

\$206,840,140 (Approximate)



**Guaranteed REMIC Pass-Through Certificates  
Fannie Mae REMIC Trust 2003-W7**

Carefully consider the risk factors beginning on page 7 of this prospectus. Unless you understand and are able to tolerate these risks, you should not invest in the certificates.

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

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 ("Fannie Mae"), will issue and guaranty the certificates listed in the chart on this page. The certificates will represent beneficial ownership interests in the trust assets.

**Payments to Certificateholders**

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

- interest accrued as described in this prospectus, and
- principal to the extent available for payment.

**The Fannie Mae Guaranty**

We will guarantee that all required installments of principal and interest described in this prospectus are paid to investors on time and that any outstanding principal balance of each class of certificates is paid on the final distribution date.

**The Trust and Its Assets**

The trust will own a group of fixed rate, conventional, fully amortizing and balloon payment mortgage loans secured by second liens on one- to four-family residential properties as described in this prospectus.

Class	Original Class Balance (1)	Principal Type	Interest Rate	Interest Type	CUSIP Number	Final Distribution Date
A1	\$ 98,697,140	SEQ	(2)	FLT/AFC	31393BSB2	March 2033
A2	9,466,000	SEQ	2.450%	FIX	31393BSC0	March 2033
A3	49,900,000	SEQ	3.107	FIX	31393BSD8	March 2033
A4	16,550,000	SEQ	4.060	FIX	31393BSE6	March 2033
A5	11,543,000	SEQ	5.072 (3)	FIX/AFC	31393BSF3	March 2033
A6	20,684,000	SEQ/NAS	4.280 (3)	FIX/AFC	31393BSG1	March 2033
AIO	206,840,140 (4)	NTL	(5)	WAC/IO	31393BSH9	March 2033
R	0	NPR	0	NPR	31393BSJ5	March 2033
RL	0	NPR	0	NPR	31393BSK2	March 2033

(1) May vary by plus or minus 5%.

(2) The A1 Class will bear interest during the initial interest accrual period at a per annum rate of approximately 1.370%. During each subsequent interest accrual period, the A1 Class will bear interest as described in this prospectus.

(3) During each interest accrual period on or prior to the optional termination date, this class will bear interest at the fixed rate specified above, subject to the limitations described in this prospectus. During each subsequent interest accrual period, this class will bear interest at the fixed rate specified above plus 0.50%, calculated and subject to the limitations as described in this prospectus.

(4) Notional balance. This class is an interest only class. During the initial interest accrual period, this class will bear interest at a per annum rate of approximately 5.30970%.

(5) During each interest accrual period, this class will be entitled to receive interest in variable amounts calculated as described in this prospectus.

The dealer will offer the certificates from time to time in negotiated transactions at varying prices. We expect the settlement date to be April 30, 2003.

**LEHMAN BROTHERS**

April 10, 2003

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## AVAILABLE INFORMATION

You should purchase the certificates only if you have read and understood this prospectus and any Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q and Current Reports on Form 8-K that we file with the SEC during the period specified in the final paragraph of this page (the “Additional Disclosure Documents”).

The Additional Disclosure Documents contain important financial and other information about Fannie Mae which we are incorporating by reference in this prospectus. This means that we are disclosing important information to you by referring to the Additional Disclosure Documents, so you should read it together with this prospectus. You can obtain the Additional Disclosure Documents by writing or calling us at:

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

This prospectus and the Additional Disclosure Documents, together with the class factors, are available on our corporate web site located at [www.fanniemae.com](http://www.fanniemae.com) and our business to business web site at [www.efanniemae.com](http://www.efanniemae.com).

You can also obtain copies of this prospectus and the Additional Disclosure Documents by calling or writing Lehman Brothers Inc. (the “Dealer”) at:

Lehman Brothers Inc.  
c/o ADP Financial Services  
Prospectus Department  
1155 Long Island Avenue  
Edgewood, New York 11717  
(telephone 631-254-7106)

In the first quarter of 2003, we began filing periodic reports with the SEC under the Exchange Act. These filings will include Form 10-K’s, Form 10-Q’s and Form 8-K’s. Our SEC filings are available at the SEC’s website at [www.sec.gov](http://www.sec.gov). You may also read and copy any document we file with the SEC by visiting the SEC’s Public Reference Room at 450 Fifth Street, NW, Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information about the operation of the Public Reference Room. We are providing the address of the SEC’s Internet site solely for the information of prospective investors. We do not intend the Internet address to be an active link.

