal balances of the 1A-IO and 2A-IO Classes will equal 100% of the aggregate Stated Principal Balances of the Category 1 Loans and Category 2 Loans, respectively.

We use the notional principal balance of a Notional Class to determine interest payments on that Class. Although a Notional Class will not have a principal balance and will not be entitled to any principal payments, we will publish a class factor for that Class. References in this prospectus and the Senior Supplement to the principal balances of the Certificates generally shall refer also to the notional principal balances of the Notional Classes.

Principal Payments on the Senior and Mezzanine Certificates

This section describes the payments of principal that we will make on the Classes of Senior and Mezzanine Certificates.

Categories of Classes—Principal. For the purpose of principal payments, the Senior and Mezzanine Classes will be categorized as follows:

| <u>Principal Type*</u> | <u>Classes</u> |
|------------------------|------------------------------------|
| Senior/Sequential Pay | 1A-1, 1A-2, 1A-3, 1A-4, 2A and A-R |
| Senior/Pass-Through | 3A |
| Mezzanine | M, B-1, B-2, 3M, 3B-1 and 3B-2 |
| Notional | 1A-IO and 2A-IO |

* See “—Class Definitions and Abbreviations”.

Principal Balance Calculation. The outstanding principal balance of any Certificate as of any date of determination is equal to the initial outstanding principal balance of that Certificate, reduced by (a) all amounts previously paid as principal on that Certificate and (b) in the case of any Non-Senior Certificate, all amounts relating to Realized Losses on the related Mortgage Loans that were allocated to principal of that Certificate, as described in this prospectus. The outstanding principal balance of any Certificate at any time is the maximum amount that the Holder will be entitled to receive thereafter as principal from the cash flow on the related Mortgage Loans.

Principal Payment Priorities. On each Distribution Date, we will make principal payments with respect to the Fixed Rate Group Classes as follows:

(i) (a) from the Principal Collections relating to the Category 1 Loans, the applicable Senior Principal Distribution Amounts, sequentially, to the 1A-1, 1A-2, 1A-3 and 1A-4 Classes, in that order, until their respective principal balances are reduced to zero, and

(b) from the Principal Collections relating to the Category 2 Loans, the applicable Senior Principal Distribution Amounts, sequentially, to the A-R and 2A Classes, in that order, until their respective principal balances are reduced to zero;

(ii) from remaining Principal Collections for all Fixed Rate Loans, certain taxes imposed on the Trust or its assets and certain other tax-related expenses of the Trust, plus any unpaid reimbursements to Fannie Mae for any guaranty payments previously made in respect of the Fixed Rate Group Senior Certificates;

(iii) from remaining Principal Collections for all Fixed Rate Loans, the Non-Senior Principal Distribution Amount, concurrently, to the Classes of Fixed Rate Group Mezzanine and Subordinate Certificates, pro rata (based on their outstanding principal balances), with the applicable Specified Non-Senior Principal Distribution Amounts for those Classes being applied in the following order of priority:

first, to the M Class,

second, to the B-1 Class,

third, to the B-2 Class, and

fourth, to the Fixed Rate Group Subordinate Classes; and

(iv) any remaining Principal Collections for all Fixed Rate Loans to the A-R Class.

On each Distribution Date, we will make principal payments with respect to the ARM Group Classes in the following priority:

(i) from the Principal Collections for all ARM Loans, the ARM Group Senior Principal Distribution Amount to the 3A Class, until its principal balance is reduced to zero;

(ii) from remaining Principal Collections for all ARM Loans, certain taxes imposed on the Trust or its assets and certain other tax-related expenses of the Trust, plus any unpaid reimbursements to

Fannie Mae for any guaranty payments previously made in respect of the ARM Group Senior Certificates;

(iii) from remaining Principal Collections for all ARM Loans, the Non-Senior Principal Distribution Amount, concurrently, to the ARM Group Mezzanine and Subordinate Certificates, pro rata (based on their outstanding principal balances), with the applicable Specified Non-Senior Principal Distribution Amounts for those Classes being applied in the following order of priority:

first, to the 3M Class,

second, to the 3B-1 Class,

third, to the 3B-2 Class, and

fourth, to the ARM Group Subordinate Classes; and

(iv) any remaining Principal Collections for all ARM Loans to the A-R Class.

We will include principal prepayments (including net liquidation proceeds) from the related Mortgage Loans in the foregoing distributions on each Distribution Date provided that the Master Servicer gives us information about them in time for the published class factors to reflect these payments. See “Reference Sheet—*Class Factors*” in this prospectus. If we do not receive the information on time, we will include the prepayments in distributions on the next Distribution Date. For purposes of payments, we consider a Mortgage Loan to be a “Liquidated Loan” if the Master Servicer concludes that the full amount finally recoverable on account of that Mortgage Loan has been received, whether or not this amount is equal to the principal balance of the Mortgage Loan.

Certain Definitions Relating to Payments on the Certificates

Bankruptcy Code—The federal bankruptcy code, Title 11 of the United States Code, Section 101 *et seq.*, and the related rules and regulations promulgated thereunder.

Category Cross Payment—On any Distribution Date that is not a Fixed Rate Category Cross Payment Trigger Date, zero. On any Distribution Date that is a Fixed Rate Category Cross Payment Trigger Date and with respect to the Category of Fixed Rate Group Senior Certificates that is *not* subject to a Collateral Deficiency on that date, an amount equal to the **lesser** of

- the Collateral Deficiency for that date

and

- the aggregate of items (i) through (vii) of the definition of Senior Principal Distribution Amount with respect to the Category of Senior Certificates that is *not* subject to a Collateral Deficiency for that date.

Collateral Deficiency—With respect to either Category of Fixed Rate Loans, the *excess*, if any, of

- the aggregate outstanding principal balance of the related Senior Certificates (after giving effect on that date to the application thereto of items (i) through (vii) of the definition of Senior Principal Distribution Amount applicable to such Senior Certificates)

over

- the aggregate Stated Principal Balance of the applicable Category of Fixed Rate Loans as of the related Due Date.

Debt Service Reduction—A court-ordered reduction in the scheduled monthly payment for any Mortgage Loan, issued by a court of competent jurisdiction in a proceeding under the Bankruptcy Code. After the court’s final, non-appealable decision, we shall deem each Realized Loss associated

with a Debt Service Reduction to be incurred on each Distribution Date, based upon the reduced payments received during the related Due Period on the related Mortgage Loan.

Deficient Valuation—For any Mortgage Loan, a valuation of the related Mortgaged Property in an amount less than the then outstanding principal balance of that loan, issued by a court of competent jurisdiction in a proceeding under the Bankruptcy Code. We will not determine the Deficient Valuation or apply it as a Realized Loss until the court renders a final, non-appealable decision with respect to the valuation.

Due Date—For any Distribution Date, the first day of the calendar month in which that Distribution Date occurs.

Due Period—For any Distribution Date, the period beginning on the second day of the month immediately preceding the month in which that Distribution Date occurs and ending on the first day of the month in which that Distribution Date occurs.

Fixed Rate Category Cross Payment Trigger Date—Any Distribution Date on which a Collateral Deficiency exists with respect to either Category (but not both Categories) of Fixed Rate Group Senior Certificates.

Non-Senior Interest Distribution Amount—For any Distribution Date, the interest we will pay on the Fixed Rate Group or ARM Group Classes of Non-Senior Certificates, as applicable, which will equal the **lesser** of:

- the *sum* of:
 - (i) one month’s interest at the applicable rate on the outstanding principal balances of those Classes less the Uncovered Prepayment Interest Shortfalls allocated to those Classes,
plus
 - (ii) any interest remaining unpaid from previous Distribution Dates with respect to those Classes (excluding any additional interest on the unpaid amount),
and
- the remaining interest collections from the related Loan Group for such Distribution Date after giving effect to
 - (x) in the case of the Fixed Rate Group, the payments specified in clauses A. and B. and, with respect to any Class of Non-Senior Certificates higher in payment priority than the Class in question, clause C. under “—Interest Payments on the Senior and Mezzanine Certificates—*Interest Payment Priorities*” above, and
 - (y) in the case of the ARM Group, the payments to the 3A Class and, with respect to any Class of Non-Senior Certificates higher in payment priority than the Class in question, clauses *second, third, fourth* and *fifth* of the second paragraph under “—Interest Payments on the Senior and Mezzanine Certificates—*Interest Payment Priorities*” above.

Non-Senior Principal Distribution Amount—With respect to the Fixed Rate Group or ARM Group for any Distribution Date, the sum of the following amounts for all related Mortgage Loans:

- (i) the applicable Subordinate Percentage of all monthly payments of scheduled principal due on each Mortgage Loan during the related Due Period, **plus**
- (ii) the applicable Subordinate Prepayment Percentage of the principal portion of the purchase price of each Mortgage Loan that the Seller repurchases with respect to that Distribution Date, **plus**

(iii) the applicable Subordinate Prepayment Percentage of the Substitution Adjustment Amount in connection with each Mortgage Loan received with respect to that Distribution Date, **plus**

(iv) the applicable Subordinate Prepayment Percentage of any insurance proceeds or net liquidation proceeds received during the related Prepayment Period that are allocable to recoveries of principal of Mortgage Loans that are not yet Liquidated Loans, **plus**

(v) for each Mortgage Loan that became a Liquidated Loan during the related Prepayment Period, the applicable Subordinate Prepayment Percentage of the Stated Principal Balance of that Mortgage Loan, **plus**

(vi) the applicable Subordinate Prepayment Percentage of all partial and full principal prepayments that we receive during the related Prepayment Period from the borrowers on each Mortgage Loan.

Original Non-Senior Principal Balance—The aggregate outstanding principal balance of the Fixed Rate Group or ARM Group Non-Senior Classes, as applicable, as of the Settlement Date.

Prepayment Interest Shortfall—For any Mortgage Loan with respect to which the related borrower made a prepayment of principal to the Master Servicer during a calendar month, an amount equal to:

(i) one full month's interest on the principal balance of that Mortgage Loan (before applying the prepayment), **minus**

(ii) the interest that the related borrower paid on that Mortgage Loan in respect of that calendar month.

Prepayment Period—For any Distribution Date, the calendar month preceding the month in which such Distribution Date occurs.

Principal Collections—With respect to the Category 1, Category 2, Fixed Rate or ARM Loans, as applicable, the aggregate amount available on any Distribution Date to pay the Holders of the related Certificates, which will equal the following:

(i) all scheduled principal payments on the Mortgage Loans in the related Category or Loan Group, as applicable, due during the related Due Period and received by the 15th day of the month of such Distribution Date (or if such 15th day is not a business day, the next business day), **plus**

(ii) prepayments, net liquidation proceeds (*i.e.*, after giving effect to payment of unreimbursed liquidation expenses and payment in full of any outstanding arrearages in connection with a Mortgage Loan) and other unscheduled collections of principal received on the related Mortgage Loans during the immediately preceding Prepayment Period, **plus**

(iii) any Delinquency Advances the Master Servicer makes for that Distribution Date with respect to late payments that the Master Servicer believes it will be able to recover from the borrowers of the related Mortgage Loans, **minus**

(iv) certain amounts with respect to the related Mortgage Loans, including Servicing Advances, Delinquency Advances and amounts received or recovered in respect of outstanding arrearages, reimbursable to the Master Servicer.

Realized Loss—In general:

(i) as to any Liquidated Loan, its Stated Principal Balance as of the date of liquidation minus the principal portion of net liquidation proceeds (*i.e.* after giving effect to payment of unreimbursed liquidation expenses and payment in full of any outstanding arrearages in connection with the related Mortgage Loan) realized on it,

(ii) for each Mortgage Loan that has received a Deficient Valuation, the difference between the Stated Principal Balance of the Mortgage Loan immediately before the Deficient Valuation and the outstanding principal balance of the Mortgage Loan as reduced by the Deficient Valuation, and

(iii) for each Mortgage Loan that has received a Debt Service Reduction, the reduction in monthly principal attributable to the court-ordered reduction of the monthly mortgage payment, calculated on a month to month basis.

Senior Interest Distribution Amount—Interest we will pay on each Class of Senior Certificates on each Distribution Date. This interest will consist of one month’s interest at the applicable rate on the outstanding principal balance of each applicable Class, less the Uncovered Prepayment Interest Shortfalls and reductions in interest resulting from permitted loan modifications or application of the Relief Act, if any, allocated to that Class.

Senior Percentage—With respect to the Category 1 Senior Certificates, Category 2 Senior Certificates, Fixed Rate Group Senior Certificates or ARM Group Senior Certificates, as applicable, for any Distribution Date, the **lesser** of

(i) 100%, and

(ii) the percentage equivalent of a fraction, the numerator of which is the aggregate principal balance of the applicable Class or Classes of Senior Certificates immediately before that Distribution Date, and the denominator of which is the sum of the Stated Principal Balances of the Mortgage Loans in the related Loan Group or Category, as applicable, as of the Due Date in the month of that Distribution Date.

Senior Prepayment Percentage—For any Distribution Date on which Category 1, Category 2 or ARM Group Senior Certificates remain outstanding, we will determine it as follows (except as described below):

| <u>Distribution Date</u> | <u>Senior Prepayment Percentage</u> |
|-------------------------------------|--|
| April 2002 through March 2007 | 100% |
| April 2007 through March 2008 | the applicable Senior Percentage plus 70% of the related Subordinate Percentage |
| April 2008 through March 2009 | the applicable Senior Percentage plus 60% of the related Subordinate Percentage |
| April 2009 through March 2010 | the applicable Senior Percentage plus 40% of the related Subordinate Percentage |
| April 2010 through March 2011 | the applicable Senior Percentage plus 20% of the related Subordinate Percentage |
| April 2011 and thereafter | the applicable Senior Percentage |

If Category 1, Category 2 or ARM Group Senior Certificates, as applicable, are no longer outstanding, the Senior Prepayment Percentage for the related Senior Certificates will be 0%.

Exceptions:

(A) If on any Distribution Date the Senior Percentage applicable to the Fixed Rate Group Senior Certificates or ARM Group Senior Certificates exceeds the initial Senior Percentage applicable to that Group, the Senior Prepayment Percentage applicable to that Group for that Distribution Date will equal 100%.

(B) In addition, the applicable Senior Prepayment Percentage will not decrease unless cumulative Realized Losses with respect to the related Group of Mortgage Loans do not exceed:

(i) with respect to the Distribution Date falling on or after the fifth, and prior to the sixth, anniversary of the first Distribution Date, 30% of the related Original Non-Senior Principal Balance,

(ii) with respect to the Distribution Date falling on or after the sixth, and prior to the seventh, anniversary of the first Distribution Date, 35% of the related Original Non-Senior Principal Balance,

(iii) with respect to the Distribution Date falling on or after the seventh, and prior to the eighth, anniversary of the first Distribution Date, 40% of the related Original Non-Senior Principal Balance,

(iv) with respect to the Distribution Date falling on or after the eighth, and prior to the ninth, anniversary of the first Distribution Date, 45% of the related Original Non-Senior Principal Balance, and

(v) with respect to the Distribution Date falling on or after the ninth anniversary of the first Distribution Date, 50% of the related Original Non-Senior Principal Balance.