Information contained in any Form 10-K, Form 10-Q and Form 8-K that we file with the SEC prior to the termination of the offering of the certificates is hereby incorporated by reference in this prospectus. In cases where we “furnish” to the SEC on Form 8-K, as provided under the Exchange Act, that information is not incorporated by reference in this prospectus.

## 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 the certificates only after reading this prospectus in its entirety and the Additional Disclosure Documents referred to on page 4.**

### General

- The certificates will represent ownership interests in Fannie Mae REMIC Trust 2003-W7.
- All of the Mortgage Loans are second lien, one- to four-family, fixed-rate, fully amortizing and balloon payment mortgage loans.
- Approximately 1.47% of the mortgage loans provide for the payment of prepayment premiums as described in this prospectus. All of the prepayment premiums will have been waived by written notice to the borrowers prior to the settlement date.

### Mortgage Loans

For information about the nature of the mortgage loans in the trust, see “The Mortgage Loans” in this prospectus. In addition, see Exhibit A hereto for a list of certain assumed mortgage loan characteristics.

### 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 distributions in the same month). We publish the class factors on or shortly after the 11th day of each month.

### Settlement Date

We expect to issue the certificates on April 30, 2003.

### Distribution Dates

We will make payments on the certificates on the 25th day of each calendar month, or the next business day if the 25th day is not a business day, commencing in May 2003.

### Book-Entry Certificates

We will issue the book-entry certificates through the U.S. Federal Reserve Banks, 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>Fed Book-Entry</u>	<u>Physical</u>
All Classes other than the R and RL Classes	R and RL Classes

### Interest Payments

During each interest accrual period, the certificates will bear interest at the applicable interest rates described in this prospectus.

## Notional Class

The AIO Class is a notional class. A notional class will not receive any principal. The notional principal balance of a notional class is the balance used to calculate interest. See “*Descriptions of the Certificates—Interest Payments—Notional Class*” and “*—Yield Tables—The AIO Class*” in this prospectus.

The notional principal balance will equal the percentage of the outstanding balance specified below immediately before the related distribution date:

### Class

AIO ..... 100% of the Mortgage Loans

## Principal Payments

On each Distribution Date, we will pay the Principal Distribution Amount in the following priority:

1. To the A6 Class, the amount specified in this prospectus supplement under “Description of the Certificates—Principal Payments—*Principal Distribution Amount*.”
2. To the A1, A2, A3, A4, A5 and A6 Classes, in that order, to zero.

For a description of the Principal Distribution Amount, see “Description of the Certificates—Principal Payments—*Principal Distribution Amount*.”

## Guaranty

We guarantee that we will pay to the holders of certificates (i) all required installments of principal and interest on the certificates as described in this prospectus are paid on time and (ii) the remaining principal balance of each class of certificates no later than the distribution date in March 2033.

## Weighted Average Lives (years) to Maturity\*

<u>Classes</u>	<u>Prepayment Assumption</u>				
	<u>PPA: 0%</u>	<u>PPA: 75%</u>	<u>PPA: 150%</u>	<u>PPA: 225%</u>	<u>PPA: 300%</u>
A5 .....	27.5	15.7	9.6	3.8	2.4
A6 .....	11.9	7.4	6.1	5.4	3.7
AIO .....	13.8	5.3	2.8	1.8	1.2

## Weighted Average Lives (years) to Call\*\*

<u>Classes</u>	<u>Prepayment Assumption</u>				
	<u>PPA: 0%</u>	<u>PPA: 75%</u>	<u>PPA: 150%</u>	<u>PPA: 225%</u>	<u>PPA: 300%</u>
A1 .....	10.9	1.8	0.9	0.6	0.4
A2 .....	14.5	4.1	2.0	1.3	0.9
A3 .....	14.8	6.8	3.0	1.9	1.3
A4 .....	21.0	12.6	5.0	2.8	1.9
A5 .....	25.7	14.5	7.7	3.8	2.4
A6 .....	11.9	7.4	6.0	4.5	3.2
AIO .....	13.7	5.2	2.7	1.7	1.2

\* Determined as specified under “Description of the Certificates—Weighted Average Lives of the Certificates” in this prospectus. Assumes that neither the optional clean-up call nor the Fannie Mae repurchase option is exercised.

\*\* Determined as specified under “Description of the Certificates—Weighted Average Lives of the Certificates” in this prospectus. Assumes that the optional clean-up call is exercised at the earliest possible date.

## RISK FACTORS

We describe below some of the risks associated with an investment in the certificates. Because each investor has different investment needs and a different risk tolerance, you should consult your own financial and legal advisors to determine whether the certificates are a suitable investment for you.