Senior Principal Distribution Amount—With respect to the Category 1, Category 2 or ARM Group Senior Classes, as applicable, for any Distribution Date, the sum of the following amounts:

(i) the applicable Senior Percentage of all monthly payments of scheduled principal due on each Mortgage Loan in the related Category or Loan Group, as applicable, during the related Due Period, **plus**

(ii) the applicable Senior Prepayment Percentage of the principal portion of the purchase price of each related Mortgage Loan that the Seller repurchases with respect to that Distribution Date, **plus**

(iii) the applicable Senior Prepayment Percentage of the Substitution Adjustment Amount received in connection with any related Mortgage Loan with respect to that Distribution Date, **plus**

(iv) the applicable Senior Prepayment Percentage of any insurance proceeds or net liquidation proceeds received during the related Prepayment Period that are allocable to recoveries of principal of related Mortgage Loans that are not yet Liquidated Loans, **plus**

(v) for each related Mortgage Loan that became a Liquidated Loan during the related Prepayment Period, the applicable Senior Prepayment Percentage of the Stated Principal Balance of that Mortgage Loan to the extent recovered, **plus**

(vi) the applicable Senior Prepayment Percentage of all partial and full principal prepayments that we receive during the related Prepayment Period from the borrowers on each related Mortgage Loan, **plus**

(vii) the amount of Realized Losses allocated to the applicable Senior Class or Classes for that Distribution Date.

In addition to the foregoing, on any Distribution Date that is a Fixed Rate Category Cross Payment Trigger Date, the “Senior Principal Distribution Amount” for any Class of Fixed Rate Group Senior Certificates will be subject to the following adjustments:

- if the Category 1 Senior Certificates are subject to a Collateral Deficiency, (x) an amount equal to the Category Cross Payment will be added to the Senior Principal Distribution Amount otherwise payable to the applicable Class or Classes of Category 1 Senior Certificates, in accordance with the same payment priority otherwise in effect on that date, and (y) an amount equal to the Category Cross Payment will be deducted from the “Senior Principal Distribution Amount” otherwise payable to the 2A Class on that date, and
- if the 2A Class is subject to a Collateral Deficiency, (x) an amount equal to the Category Cross Payment will be added to the Senior Principal Distribution Amount otherwise payable to the 2A Class on that date, and (y) an amount equal to the Category Cross Payment will be deducted from the “Senior Principal Distribution Amount” otherwise payable to the applicable

Class or Classes of Category 1 Senior Certificates on that date (such deduction to be made from the amounts otherwise payable to such Classes in the reverse order of their numerical designations).

Specified Non-Senior Principal Distribution Amount—For any Class of Fixed Rate Group or ARM Group Non-Senior Certificates and each Distribution Date, the **lesser** of the following amounts:

(a) that Class's *pro rata* portion (based on the ratio of the principal balance of that Class to the aggregate principal balance of all the Non-Senior Classes in the related Group immediately before that Distribution Date) of the related Non-Senior Principal Distribution Amount for that Distribution Date, or

(b) the portion of remaining Principal Collections available for payment to the related Non-Senior Certificates, applying the distribution priority described under “—Principal Payments on the Senior and Mezzanine Certificates—*Principal Payment Priorities*” above, in the order of their numerical Class designations (beginning with the Class of outstanding Non-Senior Certificates with the lowest numerical Class designation).

Subordination Component Principal Balance—With respect to the Category 1 or Category 2 Loans for any Distribution Date, the *excess*, if any, of the aggregate Stated Principal Balance of the Category 1 or Category 2 Loans, as applicable, as of the related Due Date *over* the aggregate outstanding principal balance of the related Senior Certificates (before giving effect to any reductions thereof on such Distribution Date); *provided, however*, that such amount will in no event exceed the aggregate outstanding principal balance of the Fixed Rate Group Mezzanine and Subordinate Certificates.

Subordinate Percentage—For any Distribution Date and the Category 1, Category 2 or ARM Group Classes, as applicable, 100% **minus** the related Senior Percentage for that Distribution Date.

Subordinate Prepayment Percentage—For any Distribution Date and the Category 1, Category 2 or ARM Group Classes, as applicable, 100% **minus** the related Senior Prepayment Percentage for that Distribution Date.

Uncovered Prepayment Interest Shortfalls—With respect to the Category 1, Category 2 or the ARM Loans for any Distribution Date:

(i) the aggregate Prepayment Interest Shortfalls on the Mortgage Loans in the related Category or Loan Group, as applicable, that prepaid during the Prepayment Period related to that Distribution Date, **minus**

(ii) one-half of the aggregate servicing fee with respect to the related Mortgage Loans (calculated in each case at the related Servicing Fee Rate) for that Distribution Date.

Allocation of Losses

On each Distribution Date, for so long as any Fixed Rate Group or ARM Group Non-Senior Certificates remain outstanding, we will allocate Realized Losses with respect to the Fixed Rate Loans or ARM Loans to the related Non-Senior Certificates, in the reverse order of their numerical Class designations (beginning with the Class of Non-Senior Certificates with the highest numerical Class designation), in each case until the principal balance of that Class is reduced to zero. The M and 3M Classes are deemed to have lower numerical designations (and to have a higher payment priority) than the other Classes of Non-Senior Certificates in the related Loans Groups.

On and after the Distribution Date on which the aggregate principal balance of the Fixed Rate Group Non-Senior Certificates is reduced to zero, Realized Losses related to the Category 1 Loans or Category 2 Loans, as applicable, on each Distribution Date (after application of Realized Losses on that date to any remaining Class or Classes of Fixed Rate Group Non-Senior Certificates until their principal balances are reduced to zero), will be allocated, pro rata, to the Senior Certificates of the related Category on the basis of their respective outstanding principal balances.

On and after the Distribution Date on which the aggregate principal balance of the ARM Group Non-Senior Certificates is reduced to zero, Realized Losses related to the ARM Loans on each Distribution Date (after application of Realized Losses on that date to any remaining Class or Classes of ARM Group Non-Senior Certificates until their principal balances are reduced to zero) will be allocated to the 3A Class.

Subordination

Before we make any payment of interest to holders of Non-Senior Certificates on any Distribution Date, we are obligated to pay holders of the related Senior Certificates the interest to which they are entitled out of interest collections on the related Mortgage Loans on that Distribution Date. Similarly, before we make any payment of principal to holders of Non-Senior Certificates on any Distribution Date, we are obligated to pay holders of the related Senior Certificates the principal to which they are entitled out of Principal Collections on the related Mortgage Loans on that Distribution Date.

In addition, the rights of holders of the B-1 and B-2 Classes to receive interest payments will be subordinate to the rights of holders of the M Class to receive payments of interest and the rights of the holders of the B-1 and B-2 Classes to receive principal payments will be subordinate to the rights of holders of the M Class to receive payments of principal. Moreover, the rights of holders of the B-2 Class to receive interest payments will be further subordinate to the rights of holders of the B-1 Class to receive payments of interest and the rights of the holders of the B-2 Class to receive payments of principal will be further subordinate to the rights of the holders of the B-1 Class to receive principal payments.

Similarly, the rights of holders of the 3B-1 and 3B-2 Classes to receive interest payments will be subordinate to the rights of holders of the 3M Class to receive interest payments and the rights of holders of the 3B-1 and 3B-2 Classes to receive principal payments will be subordinate to the rights of holders of the 3M Class to receive principal payments. Moreover, the rights of holders of the 3B-2 Class to receive payments of interest will be further subordinate to the rights of the holders of the 3B-1 Class to receive payments of interest and the rights of the holders of the 3B-2 Class to receive principal payments will be further subordinate to the rights of the holders of the 3B-1 Class to receive payments of principal.

See “—*Interest Payment Priorities*” and “—*Principal Payment Priorities*” above.

Class Definitions and Abbreviations

Classes of Senior and Mezzanine Certificates fall into different categories. The following chart identifies and generally defines the categories of Senior and Mezzanine Classes specified on the cover page of this prospectus.

| <u>Abbreviation</u> | <u>Category of Class</u> | <u>Definition</u> |
|------------------------|--------------------------|--|
| PRINCIPAL TYPES | | |
| MEZZ | Mezzanine | Is included in a group of classes that together with any related subordinate classes receive a specified subordinate percentage of available principal funds from designated trust assets, with such funds being applied to the related group of classes in the order and priority specified before being applied to any subordinate class. |
| NTL | Notional | Has no principal balance and bears interest on its notional principal balance. The notional principal balance is used to determine interest payments on an Interest Only Class that is not entitled to principal. |
| SR/PT | Senior/Pass Through | Receives a specified senior percentage of available funds from designated trust assets. In most cases, it will receive principal on each distribution date until it is retired. |
| SR/SEQ | Senior/Sequential Pay | Is included in a group of classes that together receive a specified senior percentage of available principal funds from designated trust assets, with such receipts applied to classes in that group in a prescribed sequence but without a determined schedule. In most cases, once a Senior/Sequential Pay Class begins receiving principal payments it will continue to receive principal on each Distribution Date until it is retired. |
| INTEREST TYPES | | |
| AFC | Available Funds | Receives as interest all or a portion of the scheduled interest payments made on the Mortgage Loans. However, this amount may be insufficient on any Distribution Date to cover fully the accrued and unpaid interest on the Certificates of this Class at its specified interest rate for the related Interest Accrual Period. |
| FIX | Fixed Rate | Has an interest rate that is fixed throughout the life of the class. |
| IO | Interest Only | Receives some or all of the interest payments made on the Mortgage Loans or other assets of the trust but little or no principal. Interest Only Classes have either a notional or a nominal principal balance. A notional principal balance is the amount used as a reference to calculate the amount of interest due on an Interest Only Class. A nominal principal balance represents actual principal that will be paid on the Class. It is referred to as nominal since it is extremely small compared to other classes. |
| WAC | Weighted Average Coupon | Has an interest rate that represents an effective Coupon weighted average interest rate that may change from period to period. |

Special Characteristics of the A-R, RM and RL Classes

While the A-R Class will receive payments of interest and principal, the RM and RL Classes will not have principal balances and will not bear interest. If any assets of the Upper Tier REMIC remain after the principal balances of all Fixed Rate Group Classes and ARM Group Classes are reduced to zero, we will pay the Holder of the A-R Class the proceeds from those assets. If any assets of the Middle Tier REMIC remain after the principal balances of the Middle Tier Regular Interests are reduced to zero, we will pay the Holder of the RM Class the proceeds of those assets. If any assets of the Lower Tier REMIC remain after the principal balances of the Lower Tier Regular Interests are reduced to zero, we will pay the Holder of the RL Class the proceeds of those assets. We do not expect that any material assets will remain in any such case.

No Residual Certificate may be transferred to a “disqualified organization” or to anyone acting on behalf of a disqualified organization. The term “transfer” can include any transfer of record ownership or of beneficial ownership, whether as a result of a sale, gift, pledge, default or otherwise. The term “disqualified organization” includes the United States, any State or other political subdivision, any foreign government, any international organization, or any agency or instrumentality of any of them (other than certain taxable instrumentalities), any cooperative organization furnishing electric energy or providing telephone service to persons in rural areas, or any organization (other than a farmers’ cooperative) that is exempt from federal income tax, unless such organization is subject to a tax on unrelated business income. Each person or entity to which a Residual Certificate is transferred will be required to execute an affidavit, acceptable to us, stating that:

- the transferee is not a disqualified organization,
- it is not acquiring the Residual Certificate for the account of a disqualified organization,
- it consents to any amendment of the Trust Agreement that we deem necessary (upon the advice of our counsel) to ensure that the Residual Certificate will not be owned directly or indirectly by a disqualified organization,
- it is not acquiring the A-R, RM or RL Class to avoid or impede the assessment or collection of tax,
- it understands that it may incur tax liabilities in excess of any cash that it will receive on the Residual Certificate,
- it intends to pay taxes on the A-R, RM or RL Class as they become due, and
- it will not transfer the A-R, RM or RL Class unless it has received from the new transferee an affidavit containing these same seven representations and it does not have actual knowledge that this other affidavit is false.

See “Certain Federal Income Tax Consequences—*Taxation of Beneficial Owners of the Residual Certificate—Sales and other Dispositions of Residual Certificate—Residual Certificates Transferred to or Held by Disqualified Organizations.*” The transferee also must deliver a properly executed Internal Revenue Service Form W-9 (or, if applicable, a Form W-8ECI) in which the transferee provides its taxpayer identification number.

The affidavit must also state that the transferee is a “U.S. Person” or a foreign person subject to United States income taxation on a net basis on income derived from that certificate and that, if the transferee is a partnership for U.S. federal income tax purposes, each person or entity that holds an interest (directly, or indirectly through a pass-through entity) in the partnership is a “U.S. Person” or a foreign person subject to United States income taxation on a net basis on income derived from that certificate.

No A-R, RM or RL Class may be transferred to any person that is not a “U.S. Person” or a foreign person subject to United States income taxation on a net basis on income derived from that certificate without our written consent. The term “U.S. Person” means

- a citizen or resident of the United States,
- a corporation, partnership or other entity created under the laws of the United States or any of its political subdivisions,
- 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 one or more United States persons have the authority to control all substantial decisions of the trust.

Under regulations issued by the Treasury Department (the “Regulations”), if a “noneconomic residual interest” is transferred, the transfer will be disregarded for all federal tax purposes unless no significant purpose of the transfer is to impede the assessment or collection of tax. The A-R, RM and RL Classes will constitute noneconomic residual interests under the Regulations.

Under the Regulations, the phrase “a significant purpose of the transfer to impede the assessment or collection to tax” means that the transferor of the A-R, RM or RL Class had “improper knowledge” at the time of the transfer. In other words, the transferor knew, or should have known, that the transferee would be willing or unable to pay taxes due on its share of the taxable income of the applicable REMIC trust. A transferor is presumed not to have improper knowledge if two conditions are met. First, the transferor conducts, at the time of the transfer, a reasonable investigation of the financial condition of the transferee and, based on the results, finds that the transferee has historically paid its debts as they come due and finds no significant evidence to indicate that the transferee will not continue to pay its debts as they come due in the future. Second, the transferee makes certain representations to the transferor in the affidavit relating to disqualified organizations discussed above.

The Treasury Department has proposed an amendment to the Regulations that would add a third condition, effective February 4, 2000. According to the proposed amendment, a transferor of an A-R, RM or RL Class would be presumed not to have improper knowledge only if the present value of the anticipated tax liabilities associated with holding the A-R, RM or RL Class is less than or equal to the present value of the sum of (i) any consideration given to the transferee to acquire that Class, (ii) expected future distributions on that Class, and (iii) anticipated tax savings associated with holding that Class as the related REMIC trust generates losses. The application of the proposed amendment to an actual transfer is uncertain, and you should consult your own tax advisor regarding its effect on the transfer of an A-R, RM or RL Class.

The IRS has since issued a Revenue Procedure creating a safe harbor that may be used for transfers of noneconomic residual interests pending the finalization of the proposed amendment. Under this safe harbor, a transferor of a noneconomic residual interest will be presumed not to have improper knowledge if, in addition to meeting the two conditions contained in the Regulations, either (i) the terms of the proposed amendment are complied with or (ii) the transferee’s gross assets exceed \$100 million and its net assets exceed \$10 million (in each case, at the time of the transfer and at the close of each of the transferee’s two fiscal years preceding the year of transfer), the transferee is an “eligible corporation” as defined in section 860L(a)(2) of the Code, the transferee agrees in writing that any subsequent transfer of the residual interest will be to an eligible corporation and will comply with the safe harbor, and the facts and circumstances known to the transferor do not reasonably indicate that the taxes associated with the residual interest will not be paid. The Revenue Procedure contains additional details regarding its application, and you should consult your own tax advisor regarding the application of the Revenue Procedure to an actual transfer of the A-R, RM or RL Class.

The Holder of the A-R Class will be considered to be the holder of the “residual interest” in the REMIC constituted by the Upper Tier REMIC, the Holder of the RM Class will be considered to be the holder of the “residual interest” in the REMIC constituted by the Middle Tier REMIC, and the Holder of the RL Class will be considered to be the holder of the “residual interest” in the REMIC

constituted by the Lower Tier REMIC. See “Certain Federal Income Tax Consequences—REMIC Elections and Special Tax Attributes.” Pursuant to the Trust Agreement we will be obligated to provide to the Holder or Holders of the A-R, RM and RL Classes (i) information that they need to prepare their federal income tax returns and (ii) any reports regarding the A-R, RM or RL Class that may be required under the Code.

Structuring Assumptions

Pricing Assumptions. Except where otherwise noted, the information in the tables in this prospectus has been prepared based on (i) the assumed characteristics of the Mortgage Loans set forth in Exhibit A and (ii) the following assumptions (collectively, the “Pricing Assumptions”):

- payments on all Mortgage Loans are due and received on the first day of each month;
- each year consists of twelve 30-day months;
- the related Mortgage Loans prepay at the constant percentages of CPR specified in the related tables;
- with respect to the ARM Loans, the assumed value for 1-Year CMT is 2.32%;
- there are no Uncovered Prepayment Interest Shortfalls;
- there are no defaults, losses, delinquencies or liquidations with respect to the Mortgage Loans;
- there are no substitutions of the Mortgage Loans after the Issue Date;
- there are no modifications of the terms of any Mortgage Loans; and
- the settlement date for the sale of the Certificates is March 27, 2002.

Prepayment Assumption. Prepayments of mortgage loans commonly are measured relative to a prepayment standard or model. The model used here assumes a constant prepayment rate (“CPR”). *This model does not predict the prepayment experience of the Mortgage Loans or describe the historic performance of any particular pool of mortgage loans, including the Mortgage Loans.*

Yield Tables

General. The tables below illustrate the sensitivity of the pre-tax corporate bond equivalent yields to maturity of the applicable Classes to various constant percentages of CPR. We calculated the yields set forth in the tables by

- determining the monthly discount rates that, when applied to the assumed streams of cash flows to be paid on the applicable Classes, would cause the discounted present values of such assumed streams of cash flows to equal the assumed aggregate purchase prices of such Classes, and
- converting such monthly rates to corporate bond equivalent rates.

These calculations do not take into account variations in the interest rates at which you could reinvest payments on the Certificates. Accordingly, these calculations do not illustrate the return on any investment in the Certificates when such reinvestment rates are taken into account.

We cannot assure you that

- the pre-tax yields on the applicable Certificates will correspond to any of the pre-tax yields shown here, or
- the aggregate purchase prices of the applicable Certificates will be as assumed.

Furthermore, because some of the Mortgage Loans are likely to have remaining terms to maturity shorter or longer than those assumed and interest rates higher or lower than those assumed, the

principal payments on the related Certificates are likely to differ from those assumed. This would be the case even if all Mortgage Loans prepay at the indicated constant percentages of CPR. Moreover, it is unlikely that:

- the related Mortgage Loans will prepay at a constant percentage of CPR until maturity, or
- all of the related Mortgage Loans will prepay at the same rate.

The Interest Only Classes. The yields to investors in the 1A-IO and 2A-IO Classes will be very sensitive to the rate of principal payments (including prepayments) of the Category 1 and Category 2 Loans, respectively. The Mortgage Loans can be prepaid by the related borrowers with no prepayment penalty. On the basis of the assumptions described below, the yield to maturity and the yield to call on the 1A-IO and 2A-IO Classes would be 0% if prepayments of the related Mortgage Loans were to occur at the constant rates shown in the following table:

| <u>Class</u> | <u>0% Yield to Maturity</u> | <u>0% Yield to Call</u> |
|--------------|---------------------------------|-----------------------------|
| 1A-IO | 25% CPR | 25% CPR |
| 2A-IO | 33% CPR | 31% CPR |

For either Interest Only Class, if the actual prepayment rate of the related Mortgage Loans were to exceed the level specified for as little as one month while equaling such level for the remaining months, the investors in the applicable Class would lose money on their initial investments.

We cannot assure you that:

- the Mortgage Loans will prepay at any of the rates assumed in this prospectus or at any other particular rate;
- the pre-tax yields on the Interest Only Classes will correspond to any of the pre-tax yields shown in this prospectus; or
- the aggregate purchase prices of the Interest Only Classes will be the price assumed below.

Further, Uncovered Prepayment Interest Shortfalls or reductions in the amount of interest payable on the Interest Only Classes due to reductions in the Mortgage Interest Rates as a result of loan modifications or the application of the Relief Act will reduce the yield to investors in the Interest Only Classes. In certain cases, these reductions in yield could be substantial.

The information shown in the following yield tables has been prepared on the basis of the Pricing Assumptions and the assumption that the aggregate purchase prices of the Interest Only Classes (in each case, expressed as a percentage of the original notional principal balance) are as follows:

| <u>Class</u> | <u>Price*</u> |
|--------------|---------------|
| 1A-IO | 3.04160% |
| 2A-IO | 1.82262% |

* The prices do not include accrued interest. Accrued interest has been added to the prices in calculating the yields set forth in the tables below.

Sensitivity of the 1A-IO Class to Prepayments (Pre-Tax Yields to Maturity)

| <u>Class</u> | <u>CPR Prepayment Assumption</u> | | | | | | |
|--------------|----------------------------------|-----------|------------|------------|------------|------------|------------|
| | <u>0%</u> | <u>9%</u> | <u>12%</u> | <u>15%</u> | <u>18%</u> | <u>24%</u> | <u>30%</u> |
| 1A-IO | 57.7% | 34.2% | 26.9% | 20.1% | 13.8% | 2.4% | (7.9)% |

**Sensitivity of the 1A-IO Class to Prepayments
(Pre-Tax Yields to Call*)**

| <u>Class</u> | <u>CPR Prepayment Assumption</u> | | | | | | |
|--------------|----------------------------------|-----------|------------|------------|------------|------------|------------|
| | <u>0%</u> | <u>9%</u> | <u>12%</u> | <u>15%</u> | <u>18%</u> | <u>24%</u> | <u>30%</u> |
| 1A-IO | 57.7% | 34.2% | 26.9% | 20.0% | 13.6% | 1.4% | (10.7)% |

* 5% optional termination.

**Sensitivity of the 2A-IO Class to Prepayments
(Pre-Tax Yields to Maturity)**

| <u>Class</u> | <u>CPR Prepayment Assumption</u> | | | | | | |
|--------------|----------------------------------|-----------|------------|------------|------------|------------|------------|
| | <u>0%</u> | <u>9%</u> | <u>12%</u> | <u>15%</u> | <u>18%</u> | <u>24%</u> | <u>30%</u> |
| 2A-IO | 36.6% | 26.7% | 23.4% | 20.1% | 16.8% | 10.1% | 3.6% |

**Sensitivity of the 2A-IO Class to Prepayments
(Pre-Tax Yields to Call*)**

| <u>Class</u> | <u>CPR Prepayment Assumption</u> | | | | | | |
|--------------|----------------------------------|-----------|------------|------------|------------|------------|------------|
| | <u>0%</u> | <u>9%</u> | <u>12%</u> | <u>15%</u> | <u>18%</u> | <u>24%</u> | <u>30%</u> |
| 2A-IO | 36.6% | 26.7% | 23.4% | 20.0% | 16.5% | 9.3% | 1.3% |

* 5% optional termination.

Weighted Average Lives of the Senior and Mezzanine Certificates

The weighted average life of a Class of Certificates refers to the average length of time, weighted by principal, that will elapse from the time we issue the Certificates until we pay you the full amount of outstanding principal. We determine the weighted average life of a Certificate by:

- (a) multiplying the amount of the reduction, if any, of the principal balance of such Certificate from one Distribution Date to the next Distribution Date by the number of years from the Settlement Date to the second such Distribution Date,
- (b) summing the results, and
- (c) dividing the sum by the aggregate amount of the reductions in principal balance of such Certificate referred to in clause (a).

The weighted average life of each Class of Senior and Mezzanine Certificates will be influenced by, among other factors, the rate at which principal payments are made on the related Mortgage Loans. For the purpose of the preceding sentence, principal payments include scheduled payments, principal prepayments, liquidations due to default, casualty and condemnation and payments made pursuant to either the Master Servicer's or Fannie Mae's option to repurchase. We will apply prepayments on the Mortgage Loans to principal payments on the Certificates, as described in this prospectus. The effect of these factors may differ as to various Classes of Senior and Mezzanine Certificates and the effects on any Class may vary at different times during the life of that Class. Accordingly, we can give no assurance as to the weighted average life of any Class.

Maturity Considerations, Last Scheduled Distribution Date of the Mezzanine Classes and Final Distribution Dates of the Senior Classes

We expect the original maturities of substantially all the Mortgage Loans to be between 20 and 30 years. Each Mortgage Loan will provide for amortization of principal according to a schedule that, in the absence of prepayments, would result in repayment of the Mortgage Loan by its maturity date.

The last scheduled Distribution Date for each Class of Mezzanine Certificates is the Distribution Date in February 2042. This date is determined on the basis of the following assumptions:

- the latest maturing Mortgage Loan is modified to extend its term by 10 years;
- no Mortgage Loan is prepaid or repurchased from the Trust prior to its modified maturity date; and
- the optional calls are not exercised.

The final Distribution Dates for the Senior Classes are the respective Distribution Dates occurring in the months specified in the following table:

| <u>Class</u> | <u>Final Distribution Date</u> |
|--------------|--------------------------------|
| 1A-1 | September 2027 |
| 1A-2 | December 2033 |
| 1A-3 | March 2037 |
| 1A-4 | February 2042 |
| 1A-IO..... | February 2042 |
| 2A | February 2042 |
| 2A-IO..... | February 2042 |
| 3A | February 2042 |

Each of the final Distribution Dates occurring in February 2042 is determined on the basis of the assumptions specified in the immediately preceding paragraph. In the case of the 1A-1, 1A-2 and 1A-3 Classes, their respective final Distribution Dates are determined on the basis of the assumptions specified in the second and third bullets in the immediately preceding paragraph and the following additional assumptions:

- the Fixed Rate Loans prepay at a constant rate of 0% CPR,
- the weighted average maturity of the Fixed Rate Loans is 479 months, and
- principal is paid on the 1A-1, 1A-2 and 1A-3 Classes in accordance with the order of priority set forth under “— Principal Payments on the Senior and Mezzanine Certificates — *Principal Payment Priorities*” above.

Decrement Tables

The following tables indicate the percentages of original principal balances or notional principal balance of the specified Classes that would be outstanding after each date shown at various constant percentages of CPR and the corresponding weighted average lives of such Classes. The tables have been prepared on the basis of the Pricing Assumptions.

It is unlikely:

- that all the related Mortgage Loans will have the interest rates or remaining terms to maturity assumed or
- that the related Mortgage Loans will prepay at any constant percentage of CPR.

In addition, the diverse remaining terms to maturity of the Mortgage Loans could produce slower or faster principal payments than indicated in the tables at the specified constant percentages of CPR. This is the case even if the dispersion of weighted average maturities of the Mortgage Loans are identical to the dispersion of the weighted average maturities specified in the Pricing Assumptions.

Percent of Original Principal Balances Outstanding

| Date | 1A-1 Class | | | | | | | 1A-2 Class | | | | | | | 1A-3 Class | | | | | | |
|---------------------------------|---------------------------|-----|-----|-----|-----|-----|-----|---------------------------|-----|-----|-----|-----|-----|-----|---------------------------|-----|-----|-----|-----|-----|-----|
| | CPR Prepayment Assumption | | | | | | | CPR Prepayment Assumption | | | | | | | CPR Prepayment Assumption | | | | | | |
| | 0% | 9% | 12% | 15% | 18% | 24% | 30% | 0% | 9% | 12% | 15% | 18% | 24% | 30% | 0% | 9% | 12% | 15% | 18% | 24% | 30% |
| Initial Percent | 100 | 100 | 100 | 100 | 100 | 100 | 100 | 100 | 100 | 100 | 100 | 100 | 100 | 100 | 100 | 100 | 100 | 100 | 100 | 100 | 100 |
| March 2003 | 95 | 66 | 56 | 47 | 37 | 18 | 0 | 100 | 100 | 100 | 100 | 100 | 100 | 97 | 100 | 100 | 100 | 100 | 100 | 100 | 100 |
| March 2004 | 90 | 36 | 18 | 2 | 0 | 0 | 0 | 100 | 100 | 100 | 100 | 79 | 34 | 0 | 100 | 100 | 100 | 100 | 100 | 100 | 91 |
| March 2005 | 85 | 8 | 0 | 0 | 0 | 0 | 0 | 100 | 100 | 78 | 47 | 18 | 0 | 0 | 100 | 100 | 100 | 100 | 100 | 54 | 0 |
| March 2006 | 79 | 0 | 0 | 0 | 0 | 0 | 0 | 100 | 74 | 35 | 0 | 0 | 0 | 0 | 100 | 100 | 100 | 99 | 57 | 0 | 0 |
| March 2007 | 73 | 0 | 0 | 0 | 0 | 0 | 0 | 100 | 40 | 0 | 0 | 0 | 0 | 0 | 100 | 100 | 97 | 47 | 3 | 0 | 0 |
| March 2008 | 66 | 0 | 0 | 0 | 0 | 0 | 0 | 100 | 10 | 0 | 0 | 0 | 0 | 0 | 100 | 100 | 53 | 3 | 0 | 0 | 0 |
| March 2009 | 59 | 0 | 0 | 0 | 0 | 0 | 0 | 100 | 0 | 0 | 0 | 0 | 0 | 0 | 100 | 77 | 16 | 0 | 0 | 0 | 0 |
| March 2010 | 51 | 0 | 0 | 0 | 0 | 0 | 0 | 100 | 0 | 0 | 0 | 0 | 0 | 0 | 100 | 45 | 0 | 0 | 0 | 0 | 0 |
| March 2011 | 42 | 0 | 0 | 0 | 0 | 0 | 0 | 100 | 0 | 0 | 0 | 0 | 0 | 0 | 100 | 15 | 0 | 0 | 0 | 0 | 0 |
| March 2012 | 33 | 0 | 0 | 0 | 0 | 0 | 0 | 100 | 0 | 0 | 0 | 0 | 0 | 0 | 100 | 0 | 0 | 0 | 0 | 0 | 0 |
| March 2013 | 24 | 0 | 0 | 0 | 0 | 0 | 0 | 100 | 0 | 0 | 0 | 0 | 0 | 0 | 100 | 0 | 0 | 0 | 0 | 0 | 0 |
| March 2014 | 13 | 0 | 0 | 0 | 0 | 0 | 0 | 100 | 0 | 0 | 0 | 0 | 0 | 0 | 100 | 0 | 0 | 0 | 0 | 0 | 0 |
| March 2015 | 2 | 0 | 0 | 0 | 0 | 0 | 0 | 100 | 0 | 0 | 0 | 0 | 0 | 0 | 100 | 0 | 0 | 0 | 0 | 0 | 0 |
| March 2016 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 85 | 0 | 0 | 0 | 0 | 0 | 0 | 100 | 0 | 0 | 0 | 0 | 0 | 0 |
| March 2017 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 66 | 0 | 0 | 0 | 0 | 0 | 0 | 100 | 0 | 0 | 0 | 0 | 0 | 0 |
| March 2018 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 46 | 0 | 0 | 0 | 0 | 0 | 0 | 100 | 0 | 0 | 0 | 0 | 0 | 0 |
| March 2019 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 24 | 0 | 0 | 0 | 0 | 0 | 0 | 100 | 0 | 0 | 0 | 0 | 0 | 0 |
| March 2020 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 100 | 0 | 0 | 0 | 0 | 0 | 0 |
| March 2021 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 66 | 0 | 0 | 0 | 0 | 0 | 0 |
| March 2022 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 29 | 0 | 0 | 0 | 0 | 0 | 0 |
| March 2023 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| March 2024 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| March 2025 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| March 2026 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| March 2027 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Weighted Average Life (years)** | 7.7 | 1.6 | 1.2 | 1.0 | 0.8 | 0.6 | 0.5 | 15.8 | 4.8 | 3.7 | 3.0 | 2.5 | 1.9 | 1.5 | 19.4 | 7.9 | 6.2 | 5.0 | 4.2 | 3.1 | 2.4 |