### Suitability

*The certificates may not be a suitable investment.* The certificates are not a suitable investment for every investor.

- Before investing, you should have sufficient knowledge and experience to evaluate the merits and risks of the certificates and the information contained in this prospectus.
- You should thoroughly understand the terms of the certificates.
- 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.

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 your purchase of the certificates is a legal investment for you or is subject to any investment restrictions.

### Yield Considerations

*A variety of factors 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 mortgage loans;

- if and when the mortgage loans are liquidated due to borrower defaults, casualties or condemnations affecting the properties securing those loans;
- if and when mortgage loans are repurchased;
- if and when the optional clean-up call is exercised; and
- the actual characteristics of the mortgage loans.

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

- if you buy your certificates at a premium or buy interest only certificates 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 occur at a rapid rate.

In addition, in the case of the interest only class or other certificates purchased at a premium, if a disproportionately high rate of prepayments occurs on the related mortgage loans with relatively higher interest rates, the yields on those certificates will decrease and may be lower than you expect.

Even if the mortgage loans are prepaid at a rate that on average is consistent with your expectations, variations in the prepayment rate over time could significantly affect your yield. Generally, the earlier the payment of principal, the greater the effect on the yield to maturity. As a result, if the rate of principal prepayment during any period is faster or slower than you expect, a corresponding reduction or increase in the prepayment rate during a later period may

not fully offset the impact of the earlier prepayment rate on your yield.

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

**You must make your own decision as to the assumptions, including the principal prepayment assumptions, you will use in deciding whether to purchase the certificates.**

*Unpredictable timing of last payment affects yield on certificates.* The actual final payment on the certificates may occur earlier, and could occur much earlier, than the final distribution date listed on the cover of this prospectus. If you assumed the actual final payment would occur on the final distribution date, your yield could be lower than you expect.

*Delay classes have lower yields and market values.* Because the certificates other than the A1 and AIO Classes do not receive interest immediately following each interest accrual period, those classes have lower yields and lower market values than they would if there were no such delay.

#### **Additional Risk Factors Relating to the A1, A5 and A6 Classes**

*Application of net WAC cap to the A1, A5 and A6 Classes may adversely affect their yields.* The interest rates on the A1, A5 and A6 Classes are subject to an interest rate cap based on the net WAC of the mortgage loans. Because the A1 Class bears a floating interest rate based on one-month LIBOR while the mortgage loans bear fixed rates of interest, the A1 Class will be especially sensitive to the interest rate cap. **Any such deficiencies will not be covered by Fannie Mae's guaranty.**

#### **Prepayment Considerations and Risks**

*The rate of principal payments on the certificates depends on the rate of principal payments on the related mortgage loans.* The rate of principal payments on the certificates generally will depend on the rate of principal pay-

ments on the mortgage loans. Principal payments on the mortgage loans may occur as a result of scheduled amortization, balloon payments or prepayments.

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 contain “due-on-sale” clauses which generally provide that the lender can require repayment in full if the borrower sells the property that secures the mortgage loan; however, the enforceability of such “due-on-sale” clauses may be limited by applicable law. In this way, property sales by borrowers can affect the rate of prepayment.

Second lien loans are generally not viewed by borrowers as permanent financing because in most instances their terms are shorter and interest rates higher than on first lien loans originated under similar circumstances. In addition, because the principal balances of second lien mortgage loans are typically smaller, prepayment of such loans may be easier for borrowers to fund. As a result, the mortgage loans may prepay at a higher rate than first lien loans with similar coupons.

In general, prepayment rates may be influenced by:

- the level of current interest rates relative to the rates borne by the mortgage loans,
- homeowner mobility,
- existence of any prepayment premiums,
- the general creditworthiness of borrowers,
- borrower sophistication regarding the benefits of refinancing,
- solicitation by competing lenders,
- repurchases of mortgage loans, and
- general economic conditions.

Because so many factors affect the prepayment rate of a pool of mortgage loans, we cannot

estimate the prepayment experience of the mortgage loans.

*Exercise of any optional clean-up call will have the same effect on the certificates as borrower prepayments of loans.* The servicer may purchase all the remaining mortgage loans once the aggregate principal balance of the mortgage loans is reduced to 5% or less of its original level. Any such purchase by the servicer would have the same effect as a prepayment in full of the remaining mortgage loans.