| Date | 1A-4 Class | | | | | | | 1A-IO† Class | | | | | | | 2A Class | | | | | | |
|---------------------------------|---------------------------|------|------|------|-----|-----|-----|---------------------------|-----|-----|-----|-----|-----|-----|---------------------------|-----|-----|-----|-----|-----|-----|
| | CPR Prepayment Assumption | | | | | | | CPR Prepayment Assumption | | | | | | | CPR Prepayment Assumption | | | | | | |
| | 0% | 9% | 12% | 15% | 18% | 24% | 30% | 0% | 9% | 12% | 15% | 18% | 24% | 30% | 0% | 9% | 12% | 15% | 18% | 24% | 30% |
| Initial Percent | 100 | 100 | 100 | 100 | 100 | 100 | 100 | 100 | 100 | 100 | 100 | 100 | 100 | 100 | 100 | 100 | 100 | 100 | 100 | 100 | 100 |
| March 2003 | 100 | 100 | 100 | 100 | 100 | 100 | 100 | 99 | 90 | 87 | 84 | 81 | 75 | 69 | 99 | 90 | 87 | 83 | 80 | 74 | 68 |
| March 2004 | 100 | 100 | 100 | 100 | 100 | 100 | 100 | 97 | 80 | 75 | 70 | 65 | 56 | 47 | 97 | 80 | 75 | 70 | 65 | 55 | 46 |
| March 2005 | 100 | 100 | 100 | 100 | 100 | 100 | 97 | 95 | 72 | 65 | 58 | 53 | 42 | 33 | 96 | 72 | 64 | 58 | 52 | 40 | 31 |
| March 2006 | 100 | 100 | 100 | 100 | 100 | 92 | 64 | 93 | 64 | 56 | 49 | 42 | 31 | 22 | 94 | 64 | 55 | 48 | 41 | 30 | 20 |
| March 2007 | 100 | 100 | 100 | 100 | 100 | 67 | 41 | 91 | 57 | 48 | 41 | 34 | 23 | 15 | 93 | 57 | 48 | 39 | 33 | 21 | 13 |
| March 2008 | 100 | 100 | 100 | 100 | 80 | 48 | 26 | 89 | 51 | 41 | 34 | 27 | 17 | 11 | 91 | 50 | 41 | 33 | 26 | 15 | 8 |
| March 2009 | 100 | 100 | 100 | 83 | 63 | 35 | 17 | 87 | 45 | 36 | 28 | 22 | 13 | 7 | 89 | 45 | 35 | 27 | 20 | 11 | 5 |
| March 2010 | 100 | 100 | 92 | 68 | 50 | 25 | 11 | 85 | 40 | 30 | 23 | 17 | 9 | 5 | 86 | 39 | 30 | 22 | 16 | 8 | 3 |
| March 2011 | 100 | 100 | 78 | 56 | 39 | 18 | 7 | 82 | 35 | 26 | 19 | 14 | 7 | 3 | 84 | 35 | 25 | 18 | 13 | 6 | 2 |
| March 2012 | 100 | 95 | 67 | 46 | 31 | 13 | 5 | 79 | 31 | 22 | 16 | 11 | 5 | 2 | 81 | 31 | 22 | 15 | 10 | 4 | 2 |
| March 2013 | 100 | 83 | 56 | 38 | 25 | 10 | 3 | 76 | 27 | 19 | 13 | 9 | 4 | 2 | 78 | 27 | 18 | 12 | 8 | 3 | 1 |
| March 2014 | 100 | 72 | 47 | 31 | 19 | 7 | 2 | 73 | 23 | 16 | 10 | 7 | 3 | 1 | 75 | 24 | 15 | 10 | 6 | 2 | 1 |
| March 2015 | 100 | 62 | 40 | 25 | 15 | 5 | 1 | 69 | 20 | 13 | 8 | 5 | 2 | 1 | 72 | 20 | 13 | 8 | 5 | 2 | * |
| March 2016 | 100 | 54 | 33 | 20 | 12 | 4 | 1 | 66 | 18 | 11 | 7 | 4 | 1 | * | 68 | 18 | 11 | 7 | 4 | 1 | * |
| March 2017 | 100 | 46 | 27 | 16 | 9 | 3 | 1 | 61 | 15 | 9 | 5 | 3 | 1 | * | 64 | 15 | 9 | 5 | 3 | 1 | * |
| March 2018 | 100 | 39 | 22 | 13 | 7 | 2 | * | 57 | 13 | 7 | 4 | 2 | 1 | * | 59 | 13 | 7 | 4 | 2 | 1 | * |
| March 2019 | 100 | 32 | 18 | 10 | 5 | 1 | * | 52 | 11 | 6 | 3 | 2 | * | * | 54 | 11 | 6 | 3 | 2 | * | * |
| March 2020 | 100 | 27 | 14 | 8 | 4 | 1 | * | 47 | 9 | 5 | 3 | 1 | * | * | 49 | 9 | 5 | 2 | 1 | * | * |
| March 2021 | 100 | 22 | 11 | 6 | 3 | 1 | * | 42 | 7 | 4 | 2 | 1 | * | * | 43 | 7 | 4 | 2 | 1 | * | * |
| March 2022 | 100 | 17 | 8 | 4 | 2 | * | * | 36 | 5 | 3 | 1 | 1 | * | * | 37 | 5 | 3 | 1 | 1 | * | * |
| March 2023 | 95 | 13 | 6 | 3 | 1 | * | * | 30 | 4 | 2 | 1 | * | * | * | 30 | 4 | 2 | 1 | * | * | * |
| March 2024 | 74 | 9 | 4 | 2 | 1 | * | * | 23 | 3 | 1 | 1 | * | * | * | 23 | 3 | 1 | 1 | * | * | * |
| March 2025 | 51 | 6 | 3 | 1 | * | * | * | 16 | 2 | 1 | * | * | * | * | 15 | 2 | 1 | * | * | * | * |
| March 2026 | 26 | 3 | 1 | * | * | * | * | 8 | 1 | * | * | * | * | * | 6 | 1 | * | * | * | * | * |
| March 2027 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Weighted Average Life (years)** | 23.0 | 15.3 | 12.8 | 10.8 | 9.2 | 6.9 | 5.3 | 16.1 | 7.7 | 6.4 | 5.3 | 4.5 | 3.4 | 2.7 | 16.4 | 7.7 | 6.3 | 5.2 | 4.4 | 3.3 | 2.5 |

* Indicates an outstanding balance greater than 0% and less than 0.5% of the original principal balance.

** Determined as specified under “—Weighted Average Lives of the Senior and Mezzanine Certificates” above.

† In the case of a Notional Class, the Decrement Table indicates the percentage of the original notional principal balance outstanding.

| Date | 2A-10† Class | | | | | | | A-R Class | | | | | | | M, B-1 and B-2 Classes | | | | | | |
|---------------------------------|---------------------------|-----|-----|-----|-----|-----|-----|---------------------------|-----|-----|-----|-----|-----|-----|---------------------------|------|------|------|------|-----|-----|
| | CPR Prepayment Assumption | | | | | | | CPR Prepayment Assumption | | | | | | | CPR Prepayment Assumption | | | | | | |
| | 0% | 9% | 12% | 15% | 18% | 24% | 30% | 0% | 9% | 12% | 15% | 18% | 24% | 30% | 0% | 9% | 12% | 15% | 18% | 24% | 30% |
| Initial Percent | 100 | 100 | 100 | 100 | 100 | 100 | 100 | 100 | 100 | 100 | 100 | 100 | 100 | 100 | 100 | 100 | 100 | 100 | 100 | 100 | 100 |
| March 2003 | 99 | 90 | 87 | 84 | 81 | 75 | 69 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 99 | 99 | 99 | 99 | 99 | 99 | 99 |
| March 2004 | 97 | 81 | 75 | 70 | 65 | 56 | 48 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 97 | 97 | 97 | 97 | 97 | 97 | 97 |
| March 2005 | 96 | 72 | 65 | 59 | 53 | 42 | 33 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 96 | 96 | 96 | 96 | 96 | 96 | 96 |
| March 2006 | 94 | 65 | 57 | 49 | 43 | 31 | 23 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 94 | 94 | 94 | 94 | 94 | 94 | 94 |
| March 2007 | 93 | 58 | 49 | 41 | 34 | 23 | 16 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 92 | 92 | 92 | 92 | 92 | 92 | 92 |
| March 2008 | 91 | 51 | 42 | 34 | 28 | 17 | 11 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 90 | 88 | 87 | 86 | 85 | 83 | 81 |
| March 2009 | 89 | 46 | 36 | 28 | 22 | 13 | 7 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 88 | 83 | 81 | 79 | 77 | 73 | 69 |
| March 2010 | 86 | 41 | 31 | 24 | 18 | 10 | 5 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 86 | 76 | 73 | 70 | 66 | 60 | 54 |
| March 2011 | 84 | 36 | 27 | 19 | 14 | 7 | 3 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 83 | 68 | 64 | 59 | 55 | 47 | 40 |
| March 2012 | 81 | 32 | 23 | 16 | 11 | 5 | 2 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 81 | 60 | 54 | 49 | 44 | 35 | 27 |
| March 2013 | 78 | 28 | 19 | 13 | 9 | 4 | 2 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 78 | 53 | 46 | 40 | 34 | 25 | 18 |
| March 2014 | 75 | 24 | 16 | 11 | 7 | 3 | 1 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 74 | 46 | 39 | 33 | 27 | 18 | 12 |
| March 2015 | 72 | 21 | 14 | 9 | 5 | 2 | 1 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 71 | 40 | 33 | 26 | 21 | 13 | 8 |
| March 2016 | 68 | 18 | 11 | 7 | 4 | 1 | * | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 67 | 34 | 27 | 21 | 16 | 10 | 5 |
| March 2017 | 64 | 16 | 9 | 6 | 3 | 1 | * | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 63 | 29 | 22 | 17 | 13 | 7 | 4 |
| March 2018 | 59 | 13 | 8 | 4 | 2 | 1 | * | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 59 | 25 | 18 | 13 | 10 | 5 | 2 |
| March 2019 | 54 | 11 | 6 | 3 | 2 | 1 | * | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 54 | 21 | 15 | 10 | 7 | 3 | 1 |
| March 2020 | 49 | 9 | 5 | 3 | 1 | * | * | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 49 | 17 | 12 | 8 | 5 | 2 | 1 |
| March 2021 | 43 | 7 | 4 | 2 | 1 | * | * | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 43 | 14 | 9 | 6 | 4 | 2 | 1 |
| March 2022 | 37 | 6 | 3 | 1 | 1 | * | * | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 37 | 11 | 7 | 4 | 3 | 1 | * |
| March 2023 | 30 | 4 | 2 | 1 | * | * | * | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 30 | 8 | 5 | 3 | 2 | 1 | * |
| March 2024 | 23 | 3 | 1 | 1 | * | * | * | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 23 | 6 | 3 | 2 | 1 | * | * |
| March 2025 | 15 | 2 | 1 | * | * | * | * | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 15 | 3 | 2 | 1 | 1 | * | * |
| March 2026 | 6 | 1 | * | * | * | * | * | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 7 | 1 | 1 | * | * | * | * |
| March 2027 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Weighted Average Life (years)** | 16.4 | 7.9 | 6.4 | 5.4 | 4.6 | 3.5 | 2.7 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 16.3 | 12.1 | 11.3 | 10.6 | 10.0 | 9.2 | 8.5 |

| Date | 3A Class | | | | | | | 3M, 3B-1 and 3B-2 Classes | | | | | | |
|---------------------------------|---------------------------|-----|-----|-----|-----|-----|-----|---------------------------|------|-----|-----|-----|-----|-----|
| | CPR Prepayment Assumption | | | | | | | CPR Prepayment Assumption | | | | | | |
| | 0% | 10% | 20% | 25% | 30% | 35% | 40% | 0% | 10% | 20% | 25% | 30% | 35% | 40% |
| Initial Percent | 100 | 100 | 100 | 100 | 100 | 100 | 100 | 100 | 100 | 100 | 100 | 100 | 100 | 100 |
| March 2003 | 98 | 88 | 78 | 73 | 68 | 63 | 58 | 98 | 98 | 98 | 98 | 98 | 98 | 98 |
| March 2004 | 96 | 77 | 60 | 53 | 45 | 39 | 32 | 96 | 96 | 96 | 96 | 96 | 96 | 96 |
| March 2005 | 93 | 67 | 46 | 38 | 30 | 23 | 18 | 93 | 93 | 93 | 93 | 93 | 93 | 93 |
| March 2006 | 91 | 58 | 35 | 27 | 19 | 14 | 9 | 91 | 91 | 91 | 91 | 91 | 91 | 91 |
| March 2007 | 88 | 51 | 27 | 18 | 12 | 7 | 4 | 88 | 88 | 88 | 88 | 88 | 88 | 88 |
| March 2008 | 85 | 44 | 20 | 13 | 8 | 4 | 2 | 85 | 82 | 79 | 78 | 76 | 75 | 73 |
| March 2009 | 82 | 38 | 15 | 9 | 5 | 2 | * | 82 | 76 | 70 | 67 | 64 | 61 | 57 |
| March 2010 | 78 | 32 | 12 | 6 | 3 | 1 | 0 | 78 | 68 | 59 | 54 | 49 | 45 | 39 |
| March 2011 | 75 | 28 | 9 | 4 | 2 | 1 | 0 | 75 | 60 | 47 | 41 | 36 | 30 | 22 |
| March 2012 | 71 | 24 | 7 | 3 | 1 | * | 0 | 71 | 51 | 36 | 29 | 24 | 19 | 13 |
| March 2013 | 67 | 20 | 5 | 2 | 1 | * | 0 | 67 | 44 | 27 | 21 | 16 | 12 | 7 |
| March 2014 | 63 | 17 | 4 | 2 | 1 | * | 0 | 63 | 37 | 20 | 15 | 10 | 7 | 4 |
| March 2015 | 59 | 14 | 3 | 1 | * | * | 0 | 59 | 31 | 15 | 10 | 7 | 4 | 2 |
| March 2016 | 55 | 12 | 2 | 1 | * | * | 0 | 55 | 26 | 11 | 7 | 4 | 3 | 1 |
| March 2017 | 50 | 10 | 2 | 1 | * | * | 0 | 50 | 21 | 8 | 5 | 3 | 2 | 1 |
| March 2018 | 45 | 8 | 1 | * | * | * | 0 | 45 | 17 | 6 | 3 | 2 | 1 | * |
| March 2019 | 40 | 6 | 1 | * | * | * | 0 | 40 | 14 | 4 | 2 | 1 | 1 | * |
| March 2020 | 35 | 5 | 1 | * | * | * | 0 | 35 | 11 | 3 | 1 | 1 | * | * |
| March 2021 | 29 | 4 | * | * | * | * | 0 | 29 | 8 | 2 | 1 | * | * | * |
| March 2022 | 23 | 3 | * | * | * | * | 0 | 23 | 6 | 1 | 1 | * | * | * |
| March 2023 | 17 | 2 | * | * | * | * | 0 | 17 | 4 | 1 | * | * | * | * |
| March 2024 | 11 | 1 | * | * | * | * | 0 | 11 | 2 | * | * | * | * | * |
| March 2025 | 4 | * | * | * | * | * | 0 | 4 | 1 | * | * | * | * | * |
| March 2026 | * | * | * | * | * | * | 0 | * | * | * | * | * | * | * |
| March 2027 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Weighted Average Life (years)** | 14.1 | 6.6 | 3.8 | 3.0 | 2.5 | 2.0 | 1.7 | 14.1 | 10.8 | 9.1 | 8.5 | 8.1 | 7.8 | 7.4 |

* Indicates an outstanding balance greater than 0% and less than 0.5% of the original principal balance.

** Determined as specified under “—Weighted Average Lives of the Senior and Mezzanine Certificates” above.

† In the case of a Notional Class, the Decrement Table indicates the percentage of the original notional principal balance outstanding.

THE AGREEMENTS

We summarize below certain provisions of the Sale and Servicing Agreement and the Trust Agreement (together, the “Agreements”) that are not discussed elsewhere in this prospectus. Certain capitalized terms that we use in these summaries are defined in the Agreements. These summaries are, by definition, not complete. If there is ever a conflict between the information in this prospectus and the actual terms of the Agreements, the terms of the Agreements will prevail.

Transfer of Mortgage Loans to the Trust

The Trust Agreement will contain a mortgage loan schedule that will identify the Mortgage Loans that are being transferred to the Trust. As trustee, we will hold, on behalf of the Certificateholders, the original Mortgage Notes, endorsed in blank, and assignments of the mortgage instruments to us in recordable form. We may change these document custody requirements at any time, as long as we determine that any such change will not have a materially adverse affect on the interests of Certificateholders.

At our option, we may choose to maintain the documents described above with one or more custodian institutions 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 Administration. We will review the mortgage loan schedule before we issue the Certificates and will conduct random spot checks after issuing the Certificates to confirm that we have all the documents we need.

If a liquidation, reorganization, or similar proceeding involving our assets or the assets of the Seller were to occur, it is not clear what law would be applicable. As a result, we cannot render a legal opinion about the Certificateholders’ rights to the Mortgage Loans in the event of a proceeding of this type.

Servicing of Mortgage Loans

Pursuant to the Sale and Servicing Agreement, the Master Servicer is responsible for servicing and administering the Mortgage Loans.

Except as otherwise specified in this prospectus, the Master Servicer will be obligated to perform diligently all services and duties customary to servicing mortgages, as well as those specifically prescribed in the Sale and Servicing Agreement. Under the Sale and Servicing Agreement, we will monitor the Master Servicer’s performance and have the right to remove the Master Servicer for cause at any time, if we consider such removal to be in the best interest of Certificateholders. The Master Servicer’s duties include general loan servicing, collecting and remitting principal and interest payments, administering mortgage escrow accounts, collecting insurance claims, and, if necessary, foreclosing on properties and administering and disposing of foreclosed properties.

Each month, the Master Servicer and any other applicable servicer will receive a fee as compensation for its servicing activities. The fee will be calculated at an annual rate specified in the mortgage loan schedule forming a part of the Sale and Servicing Agreement (the “Servicing Fee Rate”), in each case calculated on the Stated Principal Balance of each Mortgage Loan. The Master Servicer is also entitled to retain prepayment fees, late charges, assumption fees, and similar charges if they are collected from borrowers. In addition, the Master Servicer is entitled to retain any amount by which the proceeds of a liquidated Mortgage Loan exceed (i) the Stated Principal Balance of that Mortgage Loan and (ii) interest thereon at the Mortgage Interest Rate, starting from the month in which the Master Servicer determined that it could no longer recover any advances with respect to that Mortgage Loan, through the end of the month of the liquidation. The Master Servicer may not retain the amounts described in the preceding sentence to the extent we have to pay such amounts to the holders of the Mezzanine and Subordinate Certificates to offset previously allocated Realized Losses with respect to such Mortgage Loan. The Master Servicer will pay all expenses it incurs in

connection with its servicing activities and will not be reimbursed for them (except for Delinquency Advances and Servicing Advances and other liquidation expenses) out of the assets of the Trust.

In addition, as compensation for our guaranty of the Senior Certificates, we will receive a fee from amounts collected on the Mortgage Loans.

Payments on Mortgage Loans; Deposits in the Certificate Account

On each Remittance Date, the Master Servicer will remit to one or more accounts (collectively, the “Certificate Account”) an amount equal to the sum of

- scheduled principal and interest received on the Mortgage Loans during the related Due Period, plus
- unscheduled collections received on the Mortgage Loans (*i.e.*, voluntary prepayments, as well as principal and interest on the Mortgage Loans in the form of net liquidation proceeds or similar proceeds) during the related Prepayment Period, plus
- any advance that the Master Servicer must make in respect of delinquent payments of principal and interest on the Mortgage Loans with respect to the related Distribution Date.

Any amounts deposited into the Certificate Account on a Distribution Date are generally available to pay (i) interest accrued and distributable on the Certificates on that date (*i.e.*, excluding any Uncovered Prepayment Interest Shortfalls) and (ii) principal of the Certificates reflected in the class factors. We will not include any reinvestment earnings on amounts in the Certificate Account when we calculate payments to Certificateholders.

The Trust Agreement permits us, as trustee, to maintain the Certificate Account in one of two ways:

- as a trust account with an eligible depository institution (which account may contain other funds that we hold in a trust capacity), or
- as part of our general assets (with appropriate credit entries to the related REMIC trust).

We are required to hold all such appropriately credited funds in our general accounts (and all funds in the Certificate Account that we have invested) for the related Certificateholders. Nevertheless, if a liquidation, reorganization or similar proceeding involving our assets were to occur, it is not clear what law would be applicable. As a result, we cannot render a legal opinion about the Certificateholders’ rights to those funds in the event of a proceeding of this type.

Amounts received and applied by the Master Servicer as reimbursements for Servicing Advances or Delinquency Advances or as recoveries of outstanding arrearages will not be required to be deposited in the Certificate Account.

Reports to Certificateholders

We will publish the class factor for each class of Certificates on or shortly after the 21st calendar day of each month. If you multiply the class factor for a class of Certificates by the original principal balance (or notional balance) of that class of Certificates, you will obtain the current principal balance (or notional balance) of that class of Certificates, after giving effect to the current month’s principal payment.

We will provide each Holder of Certificates with a statement of the total principal and interest paid on that Holder’s Certificates with respect to each Distribution Date. After the end of each calendar year, we will also furnish to each person who was a Certificateholder at any time during that year any information required by the Internal Revenue Service.

We, or a special agent that we engage, will make all the necessary numerical calculations.

Collection and Other Servicing Procedures

The Master Servicer is responsible for servicing the Mortgage Loans. In this capacity, it has full power and authority to do or cause to be done anything it considers necessary or appropriate, including the foreclosure or comparable conversion of a defaulted Mortgage Loan.

The Master Servicer must make advances to the Trust for delinquent payments of principal of and interest on the Mortgage Loans. It must make these advances until the earlier of (i) the date of conveyance of the related Mortgaged Property to HUD or VA, as applicable, and (ii) final liquidation of the related Mortgaged Property. Before we make any payments on the Senior and Mezzanine Certificates, we will reimburse all these advances to the Master Servicer from late collections, insurance proceeds and liquidation proceeds from the related Mortgage Loans. We call these advances “Delinquency Advances.” In addition, we may use funds allocable to any of the Mortgage Loans to reimburse the Master Servicer for Delinquency Advances that it made previously, but deems that it cannot recover from related late collections, insurance proceeds or liquidation proceeds.

The Master Servicer will have to pay all “out of pocket” costs and expenses incurred in performing its servicing obligations, if it deems that it will be able to recover these costs and expenses. These expenses include:

- expenditures in connection with a foreclosed Mortgage Loan prior to liquidation (including real estate property taxes, hazard insurance premiums and property restoration or preservation),
- the cost of enforcement or judicial proceedings, including foreclosures, and
- the cost of managing and liquidating a Mortgaged Property acquired in satisfaction of the related Mortgage Loan.

We call these costs and expenses “Servicing Advances.” The Master Servicer may recover a Servicing Advance to the extent permitted by the related Mortgage Loan. If the Master Servicer does not recover the Servicing Advance from the borrower on whose behalf the advance was made, it may recover the Servicing Advance from net liquidation proceeds realized upon the liquidation of the related Mortgage Loan, or from funds that would otherwise be paid on the Mezzanine and Subordinate Certificates.

Certain of the Mortgage Loans to be transferred to the Trust are subject to arrearages arising from unreimbursed interest, principal and servicing advances made prior to the Issue Date. These arrearages will not be the property of the Trust and any collections of such arrearage amounts will be paid to the advancing party. Additionally, any arrearage amounts not paid as described above will be paid out of recoveries (including collections, insurance proceeds and liquidation proceeds from the Mortgage Loans) prior to the deposit of any such recoveries into the Trust.

Upon receipt by the Master Servicer or other servicer of liquidation proceeds, the Master Servicer will remit such liquidation proceeds (net of Servicing Advances, Delinquency Advances and any unpaid arrearages in respect of the related Mortgage Loan) to the Trust.

The Seller will make certain warranties to us with respect to each Mortgage Loan, concerning such matters as (i) the recordation of the original Mortgage, (ii) the validity of the Mortgage Loan as a first lien on the Mortgaged Property and (iii) compliance by the Mortgage Loan with applicable state and federal laws. If the Seller materially breaches any such warranty, or if there is a material defect in the Mortgage Loan documentation, we may cause the Seller to repurchase that Mortgage Loan from the Trust at a price equal to its outstanding principal balance, plus interest at its Net Mortgage Rate. The Seller may instead, at its option, substitute a new Mortgage Loan for a defective Mortgage Loan. Any substitute Mortgage Loan must meet certain criteria to ensure that the substitute Mortgage Loan will not alter the general characteristics of the Mortgage Loans. No such substitution may take place more than 90 days after we issue the Certificates. We call the amount by which the Stated Principal Balance of the defective Mortgage Loan exceeds the principal balance of the substitute Mortgage Loan the “Substitution Adjustment Amount.” We will pass this amount through

to Certificateholders. The Sale and Servicing Agreement will not provide for the repurchase by the Master Servicer of any Mortgage Loan due solely to delinquency.

Subject to the limitations discussed below, the Master Servicer may:

- enforce or waive enforcement of any term of any Mortgage Loan,
- enter into an agreement to modify any term of any Mortgage Loan, or
- take any action or refrain from taking any action in servicing any Mortgage Loan.

However, the Sale and Servicing Agreement prohibits any modification that would:

- cause the Trust to fail to qualify as a REMIC under the Code,
- cause any Mortgage Loan to cease to be a “qualified mortgage” within the meaning of section 860G(a)(3) of the Code, or
- result in the imposition of any tax on “prohibited transactions” or “contributions” as discussed under “Certain Federal Income Tax Consequences—Taxes on the Trust.”

The Sale and Servicing Agreement will provide that the Master Servicer will service the Mortgage Loans in accordance with FHA and VA guidelines. In accordance with FHA and VA guidelines and the terms of the Sale and Servicing Agreement, the Master Servicer is permitted to make certain other modifications, such as reducing the mortgage interest rate or principal amount or extending the term of a Mortgage Loan. The Master Servicer may waive any prepayment charge, assumption fee, or late payment charge, or may exercise or refrain from exercising any “call option rider.” If the Master Servicer decides to take or refrain from taking any of the actions discussed above, its decision must be consistent with the then-current policies or practices that it follows for comparable mortgage loans held in its own portfolio. In making its decisions, the Master Servicer may not take into account the ownership status of the related Mortgage Loan.

Each Mortgage Loan either will contain a standard “due-on-sale” clause or will be assumable upon the sale of the related Mortgaged Property, subject generally to the purchaser’s compliance with credit and underwriting guidelines. In connection with the transfer or prospective transfer of title to a Mortgaged Property securing any Mortgage Loan, the Master Servicer must accelerate the maturity of the related Mortgage Loan if it contains a “due-on-sale” clause that permits acceleration under those conditions (unless applicable law prohibits enforcing the “due-on-sale” clause). FHA and VA, however, historically permitted borrowers to sell their homes subject to the existing FHA loan or VA loan, without requiring the new homeowner to assume the mortgage debt, and, in some cases, without requiring the lender to determine whether the new homeowner was creditworthy. In those instances, the original borrower is not relieved of the obligation under the Mortgage Loan.

If for any reason the Master Servicer does not have to accelerate the maturity of a Mortgage Loan upon the transfer, or prospective transfer, of title to the related Mortgaged Property, the Master Servicer may enter into a transaction which releases the borrower from liability on the related Mortgage Loan and imposes such liability on the transferee. According to the Fannie Mae Servicing Guide, no such transaction shall provide for reduction of the mortgage interest rate.

Under the Sale and Servicing Agreement, the Master Servicer has the right to engage a third party to perform master servicing functions with respect to some or all of the Mortgage Loans. Any such third party must be a Fannie Mae-approved master servicer and must be acceptable to the Rating Agencies. Notwithstanding that a third party master servicer is so engaged, Countrywide Servicing will remain responsible, and continue to remain liable, for the servicing of the Mortgage Loans in accordance with the terms of the Sale and Servicing Agreement.

Certain Fannie Mae Matters

We may not resign from our duties under the Trust Agreement unless a change in law requires it. Even then, our resignation would not become effective until a successor has assumed our duties under the Trust Agreement. In no event, however, would any successor take over our guaranty obligations with respect to the Senior Certificates. Even if our other duties under the Trust Agreement should terminate, we would still be obligated under that guaranty.

We are not liable under the Trust Agreement to the Trust or to Certificateholders for our 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 from liability if it results from willful misfeasance, bad faith or gross negligence or as a result of a willful disregard of duties.

The Trust Agreement also provides that we are free to refuse to initiate or participate 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 Agreement. On the other hand, we may decide to initiate legal actions if we think any such action would be in the interests of the Certificateholders. In this case, we will pay the legal expenses and costs associated with such action.

If we merge or consolidate with another corporation, the successor corporation will be our successor under the Trust Agreement.

Events of Default

Any of the following will be considered an “Event of Default” under the Trust Agreement:

- if we fail to pay Certificateholders of a class any required amount and our failure continues uncorrected for 15 days after Certificateholders owning at least 5% of that class have given us written notice;
- if we fail in a material way to fulfill any of our obligations under the Trust Agreement and our failure continues uncorrected for 60 days after Certificateholders owning at least 25% of any class have given us written notice; or
- if we become insolvent or unable to pay our debts or if other events of insolvency occur.

Rights upon Event of Default

If one of the Events of Default under the Trust Agreement has occurred and continues uncorrected, Certificateholders who own at least 25% of any class have the right to terminate, in writing, all of our obligations under the Trust Agreement. These obligations include our duties as trustee as well as in our corporate capacity. However, our guaranty obligations with respect to the Senior Certificates will continue in effect. The same proportion of Certificateholders also may appoint, in writing, a successor to assume all of our terminated obligations. This successor will take legal title to the Mortgage Loans and other assets of the Trust. Holders of Mezzanine Certificates and Subordinate Certificates will have no right to terminate our obligations and duties unless and until the Senior Certificates have been paid in full.

Amendment

We may amend the Trust Agreement, without notifying the Certificateholders or obtaining their consent, for any of the following purposes:

- to add to our duties;
- to evidence that another party has become our successor and has assumed our duties under the Trust Agreement as trustee or in our corporate capacity or both;
- to eliminate any of our rights in our corporate capacity under the Trust Agreement;

- to cure any ambiguity or correct or add to any provision in the Trust Agreement, so long as no Certificateholder is adversely affected; and
- to modify the Trust Agreement to maintain the legal status of the Trust as a REMIC.

If Certificateholders who own at least 66% of each class give their consent, we may amend the Trust Agreement to eliminate, change or add to its terms or to waive our compliance with any of those terms. Nevertheless, we may not terminate or change our guaranty obligations with respect to the Senior Certificates, or reduce the percentage of Certificateholders who must give their consent to the types of amendments listed in the previous sentence. In addition, unless each affected Certificateholder consents, no amendment may reduce or delay the funds that we must pay on any Certificate. Similarly, unless all affected Holders of Residual Certificates give their consent, no amendment may adversely affect their rights.