*We could withdraw some mortgage loans from the pool due to a breach of representations and warranties, accelerating the rate at which you receive your return of principal.* The seller made representations and warranties about the seller and the loans. If these representations and warranties were not true when they were made, we can require the seller to repurchase the affected loans at any time. The affected loans could be all of the loans in the pool or only a portion of the pool. When a loan is repurchased, its stated principal balance is passed through to certificateholders on the distribution date in the month following the month of repurchase. Thus, a breach of a representation and warranty may accelerate the rate of repayment of principal on your certificates.

*Concentration of mortgaged properties in certain states could lead to increased delinquencies, with the same effect as borrower prepayments.* As of the issue date, approximately 56.11% and 9.95% of the mortgage loans are secured by mortgaged properties located in California and Colorado, respectively. If the residential real estate markets in either of those states should experience an overall decline in property values, the rates of related loan delinquencies probably will increase and may increase substantially.

*Purchases due to delinquency will have the same effect as borrower prepayments.* Because Fannie Mae guarantees the payment of principal on the certificates, a default by a borrower does not reduce the amount of principal that will be paid to certificateholders. If a mortgage loan becomes delinquent by four or more consecutive monthly payments, however, Fannie Mae has the option to purchase the loan out of the trust. Fannie Mae will pass through the stated principal balance of the repurchased loan

to certificateholders following the repurchase. Thus, a loan that is delinquent by four or more consecutive monthly payments can have essentially the same effect on the timing of certificate principal repayment as a borrower prepayment. Factors affecting the likelihood of a borrower default include:

- the general economic conditions;
- local, regional and national employment conditions;
- borrower creditworthiness;
- significant changes in the size of required loan payments;
- borrower death or a borrower's change in family status;
- uninsured natural disasters; and
- borrower bankruptcy or other insolvency.

*Second lien mortgage loans may be subject to higher rates of delinquency and repurchase than first lien mortgage loans.* Second lien mortgage loans generally have higher combined loan-to-value ratios and bear higher interest rates than comparable first lien mortgage loans. The combination of these factors may result in delinquency and foreclosure levels that are higher, and possibly substantially higher, than those associated with first lien mortgage loans. Accordingly, repurchases of mortgage loans due to delinquency may occur at a higher rate than would otherwise be the case, with the same effect on investors as prepayments in full of the related mortgage loans.

*Defaults on the First Lien Mortgage Loans May Result in Prepayments of Related Second Lien Mortgage Loans in the Trust.* Defaults, loan workout arrangements and foreclosures relating to the first lien mortgage loan on a mortgaged property that also secures a second lien mortgage loan held in the trust may result in a prepayment in full of the principal balance of the loan in the trust.

*Repurchases of mortgage loans that together with related first lien mortgage loans exceed Fannie Mae's loan limits will have the same effect on the certificates as loan prepayments.* If Fannie Mae acquires, services or guarantees a first lien mortgage loan relating to the same mortgaged property that secures any of the

mortgage loans conveyed to the trust and the combined original principal balance of the first and second lien mortgage loans exceeds Fannie Mae's then current conforming loan limits, the seller will be required to repurchase the affected mortgage loan held in the trust. As of the issue date, approximately 16.67% of the mortgage loans in the trust are secured by mortgaged properties as to which Fannie Mae owns, services or guarantees the related first lien mortgage loans and in none of these cases does the combined original principal balance exceed Fannie Mae's current conforming loan limits. However, with regard to the remaining mortgage loans in the trust we are unable to predict if or when any such repurchases will be required. Any such repurchase will have the same effect on certificateholders as a prepayment in full of the related mortgage loan in the trust.

### **Reinvestment Risk**

*You may have to reinvest principal payments at a rate of return lower than that on your certificates.* Generally, a borrower may prepay a mortgage loan at any time. As a result, we cannot predict the amount of principal payments on the certificates. The certificates may not be an appropriate investment for you if you require a specific amount of principal on a regular basis or on a specific date. Because interest rates fluctuate, you may not be able to reinvest the principal payments on the certificates at a rate of return that is as high as your rate of return on the certificates. You may have to reinvest those funds at a much lower rate of return. You should consider this risk in light of other investments that may be available to you.

### **Market and Liquidity Considerations**

*It may be difficult to resell your certificates and any resale may occur on adverse terms.* 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. Even if you are able to sell your certificates, the sale price may not be comparable to similar investments that have a developed market. Moreover, you may not be able to sell small or large amounts of certificates at prices comparable to those available to other investors.

A number of factors may affect the resale of certificates, including:

- the method, frequency and complexity of calculating principal and interest;
- the characteristics of the mortgage loans;
- past and expected prepayment levels of the mortgage loans and comparable mortgage loans;
- the outstanding principal amount of the certificates;
- the amount of certificates offered for resale from time to time;
- any legal restrictions or tax treatment limiting demand for the certificates;
- the availability of comparable securities;
- the level, direction and volatility of interest rates generally; and
- general economic conditions.

*Terrorist activities and accompanying military and political actions by the U.S. government could cause reductions in investor confidence and substantial market volatility in real estate and securities markets.* It is impossible to predict the extent to which terrorist activities may occur or, if they do occur, the extent of the effect on the certificates. Moreover, it is uncertain what effects any past or future terrorist activities and/or any consequent military and/or political actions on the part of the United States government and others will have on the United States and world financial markets; local, regional and national economies; real estate markets across the United States; or particular business segments, including those that are important to the performance by the borrowers on the mortgage loans. Among other things, reduced investor confidence could result in substantial volatility in securities markets and a decline in real estate-related investments. As a result, defaults on the mortgage loans could increase, causing early payments of principal to you and, regardless of the performance of the underlying mortgage loans, the liquidity and market value of the certificates may be impaired.

## **Fannie Mae Guaranty Considerations**

*Any failure of Fannie Mae to perform its guaranty obligations will adversely affect certificateholders.* If we were unable to perform our guaranty obligations, certificateholders would receive only borrower payments and other re-

coveries on the mortgage loans. If that happened, delinquencies and defaults on the mortgage loans could directly affect the amounts that certificateholders would receive each month.

## **GENERAL**

The material under this heading summarizes certain features of the Certificates and is not complete. You will find additional information about the Certificates in the other sections of this prospectus as well as in the Trust Agreement. 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 laws of the United States under the authority contained in Section 304(d) of the Federal National Mortgage Association Charter Act (12 U.S.C. § 1716 *et seq.*), will create the Fannie Mae REMIC Trust specified on the cover of this prospectus (the “Trust”) pursuant to a trust agreement (the “Trust Agreement”) dated as of April 1, 2003. We will execute the Trust Agreement in our corporate capacity and as trustee (the “Trustee”). We will issue the Guaranteed REMIC Pass-Through Certificates (the “Certificates” or “Classes”) pursuant to the Trust Agreement.

We will designate portions of the Trust (the “Upper Tier REMIC” and the “Lower Tier REMIC”) as “real estate mortgage investment conduits” (each, a “REMIC”) under the Internal Revenue Code of 1986, as amended (the “Code”). The assets of the Upper Tier REMIC will consist of the Lower Tier Regular Interests. The assets of the Lower Tier REMIC will consist of the Mortgage Loans.

- The Classes of Certificates other than the R and RL Classes will be the “regular interests” in the Upper Tier REMIC.
- The R Class will be the “residual interest” in the Upper 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.

*Characteristics of Certificates.* We will issue the Certificates (except the R and RL Classes) in book-entry form on the book-entry system of the U.S. Federal Reserve Banks (the “Fed Book-Entry Certificates”). Entities whose names appear in the book-entry records of a Federal Reserve Bank as having had Fed Book-Entry Certificates deposited in their accounts are “Holders” or “Certificateholders.” A Holder is not necessarily the beneficial owner of a Fed Book-Entry Certificate. Beneficial owners ordinarily will hold Fed Book-Entry Certificates through one or more financial intermediaries, such as banks, brokerage firms, and securities clearing organizations.

We will issue the R and RL Certificates in fully registered, certificated form. The “Holder” or “Certificateholder” of the R or RL Certificate is its registered owner. The R and RL Certificates 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. U.S. Bank National Association in Boston, Massachusetts (“US Bank”) will be the initial transfer agent. We may impose a service charge for any registration of transfer of the R or RL Certificate and may require payment to cover any tax or other governmental charge.

The Holder of the R Class will receive the proceeds of any remaining assets of the Upper 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. US Bank will be the initial paying agent.

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

*Fannie Mae Guaranty.* We guarantee that we will pay to the Holders of Certificates:

- required installments of principal and interest on the Certificates on time, and
- the principal balance of each Class of Certificates no later than the Distribution Date in March 2033, whether or not we have received sufficient payments.

If we were unable to perform these guaranty obligations, Certificateholders would receive only the amounts paid and other recoveries on the Mortgage Loans. If that happened, delinquencies and defaults on the Mortgage Loans would directly affect the amounts that the Certificateholders would receive each month. Our guaranty is not backed by the full faith and credit of the United States.