Voting Rights

Certain actions specified in the Trust Agreement that may be taken by holders of Certificates evidencing a specified percentage of all undivided interests in the Trust may be taken by holders of Certificates entitled in the aggregate to such percentage of voting rights. The percentage of the voting rights allocated among holders of the Interest Only Classes in the aggregate will be 1.5%; the percentage of the voting rights allocated among holders of all other Classes in the aggregate will be 98.5%. The voting rights allocated to each Class of Certificates will be allocated among all holders of each such Class in proportion to the outstanding Class balance of such Certificates.

Termination

The Trust will terminate when the last Mortgage Loan remaining in the Lower Tier REMIC has been paid off or liquidated, and the proceeds of that loan have been paid to Certificateholders. The Trust also will terminate if the Master Servicer exercises both of its optional clean-up calls. The purchase price for either such optional repurchase will equal the outstanding principal balance of each related Mortgage Loan that remains outstanding (plus accrued and unpaid interest at the Net Mortgage Rate).

Subject to certain conditions and limitations described in the Sale and Servicing Agreement, the Master Servicer may exercise the optional clean-up calls if the aggregate principal balance of the Fixed Rate Loans or ARM Loans is 5% or less of the aggregate principal balance of the Fixed Rate Loans or ARM Loans, respectively, as of the Issue Date.

If the Master Servicer exercises one or both of its optional clean-up calls, the Certificates related to each affected Loan Group will be retired. In no event, however, will the Trust continue beyond the expiration of 21 years from the death of the last survivor of the persons named in the Trust Agreement. We will notify each affected Certificateholder in writing of the termination of the Trust Agreement, and will make the final payment to each person entitled to it.

CERTAIN FEDERAL INCOME TAX CONSEQUENCES

The Certificates and payments on the Certificates are not generally exempt from 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 one of the following, or other, reasons:

- This discussion is based on 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 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 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.

The topics in this discussion are addressed in the order of the following captions:

- REMIC Election and Special Tax Attributes
- Taxation of Beneficial Owners of Regular Certificates
- Taxation of Beneficial Owners of the Residual Certificate
- Taxes on the Trust
- Reporting and Other Administrative Matters
- Backup Withholding
- Foreign Investors

REMIC Elections and Special Tax Attributes

We will elect to treat the Upper Tier REMIC, Middle Tier REMIC and Lower Tier REMIC as REMICs under the Code. Qualification as a REMIC requires ongoing compliance with certain conditions. Dewey Ballantine LLP, special tax counsel to Fannie Mae, will deliver its opinion to Fannie Mae that, assuming compliance with the Trust Agreement, the Upper Tier REMIC, Middle Tier REMIC and Lower Tier REMIC will be treated as REMICs for federal income tax purposes. The Senior, Mezzanine, and Subordinate Certificates (other than the A-R, RM and RL Classes) will be designated as the “regular interests” in the Upper Tier REMIC (each a “Regular Certificate” and, together, the “Regular Certificates”) and the A-R Class will be designated as the “residual interest” in the Upper Tier REMIC. The Middle Tier Regular Interests will be designated as the “regular interests,” and the RM Class will be designated as the “residual interest,” in the Middle Tier REMIC. The Lower Tier Regular Interests will be designated as the “regular interests,” and the RL Class will be designated as the “residual interest,” in the Lower Tier REMIC.

Because the Upper Tier REMIC, Middle Tier REMIC and Lower Tier REMIC will qualify as REMICs, the Regular and Residual Certificates will be “regular or residual interests in a REMIC” within the meaning of section 7701(a)(19)(C)(xi) of the Code and “real estate assets” within the meaning of section 856(c)(5)(B) of the Code. If at any time during a calendar year less than 95 percent of the assets of the Lower Tier REMIC consist of “qualified mortgages,” then the portion of the Regular and Residual Certificates that are qualifying assets under those sections during the calendar year may be limited to the portion of the assets of the Lower Tier REMIC that are “qualified mortgages.” Similarly, income on the Regular and Residual Certificates will be treated as “interest on obligations secured by mortgages on real property” within the meaning of section 856(c)(3)(B) of the Code, subject to the same limitation as set forth in the preceding sentence. In general, a Mortgage Loan will be a “qualified mortgage” if the Mortgage Loan is “principally secured by an interest in real property” within the meaning of section 860G(a)(3) of the Code. The assets of the Lower Tier

REMIC will include, in addition to the Mortgage Loans, payments on the Mortgage Loans held pending distribution on the Regular and Residual Certificates and any reinvestment income thereon.

Regular and Residual Certificates held by a financial institution (as referred to in section 582(c)(2) of the Code) will be treated as evidences of indebtedness for purposes of section 582(c)(1) of the Code. Regular Certificates will also be “qualified mortgages” within the meaning of section 860G(a)(3) of the Code with respect to other REMICs and “permitted assets” within the meaning of section 860L(c)(1) of the Code with respect to financial asset securitization investment trusts.

Taxation of Beneficial Owners of Regular Certificates

For federal income tax purposes, the Regular Certificates will be treated as debt instruments issued by a REMIC on the date the Certificates are first sold to the public (the “Settlement Date”) and not as ownership interests in the Upper Tier REMIC or its assets. Interest, original issue discount and market discount with respect to a Regular Certificate will represent ordinary income to the beneficial owner of the Certificate (a “Regular Owner”). A Regular Owner must report interest on a Regular Certificate using an accrual method of accounting, regardless of whether it otherwise reports income using a cash method of accounting. Rules regarding original issue discount and market discount are discussed below.

In addition, each beneficial owner of a Non-Senior Certificate will be required to accrue interest and original issue discount (as discussed below) with respect to that Certificate without giving effect to any reductions in payments attributable to defaults or delinquencies on the Mortgage Loans until it can be established that any such reduction ultimately will not be recoverable. As a result, the amount of taxable income reported in any period by an owner of a Non-Senior Certificate could exceed the amount of economic income actually realized by the owner in such period. Although the owner of a Non-Senior Certificate eventually will recognize a Realized Loss or a reduction in income attributable to defaults on Mortgage Loans, the law is unclear with respect to the timing and character of such Realized Loss or reduction in income. Beneficial owners of Non-Senior Certificates should consult their own tax advisors concerning the treatment of such Realized Losses or reductions in income in their specific circumstances.

Treatment of Original Issue Discount

The Interest Only Classes will be, and certain other Classes may be, issued with “original issue discount” (“OID”) within the meaning of section 1273(a) of the Code. A Regular Owner must include in gross income the sum of the “daily portions” of OID on its Regular Certificate for each day during its taxable year on which it held the Certificate, generally in advance of receipt of the cash attributable to that income. We will supply to Holders, brokers and middlemen information with respect to the original issue discount accruing on the Regular Certificates. We will supply this information at the time and in the manner required by the Internal Revenue Service (the “IRS”).

Definition of Original Issue Discount

In general, a Regular Certificate will be considered to be issued with OID equal to the excess, if any, of its “stated redemption price at maturity” over its “issue price.” The issue price of a Regular Certificate is the initial offering price to the public (excluding bond houses and brokers) at which a substantial amount of the Regular Certificates was sold. The issue price also includes any accrued interest attributable to the period before the Settlement Date. The stated redemption price at maturity of a Regular Certificate generally is its stated principal amount, plus an amount equal to the excess (if any) of the interest payable on the first Distribution Date over the interest that accrues for the period from the Settlement Date to the first Distribution Date. The stated redemption price at

maturity of a Regular Certificate of a Notional class, however, is equal to the sum of all distributions to be made under that Regular Certificate.

Notwithstanding the general definition, OID on a Regular Certificate will be treated as zero if the discount is less than 0.25 percent of the stated redemption price at maturity of the Certificate multiplied by its weighted average life. The weighted average life of a Regular Certificate is apparently computed for this purpose as the sum, for all distributions included in the stated redemption price at maturity of the Certificate, of the amounts determined by multiplying (i) the number of complete years (rounding down for partial years) from the Settlement Date until the date on which each such distribution is expected to be made under the assumption that the mortgage loans backing the related underlying securities prepay at a specified rate by (ii) a fraction, the numerator of which is the amount of such distribution and the denominator of which is the Regular Certificate's stated redemption price at maturity. If OID is treated as zero under this rule, the actual amount of OID must be allocated to the principal distributions on the Regular Certificate and, when each principal distribution is received, gain equal to the discount allocated to that distribution will be recognized. The prepayment assumption applicable to the Mortgage Loans is 15% of CPR. See "Description of the Senior and Mezzanine Certificates—Structuring Assumptions—Prepayment Assumption" in this prospectus.

Daily Portions of Original Issue Discount

For Regular Certificates considered to be issued with OID, the daily portions of OID will be determined as follows. A calculation will first be made of the portion of OID that accrued during each "accrual period." OID accruing during any accrual period will then be allocated ratably to each day during the period to determine the daily portion of OID.

Final regulations issued by the Treasury Department relating to the tax treatment of debt instruments with OID (the "OID Regulations") provide that for purposes of measuring the accrual of OID on a debt instrument, a holder of the debt instrument may use an accrual period of any length, up to one year, as long as each distribution of principal or interest occurs on either the final day or the first day of an accrual period. We will report OID based on accrual periods of one month, beginning on a Distribution Date and ending on the day before the next Distribution Date.

The portion of OID treated as accruing for any accrual period will equal the excess, if any, of

- (i) the sum of (A) the present values of all the distributions remaining to be made on the Regular Certificate, if any, as of the end of the accrual period and (B) the distribution made on the Certificate during the accrual period of amounts included in the stated redemption price at maturity, over
- (ii) the adjusted issue price of the Certificate at the beginning of the accrual period.

The present value of the remaining distributions will be calculated based on the following:

- the yield to maturity of the Regular Certificate, calculated as of the Settlement Date, giving effect to the applicable prepayment assumption,
- events (including actual prepayments) that have occurred prior to the end of the accrual period, and
- the prepayment assumption.

The adjusted issue price of a Regular Certificate at any time will equal the issue price of the Certificate, increased by the aggregate amount of previously accrued OID with respect to the Certificate, and reduced by the amount of any distributions made on the Certificate as of that time of amounts included in the stated redemption price at maturity.

The Code requires that the prepayment assumption be determined in the manner prescribed in Treasury regulations. To date, no such regulations have been promulgated. The legislative history of

this Code provision indicates that the regulations will provide that the assumed prepayment rate must be the rate used by the parties in pricing the particular transaction. Fannie Mae believes that the prepayment assumption described above is consistent with this standard. Fannie Mae makes no representation, however, that the Mortgage Loans will prepay at the rate reflected in the prepayment assumption described above or at any other rate. Each investor must make its own decision as to the appropriate prepayment assumption to be used in deciding whether or not to purchase any of the Certificates. See “Description of the Senior and Mezzanine Certificates—Maturity Considerations and Last Scheduled Distribution Date” and “—Decrement Tables” in this prospectus.

Subsequent Holders’ Treatment of Original Issue Discount

If a Regular Certificate is issued with OID and a subsequent holder purchases the Certificate at a cost of less than its remaining stated redemption price at maturity, that holder also will be required to include in income the daily portion of OID with respect to the Certificate for each day it holds the Certificate. If the cost of the Certificate to the subsequent holder exceeds the adjusted issue price of the Certificate, however, the holder can reduce the daily accruals by an amount equal to the product of (i) the daily portion and (ii) a constant fraction. The numerator of the constant fraction is the excess of the purchase price over the adjusted issue price of the Certificate, and the denominator is the sum of the daily portions of OID on the Certificate for all days on or after the day of purchase.

Regular Certificates Purchased at a Premium

If a Regular Owner purchases a Certificate for an amount (net of accrued interest) greater than its remaining stated redemption price at maturity, the Owner will have premium with respect to the Certificate (a “Premium Certificate”) in the amount of the excess. Such a purchaser need not include in income any remaining OID and may elect, under section 171(c)(2) of the Code, to treat the premium as “amortizable bond premium.”

If a Regular Owner makes this election, the amount of any interest payment that must be included in the Regular Owner’s income for each period ending on a Distribution Date will be reduced by the portion of the premium allocable to the period based on the Premium Certificate’s yield to maturity. In addition, the legislative history of the Tax Reform Act of 1986 states that premium should be amortized under principles analogous to those governing the accrual of market discount (as discussed below under “—Regular Certificates Purchased with Market Discount”). The election will also apply to all bonds (as well as all REMIC regular interests) the interest on which is not excludible from gross income (“fully taxable bonds”) held by the Regular Owner at the beginning of the first taxable year to which the election applies and to all fully taxable bonds thereafter acquired by it. A Regular Owner may revoke the election only with the consent of the IRS.

If the election is not made, (i) a Regular Owner must include the full amount of each interest payment in income as it accrues, and (ii) the premium must be allocated to the principal distributions on the Premium Certificate and, when each principal distribution is received, a loss equal to the premium allocated to the distribution will be recognized. Any tax benefit from the premium not previously recognized will be taken into account in computing gain or loss upon the sale or disposition of the Premium Certificate.

Regular Certificates Purchased with Market Discount

A Regular Owner that purchases a Regular Certificate at a price that is less than the remaining stated redemption price at maturity of the Certificate (or in the case of a Regular Certificate issued with OID, less than the adjusted issue price of the Certificate) has market discount with respect to the Certificate in the amount of the difference. In general, three consequences arise if a Regular Owner acquires a Regular Certificate with market discount. First, the Regular Owner must treat any principal payment with respect to a Regular Certificate acquired with market discount as ordinary income to the extent of the market discount that accrued while the Regular Owner held the Certificate. Second,

the Regular 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 Regular Certificates.” Third, a Regular Owner that incurs or continues indebtedness to acquire a Regular 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 Regular 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 Regular Owner makes this election, the Regular Owner must also apply the election to all debt instruments the Regular Owner acquires on or after the beginning of the first taxable year to which the election applies. A Regular Owner may revoke the election only with the consent of the IRS.

The legislative history to the Tax Reform Act of 1986 states that market discount on a Regular Certificate may be treated as accruing in proportion to remaining accruals of OID, if any, or, if none, in proportion to remaining distributions of interest on a Regular Certificate. A beneficial owner may instead elect to determine the accrual of market discount under a constant yield method. We will make available to Holders information necessary to compute the accrual of market discount, in the manner and form as required by the IRS.

Notwithstanding the above rules, market discount on a Regular Certificate will be considered to be zero if the discount is less than 0.25 percent of the remaining stated redemption price at maturity of the Certificate multiplied by its weighted average remaining life. Weighted average remaining life presumably would be calculated in a manner similar to weighted average life, taking into account payments (including prepayments) prior to the date of acquisition of the Regular Certificate by the subsequent purchaser. If market discount on a Regular Certificate is treated as zero under this rule, the actual amount of market discount must be allocated to the remaining principal distributions on the Regular Certificate and, when each principal distribution is received, gain equal to the discount allocated to that distribution will be recognized.

Special Election

For any Regular Certificate acquired on or after April 4, 1994, the OID Regulations permit a Regular Owner to elect to include in gross income all “interest” that accrues on the Regular Certificate by using a constant yield method. For purposes of the election, the term “interest” includes stated interest, acquisition discount, OID, *de minimis* OID, market discount, *de minimis* market discount and unstated interest, as adjusted by any amortizable bond premium or acquisition premium. You should consult your own tax advisor regarding the time and manner of making and the scope of the election and the implementation of the constant yield method.

Sales and Other Dispositions of Regular Certificates

Upon the sale, exchange, retirement or other disposition of a Regular 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. In addition, the Code requires the recognition of gain upon the “constructive sale of an appreciated financial position.” In general, a constructive sale of an appreciated financial position occurs if a taxpayer enters into certain transactions or series of transactions with respect to a financial instrument that have the effect of substantially eliminating the taxpayer’s risk of loss and opportunity for gain with respect to the financial instrument. These provisions only apply to Certificates of a Notional class.

The adjusted basis of a Regular Certificate generally will equal the cost of the Certificate to the beneficial owner, increased by any OID or market discount included in the beneficial owner’s gross income with respect to the Certificate and reduced by distributions previously received by the beneficial owner of amounts included in the Certificate’s stated redemption price at maturity and by any premium that has reduced the beneficial owner’s interest income with respect to the Certificate.

The gain or loss, if any, will be capital gain or loss, provided the Certificate is held as a “capital asset” (generally, property held for investment) within the meaning of section 1221 of the Code and none of the following apply. First, gain that might otherwise be capital gain will be treated as ordinary income to the extent that the gain does not exceed the excess, if any, of (i) the amount that would have been includible in the income of the Regular Owner had income accrued at a rate equal to 110 percent of the “applicable Federal rate” (generally, an average of current yields on Treasury securities) as of the date of purchase over (ii) the amount actually includible in the Regular Owner’s income. Second, gain recognized by a Regular Owner who purchased a Regular Certificate at a market discount will be taxable as ordinary income in an amount not exceeding the portion of the market discount that accrued during the period the Certificate was held by the Regular Owner, reduced by any market discount includible in income under the rules described above under “—Regular Certificates Purchased with Market Discount.” Third, any gain or loss resulting from a sale or exchange described in section 582(c) of the Code (which generally applies to banks) will be taxable as ordinary income or loss.

Termination

In general, no special tax consequences will apply to a Regular Owner upon the termination of the Trust by virtue of the final payment or liquidation of the last Mortgage Loan remaining in the Trust.

Taxation of Beneficial Owners of a Residual Certificate

Daily Portions

Except as indicated below, a beneficial owner of a Residual Certificate (a “Residual Owner”) generally will be required to report its daily portion of the taxable income or net loss of the related REMIC for each day during a calendar quarter that the Residual Owner owns the Residual Certificate. For this purpose, the daily portion is determined by allocating to each day in the calendar quarter its ratable portion of the taxable income or net loss of the related REMIC for the quarter and then allocating that amount among the Residual Owners in accordance with their percentage interests on that day. Daily portions of income or loss allocated to a Residual Owner will be treated as ordinary income or loss. A Residual Owner must continue to report its daily portion of the taxable income or net loss of the related REMIC until no Certificates of any class are outstanding, even though the Residual Owner may have received full payment of any stated interest and principal on the Residual Certificate.

Taxable Income or Net Loss of the REMICs

The taxable income or net loss of the Upper Tier REMIC, Middle Tier REMIC and Lower Tier REMIC will be the income from the “qualified mortgages” it holds and any reinvestment earnings less deductions allowed to the related REMIC. In general, a Mortgage Loan will be a “qualified mortgage” if the Mortgage Loan is “principally secured by an interest in real property” within the meaning of section 860G(a)(3) of the Code.

The taxable income or net loss for a given calendar quarter will be determined in the same manner as for an individual having the calendar year as the taxable year and using the accrual method of accounting, with the following modifications and limitations:

- For the Upper Tier REMIC, a deduction will be allowed for accruals of interest (including any OID, but without regard to the investment interest limitation in section 163(d) of the Code) on the Regular Certificates (but not the Residual Certificate).
- Market discount equal to any excess of the total Stated Principal Balances of the qualified mortgages over the related REMIC’s basis in these mortgages generally will be included in

income by the related REMIC as it accrues under a constant yield method, taking into account the prepayment assumption described above.

- If the related REMIC is treated as having acquired qualified mortgages at a premium, the premium also will be amortized using a constant yield method.
- No item of income, gain, loss or deduction allocable to a prohibited transaction (see “—*Taxes on the REMICs*—Prohibited Transactions” below) will be taken into account.
- The REMICs generally may not deduct any item that would not be allowed in calculating the taxable income of a partnership by virtue of section 703(a)(2) of the Code.
- The limitation on miscellaneous itemized deductions imposed on individuals by section 67 of the Code will not be applied at the REMIC level to any administrative fees, such as servicing and guaranty fees. (See, however, “—Pass-Through of Servicing and Guaranty Fees to Individuals” below.)
- No deduction is allowed for any expenses incurred in connection with the formation of the REMIC and the issuance of the Regular and Residual Certificates.
- Any gain or loss to the REMIC from the disposition of any asset, including a qualified mortgage or “permitted investment” as defined in section 860G(a)(5) of the Code, will be treated as ordinary gain or loss.

The Upper Tier REMIC’s basis in its assets is the aggregate of the issue prices of all the Regular and Residual Certificates in the Upper Tier REMIC on the Settlement Date. If, however, the amount sold to the public of any class of Regular or Residual Certificates is not substantial, then the fair market value of all the Regular or Residual Certificates in that class as of the date of this prospectus should be substituted for the issue price. If the deductions allowed to a REMIC exceed its gross income for a calendar quarter, the excess will be a net loss for the REMIC for that calendar quarter.

A Residual Owner may be required to recognize taxable income without being entitled to receive a corresponding amount of cash. Taxable income of the Upper Tier REMIC may be greater in earlier years because interest expense deductions, expressed as a percentage of the outstanding principal amount of the Regular Certificates, may increase over time as the earlier classes of Regular Certificates are paid, whereas interest income from each Mortgage Loan, expressed as a percentage of the outstanding principal amount of that Mortgage Loan, may remain constant over time.

Basis Rules and Distributions

A Residual Owner has an initial basis in the Residual Certificate equal to the amount paid for the Residual Certificate. The basis is increased by amounts included in the income of the Residual Owner and decreased by distributions and by any net loss taken into account with respect to the Residual Certificate. A distribution on the Residual Certificate to a Residual Owner is not included in gross income to the extent it does not exceed the Residual Owner’s basis in the Residual Certificate (adjusted as described above) and, to the extent it exceeds the adjusted basis of the Residual Certificate, is treated as gain from the sale of the Residual Certificate.

A Residual Owner is not allowed to take into account any net loss for a calendar quarter to the extent the net loss exceeds the Residual Owner’s adjusted basis in the Residual Certificate for the related REMIC as of the close of that calendar quarter (determined without regard to that net loss). Any loss disallowed by reason of this limitation may be carried forward indefinitely to future calendar quarters and, subject to the same limitation, may be used only to offset income from the Residual Certificate.

Treatment of Excess Inclusions

Any excess inclusions with respect to the Residual Certificate are subject to certain special tax rules. With respect to a Residual Owner, the excess inclusion for any calendar quarter is defined as the excess (if any) of the daily portions of taxable income over the sum of the “daily accruals” for each day during the quarter that the Residual Certificate was held by the Residual Owner. (The determination of daily accruals is discussed below.) The Treasury Department has the authority to issue regulations that would treat all taxable income of a REMIC as excess inclusions if the Residual Certificate does not have “significant value.” The Treasury Department has not yet exercised this authority, but may do so in the future.

Any excess inclusions cannot be offset by losses from other activities. For Residual Owners that are subject to tax only on unrelated business taxable income (as defined in section 511 of the Code), an excess inclusion of the Residual Owner is treated as unrelated business taxable income. With respect to variable contracts (within the meaning of section 817 of the Code), a life insurance company cannot adjust its reserve to the extent of any excess inclusion, except as provided in regulations. If a Residual Owner is a member of an affiliated group filing a consolidated income tax return, the taxable income of the affiliated group cannot be less than the sum of the excess inclusions attributable to all residual interests in REMICs held by members of the affiliated group. For purposes of the alternative minimum tax, taxable income does not include excess inclusions, the alternative minimum taxable income cannot be less than excess inclusions, and excess inclusions are disregarded in computing the alternative tax net operating loss deduction. For a discussion of the effect of excess inclusions on certain foreign investors that own the Residual Certificate, see “—*Foreign Investors*—Residual Certificate” below.

If the Residual Certificate is held by a real estate investment trust, the aggregate excess inclusions with respect to the Residual Certificate reduced (but not below zero) by the real estate investment trust taxable income (within the meaning of section 857(b)(2) of the Code, excluding any net capital gain) would, under regulations yet to be prescribed, be allocated among the shareholders of the trust in proportion to the dividends received by the shareholders from the trust, and any amount so allocated would be treated as an excess inclusion with respect to the Residual Certificate as if held directly by the shareholder. Similar rules would apply in the case of regulated investment companies, common trust funds and certain cooperatives that hold the Residual Certificate.

Determination of Daily Accruals

The daily accruals are determined by allocating to each day during a calendar quarter its ratable portion of the product of the “adjusted issue price” of a Residual Certificate at the beginning of the calendar quarter and 6.44% (which is 120% of the “Federal long-term rate” in effect on the Settlement Date), based on quarterly compounding and properly adjusted for the length of the quarter. The Federal long-term rate is a blend of current yields on Treasury securities having a maturity of more than nine years computed and published monthly by the IRS.

The adjusted issue price of the Residual Certificate as of the beginning of any calendar quarter is equal to the issue price of the Residual Certificate, increased by the amount of daily accruals for all prior quarters and decreased by any distributions made with respect to the Residual Certificate before the beginning of the quarter. The issue price of the Residual Certificate generally is the initial offering price to the public (excluding bond houses and brokers) of the Residual Certificate.

Pass-Through of Servicing and Guaranty Fees to Individuals

A Residual Owner who is an individual will be required to include in income a share of the administrative fees of the related REMIC, including the servicing and guaranty fees imposed at the level of the Mortgage Loans. See, for example, “Description of Certificates—Servicing Through Lenders” and “Certain Federal Income Tax Consequences” in our MBS prospectus. A deduction for such fees generally will be allowed to such a Residual Owner only to the extent that such fees, along

with certain of the Residual Owner's other miscellaneous itemized deductions, exceed 2 percent of the Residual Owner's adjusted gross income. In addition, such a Residual Owner may not be able to deduct any portion of such fees in computing the Residual Owner's alternative minimum tax liability. A Residual Owner's share of such fees generally will be determined by (i) allocating the amount of such expenses for each calendar quarter on a *pro rata* basis to each day in the calendar quarter, and (ii) allocating the daily amount among the Residual Owners in proportion to their respective holdings on that day. Similar rules apply in the case of (i) estates and trusts, and (ii) individuals owning an interest in the Residual Certificate through an investment in a "pass-through entity." Pass-through entities include partnerships, S corporations, grantor trusts and non-publicly offered regulated investment companies, but do not include estates, trusts other than grantor trusts, cooperatives, real estate investment trusts and publicly offered regulated investment companies.

Sales and Other Dispositions of a Residual Certificate

Upon the sale, exchange or other disposition of a Residual Certificate, the Residual Owner generally will recognize gain or loss equal to the difference between the amount realized upon the disposition and the Residual Owner's adjusted basis in the Certificate. The adjusted basis of the Residual Certificate is determined as described above under "—Basis Rules and Distributions." Except as provided in section 582(c) of the Code, the gain or loss, if any, will be capital gain or loss, provided the Certificate is held as a capital asset.

If a Residual Owner sells or otherwise disposes of the Residual Certificate at a loss, the loss will not be recognized if, within six months before or after the sale or other disposition of the Residual Certificate, the Residual Owner purchases another residual interest in any REMIC or any interest in a taxable mortgage pool (as defined in section 7701(i) of the Code) comparable to a residual interest in a REMIC. The disallowed loss would be allowed upon the sale or other disposition of the other residual interest (or comparable interest) if the rule referred to in the preceding sentence does not apply to that sale or other disposition. While this rule may be modified by Treasury regulations, no such regulations have yet been published.

Residual Certificate Transferred to or Held by Disqualified Organizations

Section 860E(e) of the Code imposes a substantial tax, payable by the transferor (or, if a transfer is through a broker, nominee, or other middleman as the transferee's agent, payable by that agent) upon any transfer of the Residual Certificate to a "disqualified organization." A transfer includes any transfer of record or beneficial ownership, whether pursuant to a purchase, a default under a secured lending agreement or otherwise. The term "disqualified organization" is defined above under "Description of the Senior and Mezzanine Certificates—Special Characteristics of the A-R, RM and RL Classes." A transferor of the Residual Certificate (or an agent of a transferee of the Residual Certificate, as the case may be) will be relieved of this tax liability if (i) the transferee furnishes to the transferor (or the transferee's agent) an affidavit that the transferee is not a disqualified organization, and (ii) the transferor (or the transferee's agent) does not have actual knowledge that the affidavit is false at the time of the transfer.

In addition, a tax may be imposed upon a pass-through entity (including a regulated investment company, real estate investment trust, common trust fund, partnership, trust, estate and nominee and certain cooperatives) that owns the Residual Certificate if the pass-through entity has a disqualified organization as a record holder. For this purpose, all interests in an electing large partnership are treated as held by disqualified organizations. No such tax will be imposed on a pass-through entity for a period with respect to an interest therein owned by a disqualified organization if (i) the record holder of the interest furnishes to the pass-through entity an affidavit that it is not a disqualified organization, (ii) during that period, the pass-through entity has no actual knowledge that the affidavit is false and (iii) the entity is not an electing large partnership.

Other Transfers of a Residual Certificate

A transfer of a Residual Certificate that has tax avoidance potential is disregarded for federal income tax purposes if the transferee is not a U.S. Person (a “Non-U.S. Person”), unless the transferee’s income from the Certificate is otherwise subject to U.S. income tax. A transfer of the Residual Certificate has tax avoidance potential unless, at the time of the transfer, the transferor reasonably expects that, for each excess inclusion, the Trust will pay to the transferee an amount that will equal at least 30 percent of the excess inclusion, and that each amount will be paid at or after the time at which the excess inclusion accrues and not later than the close of the calendar year following the calendar year of accrual. Certain transfers by a Non-U.S. Person to a U.S. Person or another Non-U.S. Person are also disregarded if the transfer has the effect of allowing the transferor to avoid tax on accrued excess inclusions. See “Description of the Senior and Mezzanine Certificates—Special Characteristics of the A-R, RM and RL Classes” for a discussion of additional provisions applicable to transfers of the Residual Certificate.

Amounts Paid to a Transferee of a Residual Certificate

The federal income tax consequences of any consideration paid to a transferee on the transfer of a Residual Certificate are unclear. You should consult your own tax advisor regarding the tax consequences of receiving such consideration.

Termination

Although the matter is not entirely free from doubt, it appears that a Residual Owner will be entitled to a loss if:

- the related REMIC terminates by virtue of the final payment or liquidation of the last Mortgage Loan remaining in the related REMIC and
- the Residual Owner’s adjusted basis in the Residual Certificate at the time the termination occurs exceeds the amount of cash distributed to the Residual Owner in liquidation of its interest.

The amount of the loss will equal the amount by which the Residual Owner’s adjusted basis exceeds the amount of cash distributed to the Residual Owner in liquidation of its interest.

Taxes on the REMICs

The REMICs will not be subject to federal income tax except with respect to income from prohibited transactions and in certain other instances described below. It is not anticipated that the REMICs will engage in any transactions that will give rise to a tax on the REMICs. If in certain circumstances a tax is imposed on the REMICs, distributions on the Mezzanine or Subordinate Certificates may be reduced by the amount of such tax. Pursuant to its guaranty obligations with respect to the Senior Certificates, however, Fannie Mae will make distributions on the Senior Certificates without offset or deduction for any tax imposed on the REMICs.

Prohibited Transactions

The Code imposes a tax on a REMIC equal to 100 percent of the net income derived from “prohibited transactions.” In general, the term “prohibited transaction” means the disposition of a qualified mortgage other than pursuant to certain specified exceptions, the receipt of investment income from a source other than a qualified mortgage or certain other permitted investments, the receipt of compensation for services, or the disposition of a “cash flow investment” as defined in Section 860G(a)(6) of the Code.