*Authorized Denominations.* We will issue the Certificates (except the R and RL Classes) in minimum denominations of \$1,000 and whole dollar increments above that amount. We will issue the R and RL Classes as single Certificates with no principal balance.

*Distribution Dates.* We will make monthly payments on the Certificates on the 25th day of each calendar month, or the next business day if the 25th is not a business day, commencing in May 2003. We refer to such date as a “Distribution Date.” We will make the first payments to Certificateholders in 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.* As soon as practicable following the eleventh calendar day of each month, class factors (carried to eight decimal places) will be available for each Class of Certificates upon request. 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 remaining principal balance (or notional principal balance) of that Certificate after giving effect to the distribution of principal to be made on the Distribution Date in the same month.

## THE MORTGAGE LOANS

### General

On the Settlement Date, it is expected that the Lower Tier REMIC will consist of approximately 4,732 mortgage loans (the “Mortgage Loans”) having an aggregate principal balance of approximately \$206,840,140 as of the Issue Date. This aggregate amount may vary by plus or minus 5%.

Fannie Mae, as purchaser and Lehman Brothers Holdings Inc., as seller and servicer (the “Seller” and “Servicer”), will enter into a sale and servicing agreement, dated as of the Issue Date (the “Sale and Servicing Agreement”).

The Mortgage Loans will have fixed interest rates and will be secured by second liens on the related Mortgaged Properties. The Mortgage Loans will either be fully amortizing Mortgage Loans or Balloon Mortgage Loans. A “Balloon Mortgage Loan” is a Mortgage Loan providing for amortization on the basis of an amortization schedule extending beyond its stated maturity with a disproportionate payment due on a stated maturity date equal to the remaining principal balance of the Mortgage Loan. See “Description of the Certificates—Maturity Considerations and Final Distribution Dates” in this prospectus.

Each Mortgage Loan is evidenced by a promissory note or similar evidence of indebtedness (a “Mortgage Note”) that is secured by a second lien 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.”

The original principal balance of each Mortgage Loan will not exceed our current conforming loan balance limitations established by our Charter and applicable to subordinate lien loans. No Mortgage Loan will have had a principal balance at origination of more than \$161,350 (\$242,025 if the Mortgaged Property is located in Alaska, Guam, Hawaii or the Virgin Islands). In addition, our charter provides that the aggregate original principal balance of all the mortgage loans we own, guaranty or are serviced by or for us that are secured by the same residence cannot exceed the amount of our first lien conforming loan limit for single-family one- to four-unit residences. If at anytime we acquire, service or guarantee a first lien mortgage loan relating to the same mortgaged property that secures any of the Mortgage Loans conveyed to the Trust and the combined original principal balance of the first and second lien mortgage loans exceeds our then current conforming loan limits, the affected Mortgage Loan will be repurchased from the Trust. As of the Issue Date, approximately 16.67% of the Mortgage Loans in the Trust are secured by Mortgaged Properties as to which we own, service or guarantee the related first lien mortgage loans and in none of these cases does the combined original principal balance exceed our current conforming loan limits. Any such repurchase will have the same effect on certificateholders as a prepayment in full of the related Mortgage Loan in the Trust. For a description of our conforming loan limits, see “*Fannie Mae Purchase Program.*”

Approximately 1.47% of the Mortgage Loans provide for payment by the mortgagor of a prepayment premium in limited circumstances on certain prepayments. Prior to the Settlement Date, the Servicer will have waived the prepayment premiums by written notice to the borrowers.

The sums of the numbers in the principal balance and percentage columns in the following tables may not equal the totals listed at the bottom of those columns due to rounding.

#### Loan Programs

<u>Loan Program</u>	<u>Number of Mortgage Loans</u>	<u>Aggregate Principal Balance Outstanding</u>	<u>Percent of Mortgage Loans</u>
Balloon 15 Year .....	2,605	\$119,629,882.68	57.84%
Fixed Rate 15 Year .....	847	30,152,425.81	14.58
Fixed Rate 20 Year .....	559	23,762,826.83	11.49
Fixed Rate 30 Year .....	721	33,295,005.21	16.10
Total .....	<u>4,732</u>	<u>\$206,840,140.53</u>	<u>100.00%</u>

#### Loan Type

<u>Loan Type</u>	<u>Number of Mortgage Loans</u>	<u>Aggregate Principal Balance Outstanding</u>	<u>Percent of Mortgage Loans</u>
Fixed .....	4,732	\$206,840,140.53	100.00%
Total .....	<u>4,732</u>	<u>\$206,840,140.53</u>	<u>100.00%</u>

### Current Mortgage Loan Principal Balances (1)

Current Mortgage Loan Principal Balances (\$)	Number of Mortgage Loans	Aggregate Principal Balance Outstanding	Percent of Mortgage Loans
0.01 - 25,000.00 .....	764	\$ 15,187,575.06	7.34%
25,000.01 - 50,000.00 .....	2,599	98,415,223.51	47.58
50,000.01 - 75,000.00 .....	1,120	68,856,078.82	33.29
75,000.01 - 100,000.00 .....	154	13,216,129.90	6.39
100,000.01 - 125,000.00 .....	67	7,409,717.58	3.58
125,000.01 - 150,000.00 .....	28	3,755,415.66	1.82
Total .....	<u>4,732</u>	<u>\$206,840,140.53</u>	<u>100.00%</u>

(1) As of the Issue Date, the average current principal balance for the Mortgage Loans is expected to be approximately \$43,711.

### Current Mortgage Interest Rates (1)

Current Mortgage Interest Rates (%)	Number of Mortgage Loans	Aggregate Principal Balance Outstanding	Percent of Mortgage Loans
6.001 - 6.500 .....	9	\$ 729,502.76	0.35%
6.501 - 7.000 .....	70	3,113,279.43	1.51
7.001 - 7.500 .....	244	11,047,861.86	5.34
7.501 - 8.000 .....	454	19,564,790.20	9.46
8.001 - 8.500 .....	422	17,556,657.13	8.49
8.501 - 9.000 .....	484	20,662,576.37	9.99
9.001 - 9.500 .....	471	21,422,562.82	10.36
9.501 - 10.000 .....	613	28,229,792.20	13.65
10.001 - 10.500 .....	657	29,441,844.45	14.23
10.501 - 11.000 .....	844	35,204,685.43	17.02
11.001 - 11.500 .....	248	11,068,782.45	5.35
11.501 - 12.000 .....	160	6,432,158.99	3.11
12.001 - 12.500 .....	28	1,201,288.14	0.58
12.501 - 13.000 .....	18	729,208.73	0.35
13.001 - 13.500 .....	1	24,722.26	0.01
13.501 - 14.000 .....	7	338,068.00	0.16
14.001 - 14.500 .....	2	72,359.31	0.03
Total .....	<u>4,732</u>	<u>\$206,840,140.53</u>	<u>100.00%</u>

(1) As of the Issue Date, the weighted average mortgage rate of the Mortgage Loans is expected to be approximately 9.563% per annum.

### Original Terms to Stated Maturity (1)

<u>Original Terms to Stated Maturity (months)</u>	<u>Number of Mortgage Loans</u>	<u>Aggregate Principal Balance Outstanding</u>	<u>Percent of Mortgage Loans</u>
61 - 120 .....	6	\$ 137,059.84	0.07%
121 - 180 .....	3,446	149,645,248.65	72.35
181 - 240 .....	559	23,762,826.83	11.49
241 - 300 .....	2	59,736.73	0.03
301 - 360 .....	719	33,235,268.48	16.07
Total .....	<u>4,732</u>	<u>\$206,840,140.53</u>	<u>100.00%</u>

(1) As of the Issue Date, the weighted average original term of the Mortgage Loans is expected to be approximately 216 months.

### Remaining Terms to Stated Maturity (1)

<u>Remaining Terms to Stated Maturity (months)</u>	<u>Number of Mortgage Loans</u>	<u>Aggregate Principal Balance Outstanding</u>	<u>Percent of Mortgage Loans</u>
109 - 120 .....	6	\$ 137,059.84	0.07%
157 - 168 .....	181	7,781,336.17	3.76
169 - 180 .....	3,265	141,863,912.48	68.59
217 - 228 .....	41	1,495,563.69	0.72
229 - 240 .....	518	22,267,263.14	10.77
289 - 300 .....	2	59,736.73	0.03
337 - 348 .....	23	1,113,177.50	0.54
349 - 360 .....	696	32,122,090.98	15.53
Total .....	<u>4,732</u>	<u>\$206,840,140.53</u>	<u>100.00%</u>

(1) As of the Issue Date, the weighted average remaining term of the Mortgage Loans is expected to be approximately 210 months.