Contributions to a REMIC after the Startup Day

The Code imposes a tax on a REMIC equal to 100 percent of the value of any property contributed to the REMIC after the “startup day” (generally the same as the Settlement Date). Exceptions are provided for cash contributions to a REMIC if made (i) during the three-month period beginning on the startup day, (ii) to a qualified reserve fund by a holder of a residual interest, (iii) in the nature of a guarantee, or (iv) to facilitate a qualified liquidation or clean-up call.

Net Income from Foreclosure Property

The Code imposes a tax on a REMIC equal to the highest corporate rate on “net income from foreclosure property.” The terms “foreclosure property” (which includes property acquired by deed in lieu of foreclosure) and “net income from foreclosure property” are defined by reference to the rules applicable to real estate investment trusts. Generally, foreclosure property would be treated as such until the close of the third taxable year following the taxable year in which the acquisition occurs, with possible extensions. Net income from foreclosure property generally means gain from the sale of foreclosure property that is inventory property and gross income from foreclosure property other than qualifying rents and other qualifying income for a real estate investment trust, net of deductions directly connected with the production of such income.

Reporting and Other Administrative Matters

For purposes of the administrative provisions of the Code, the REMICs will be treated as a partnership and the Residual Owners will be treated as partners in the related REMIC. We will prepare, sign and file federal income tax returns for the REMICs, which returns are subject to audit by the IRS. We do not intend to register the REMICs as tax shelters pursuant to section 6111 of the Code. We will also act as the tax matters partner for the REMICs, either as a beneficial owner of a Residual Certificate or as a fiduciary for a Residual Owner. Each Residual Owner, by the acceptance of a Residual Certificate, agrees that we will act as its fiduciary in the performance of any duties required of it in the event that it is the tax matters partner.

Within a reasonable time after the end of each calendar year, we will furnish to each Holder that received a distribution during that year a statement setting forth the portions of any distributions that constitute interest distributions, OID and any other information as is required by Treasury regulations and, with respect to Holders of a Residual Certificate, information necessary to compute the daily portions of the taxable income (or net loss) of the related REMIC for each day during that year.

If there is more than one Residual Owner for a taxable year, each Residual Owner is required to treat items on its return consistently with the treatment on the return of the related REMIC, unless the Residual Owner either files a statement identifying the inconsistency or establishes that the inconsistency resulted from incorrect information received from the REMIC. The IRS may assert a deficiency resulting from a failure to comply with the consistency requirement without instituting an administrative proceeding at the Trust level.

Backup Withholding

Distributions of interest and principal, as well as distributions of proceeds from the sale of Regular and Residual Certificates, may be subject to the “backup withholding tax” under section 3406 of the Code if recipients of the distributions fail to furnish to the payor certain information, including their taxpayer identification numbers, or otherwise fail to establish an exemption from this tax. Any amounts deducted and withheld from a distribution to a recipient would be allowed as a credit against the recipient’s federal income tax. Certain penalties may be imposed by the IRS on a recipient of distributions required to supply information who does not do so in the proper manner.

Foreign Investors

Regular Certificates

Distributions made on a Regular Certificate to, or on behalf of, a Regular Owner that is a Non-U.S. Person generally will be exempt from U.S. federal income and withholding taxes, provided (a) the Regular Owner is not subject to U.S. tax as a result of a connection to the United States other than ownership of the Certificate, (b) the Regular Owner signs a statement under penalties of perjury that certifies that the Regular Owner is a Non-U.S. Person, and provides the name and address of the Regular Owner, and (c) the last U.S. Person in the chain of payment to the Regular Owner receives the statement from the Regular Owner or a financial institution holding on its behalf and does not have actual knowledge that the statement is false. You should be aware that the IRS might take the position that this exemption does not apply to a Regular Owner that also owns 10 percent or more of the Residual Certificates or of the voting stock of Fannie Mae, or to a Regular Owner that is a “controlled foreign corporation” described in section 881(c)(3)(C) of the Code.

Residual Certificate

Amounts paid to a Residual Owner that is a Non-U.S. Person generally will be treated as interest for purposes of applying the 30 percent (or lower treaty rate) withholding tax on income that is not effectively connected with a U.S. trade or business. Amounts not constituting excess inclusions that are paid on the Residual Certificate to a Non-U.S. Person generally will be exempt from U.S. federal income and withholding taxes, subject to the same conditions applicable to distributions on Regular Certificates, as described above, but only to the extent that the Mortgage Loans held by the Trust were originated after July 18, 1984. In no case will any portion of REMIC income that constitutes an excess inclusion be entitled to any exemption from the withholding tax or a reduced treaty rate for withholding. See “—*Taxation of Beneficial Owners of the Residual Certificate*—Treatment of Excess Inclusions.”

LEGAL INVESTMENT CONSIDERATIONS

General

Investors should consult their own legal advisors to determine whether and to what extent the Senior and Mezzanine Certificates constitute legal investments or are subject to restrictions on investment, and whether and to what extent the Senior and Mezzanine Certificates can be used as collateral for various types of borrowings.

Senior Certificates

If you are an institution whose investment activities are subject to legal investment laws and regulations or to review by certain regulatory authorities, you may be subject to restrictions on investment in certain classes of the Senior Certificates. If you are a financial institution that is subject to the jurisdiction of the Comptroller of the Currency, the Board of Governors of the Federal Reserve System, the Federal Deposit Insurance Corporation, the Office of Thrift Supervision, the National Credit Union Administration, the Department of the Treasury or other federal or state agencies with similar authority, you should review the rules, guidelines and regulations that apply to you prior to purchasing or pledging any Senior Certificates. In addition, if you are a financial institution, you should consult your regulators concerning the risk-based capital treatment of any Senior Certificate.

Mezzanine Certificates

There are significant interpretive uncertainties regarding the characterization of the Mezzanine Certificates under various legal investment restrictions. Accordingly, we cannot determine whether investors that are subject to these restrictions are able to purchase Mezzanine Certificates.

We make no representations regarding:

- the characterization of the Mezzanine Certificates for legal investment or other purposes,
- whether particular investors can purchase the Mezzanine Certificates under any applicable legal investment restrictions, or
- the regulatory capital requirements that apply to the Mezzanine Certificates.

These uncertainties may impair the liquidity of the Mezzanine Certificates. Accordingly, all institutions whose investment activities are subject to legal investment laws and regulations, regulatory capital requirements or review by regulatory authorities should consult with their own legal advisors in determining whether and to what extent the Mezzanine Certificates constitute legal investments or are subject to investment, capital or other restrictions. See “Ratings” below.

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 and the Trust Agreement.

ERISA CONSIDERATIONS

General

The Employee Retirement Income Security Act of 1974, as amended (“ERISA”), and the Code impose certain 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 certain entities in which the benefit plans or arrangements that are subject to ERISA and the Code invest. We refer to these plans, arrangements and entities as “Plans.” Any person who is a fiduciary of a Plan is also subject to the requirements imposed by ERISA and the Code. Before a Plan invests in Mezzanine Certificates, the Plan fiduciary must consider whether the governing instruments for the Plan would permit the investment, whether the Mezzanine Certificates would be a prudent and appropriate investment for the Plan under its investment policy and whether such an investment might result in a prohibited transaction under ERISA or the Code for which no exemption is available.

On November 13, 1986, the U.S. Department of Labor issued a final 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 mortgages 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 section 4975 of the Code in providing services with respect to the mortgages in the pool. At the time the regulation was originally issued, certificates similar to the Senior Certificates did not exist. However, we have been advised by our counsel, Sidley Austin Brown & Wood LLP, that the Senior Certificates qualify under the definition of “guaranteed governmental mortgage pool certificates” and, as a result, the purchase and holding of Senior 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 requirements of ERISA and the Code.

Mezzanine Certificates

Under current law, the purchase and holding of Mezzanine Certificates by or on behalf of any Plan may result in a prohibited transaction under ERISA and the Code and, further, may cause the assets of the Trust to be treated as assets of the Plan, so that transactions involving assets of the Trust also would be subject to the fiduciary responsibility provisions of ERISA and the prohibited transaction provisions of the Code. Prohibited Transaction Class Exemption 83-1 (“PTCE 83-1”) provides an exemption for certain transactions involving the creation, maintenance and termination of certain residential mortgage pools and the acquisition and holding of certain residential mortgage pool pass-through certificates by Plans, whether or not such transactions would otherwise be prohibited under ERISA and the Code. However, because the Mezzanine Certificates evidence interests to which Realized Losses are allocated prior to any such allocation to the Senior Certificates, the Mezzanine Certificates would be considered subordinated certificates for purposes of PTCE 83-1, and would not be entitled to exemption under PTCE 83-1.

Because the acquisition and disposition of Mezzanine Certificates do not qualify for the foregoing exemption (or any similar exemption that might be available), the Trust Agreement provides that no transfer of a Mezzanine Certificate or any interest in a Mezzanine Certificate will be made to

- any Plan, or
- any person who is directly or indirectly purchasing a Mezzanine Certificate or an interest in a Mezzanine Certificate on behalf of, as named fiduciary of, as trustee of, or with assets of, a Plan (including any insurance company using funds in its general or separate account that may constitute “plan assets”),

unless the Trustee and the transfer agent are provided with a certification of facts or an opinion of counsel which establishes to the satisfaction of each that the transfer will not result in a violation of Section 406 of ERISA or Section 4975 of the Code or cause the Trustee, the transfer agent or the Master Servicer to have duties in addition to those specified in the Agreements.

In the absence of its having received the certification of facts or opinion of counsel contemplated by the preceding paragraph, the Trustee and the transfer agent shall require the prospective transferee of any Mezzanine Certificate to certify that

- it is not a Plan and
- it is not a person who is directly or indirectly purchasing the Mezzanine Certificate on behalf of, as named fiduciary of, as trustee of, or with assets of a Plan (including any insurance company using funds in its general or separate account that may constitute “plan assets”).

Such representation described above shall be deemed to have been made to the Trustee by the transferee’s acceptance of an interest in a Mezzanine Class. In the event that such representation is violated, or any attempt to transfer to a Plan or person acting on behalf of a Plan or using such Plan’s assets is attempted without such opinion of counsel, such attempted transfer or acquisition shall be void and of no effect.

Any Plan fiduciary that proposes to cause a Plan to purchase a Mezzanine Certificate should consult with its counsel regarding the applicability of the fiduciary responsibility and prohibited transaction provisions (with respect to the Subordinate Certificates) of ERISA and the Code.

PLAN OF DISTRIBUTION

Pursuant to the Sale and Servicing Agreement, we will acquire the Mortgage Loans from the Seller in exchange for the Certificates. The Seller has retained Countrywide Securities Corporation and Nomura Securities International, Inc. (the “Dealers”), which propose to offer the Senior and Mezzanine Certificates directly to the public from time to time in negotiated transactions at varying prices to be determined at the time of sale. The Dealers may effect these transactions to or through other dealers.

RATINGS

We will not issue the Certificates unless Standard & Poor’s, a division of The McGraw Hill Companies, Inc. (“S&P”) and Moody’s Investors Service, Inc. (together with S&P, the “Rating Agencies”) assign the ratings specified in the following table:

| <u>Class</u> | <u>S&P Rating</u> | <u>Moody’s Rating*</u> |
|--------------|-----------------------|----------------------------|
| M | AA | Aa2 |
| B-1 | A | A2 |
| B-2 | BBB | Baa2 |
| 3M | AA | — |
| 3B-1 | A | — |
| 3B-2 | BBB | — |

* Moody’s has not assigned ratings to the 3M, 3B-1 and 3B-2 Classes.

The ratings that the Rating Agencies assign to mortgage pass-through certificates reflect the likelihood that certificateholders will receive all distributions to which they are entitled under the transaction. The Rating Agencies analyze the riskiness of the mortgage loans and the structure of the transaction as described in the operative documents. The ratings do not address how prepayments or recoveries on the underlying mortgage loans may affect the yields on the certificates. In particular, the ratings do not address the possibility that principal prepayments may cause certificateholders to receive a lower yield than they expect.

You should evaluate the ratings assigned to the applicable Mezzanine Classes independently of similar ratings on other types of securities. A security rating is not a recommendation to buy, sell or hold securities. The Rating Agencies may revise or withdraw their ratings at any time.

We have not requested ratings of the Mezzanine Classes by any rating agency other than the Rating Agency or Agencies indicated above. We cannot assure you that any other rating agency will rate the Mezzanine Classes or, if it does, what ratings it would assign. If another rating agency rates the Mezzanine Classes, it could assign them lower ratings than the ratings assigned by the Rating Agency or Rating Agencies indicated above.

LEGAL MATTERS

Fannie Mae will be represented by Sidley Austin Brown & Wood LLP and, with respect to federal tax matters, by Dewey Ballantine LLP. Stroock & Stroock & Lavan LLP also will provide legal representation for the Dealers.

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Exhibit A

The tables below summarize certain characteristics of the Mortgage Loans in the Initial Mortgage Pool as of the Issue Date. The information in the tables is presented in aggregated form, on the basis of the characteristics specified in the tables, and does not reflect actual or assumed characteristics of any individual Mortgage Loan. The information in the tables does not give effect to prepayments received on the Mortgage Loans on or after the Issue Date.

Certain Assumed Characteristics of the Fixed Rate Loans
(as of March 1, 2002)

| Loan Category | Issue Date Unpaid Principal Balance | Weighted Average Net Mortgage Rate | Weighted Average Mortgage Rate | Weighted Average Remaining Term to Maturity (in Months) (“WARM”) | Weighted Average Loan Age (in Months) (“WALA”) | Weighted Average Original Term (in Months) |
|---------------|-------------------------------------|------------------------------------|--------------------------------|--|--|--|
| 1 | \$151,209,550 | 6.649% | 7.220% | 300 | 53 | 354 |
| 2 | 44,731,133 | 7.308 | 7.766 | 291 | 63 | 355 |
| 2 | 344,360,378 | 8.227 | 8.669 | 296 | 60 | 356 |

Certain Assumed Characteristics of the ARM Loans
(as of March 1, 2002)

| Issue Date Unpaid Principal Balance | Weighted Average Net Mortgage Rate | Weighted Average Mortgage Rate | Weighted Average Loan Age (in Months) (“WALA”) | Weighted Average Remaining Term to Maturity (in Months) (“WARM”) | Weighted Average Interest Rate Margin | Weighted Average Mortgage Interest Rate Life Cap | Weighted Average Next Interest Adjustment Date (in Months) |
|-------------------------------------|------------------------------------|--------------------------------|--|--|---------------------------------------|--|--|
| \$19,652,909 | 6.661% | 7.263% | 81 | 279 | 2.437% | 11.456% | 1 |
| 22,221,748 | 6.442 | 7.038 | 70 | 290 | 2.455 | 11.500 | 4 |
| 24,103,259 | 6.960 | 7.560 | 81 | 279 | 2.433 | 11.615 | 7 |
| 22,031,361 | 6.725 | 7.322 | 78 | 282 | 2.433 | 11.576 | 10 |

No one is authorized to give any information or to make any representation in connection with this offering other than those contained in this prospectus, the related Senior Supplement or any other Disclosure Document referred to in this prospectus. You must not rely on any unauthorized information or representation. This prospectus, the related Senior Supplement and any other Disclosure Document referred to in this prospectus do not constitute an offer or solicitation with regard to any securities other than the certificates or an offer or solicitation with regard to the certificates if it is illegal to make such an offer or solicitation to you under state law. By delivering this prospectus and the other Disclosure Documents at any time, no one implies that the information contained in this prospectus or the other Disclosure Documents is correct after the date of this prospectus or the applicable other Disclosure Document.

The Securities and Exchange Commission has not approved or disapproved the certificates or determined if this prospectus is truthful and complete. Any representation to the contrary is a criminal offense.

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\$609,108,100
(Approximate)



**Guaranteed REMIC
Pass-Through Certificates
REMIC Trust 2002-W1**

SENIOR SUPPLEMENT



NOMURA

February 26, 2002