### Original Combined Loan-to-Value Ratios (1) (2)

Original Combined Loan-to-Value Ratios (%)	Number of Mortgage Loans	Aggregate Principal Balance Outstanding	Percent of Mortgage Loans
5.001 - 10.000 .....	39	\$ 779,109.84	0.38%
10.001 - 15.000 .....	57	1,358,068.68	0.66
15.001 - 20.000 .....	324	10,775,362.55	5.21
20.001 - 25.000 .....	129	4,598,563.12	2.22
25.001 - 30.000 .....	475	20,467,647.26	9.90
30.001 - 35.000 .....	173	7,689,509.57	3.72
35.001 - 40.000 .....	1,552	74,337,316.46	35.94
40.001 - 45.000 .....	106	5,542,446.38	2.68
45.001 - 50.000 .....	103	4,945,019.32	2.39
50.001 - 55.000 .....	43	2,106,016.50	1.02
55.001 - 60.000 .....	41	2,414,422.27	1.17
60.001 - 65.000 .....	24	1,268,523.30	0.61
65.001 - 70.000 .....	15	823,301.56	0.40
70.001 - 75.000 .....	15	736,348.09	0.36
75.001 - 80.000 .....	24	1,018,391.43	0.49
80.001 - 85.000 .....	40	1,222,642.00	0.59
85.001 - 90.000 .....	135	4,399,275.05	2.13
90.001 - 95.000 .....	170	7,180,822.23	3.47
95.001 - 100.000 .....	1,267	55,177,354.92	26.68
Total .....	<u>4,732</u>	<u>\$206,840,140.53</u>	<u>100.00%</u>

(1) Includes combined loan-to-values ratios for second lien mortgage loans held in the trust and related first lien mortgage loans. The loan-to-value ratio of a first lien mortgage loan is equal to its principal balance at origination divided by the lesser of the appraised value of the related mortgage property at origination and, if applicable, the sales price at origination. The loan-to-value ratio of a second lien mortgage loan is equal to the sum of its principal balance at origination and the principal balance of the related first lien on that date divided by the lesser of the sales price at origination or the appraised value, as applicable.

(2) As of the Issue Date, the weighted average original combined loan-to-value ratio of the Mortgage Loans is expected to be approximately 57.073%.

### Documentation Program for Mortgage Loans

Type of Program	Number of Mortgage Loans	Aggregate Principal Balance Outstanding	Percent of Mortgage Loans
Stated Income .....	2,637	\$111,882,141.34	54.09%
Full Documentation .....	2,064	93,460,728.98	45.19
Limited Documentation .....	30	1,459,424.81	0.71
No Documentation .....	1	37,845.40	0.02
Total .....	<u>4,732</u>	<u>\$206,840,140.53</u>	<u>100.00%</u>

### Types of Mortgaged Properties

<u>Property Type</u>	<u>Number of Mortgage Loans</u>	<u>Aggregate Principal Balance Outstanding</u>	<u>Percent of Mortgage Loans</u>
Single Family .....	3,223	\$140,261,926.01	67.81%
PUD .....	924	42,081,368.48	20.34
Condo .....	492	19,775,088.88	9.56
2 Family .....	93	4,721,757.16	2.28
Total .....	<u>4,732</u>	<u>\$206,840,140.53</u>	<u>100.00%</u>

### Purpose of Mortgage Loans

<u>Loan Purpose</u>	<u>Number of Mortgage Loans</u>	<u>Aggregate Principal Balance Outstanding</u>	<u>Percent of Mortgage Loans</u>
Purchase .....	3,253	\$150,319,468.61	72.67%
Cash Out Refinance .....	1,127	43,436,220.18	21.00
Rate/Term Refinance .....	352	13,084,451.74	6.33
Total .....	<u>4,732</u>	<u>\$206,840,140.53</u>	<u>100.00%</u>

### Occupancy Types (1)

<u>Occupancy Type</u>	<u>Number of Mortgage Loans</u>	<u>Aggregate Principal Balance Outstanding</u>	<u>Percent of Mortgage Loans</u>
Primary .....	4,706	\$205,837,626.79	99.52%
Second Home .....	26	1,002,513.74	0.48
Total .....	<u>4,732</u>	<u>\$206,840,140.53</u>	<u>100.00%</u>

(1) Based upon representations of the related borrowers at the time of origination.

## Geographic Distribution of Mortgaged Properties

<u>State</u>	<u>Number of Mortgage Loans</u>	<u>Aggregate Principal Balance Outstanding</u>	<u>Percent of Mortgage Loans</u>
California .....	2,373	\$116,065,081.03	56.11%
Colorado .....	471	20,587,465.09	9.95
Washington .....	189	7,594,333.08	3.67
Texas .....	203	7,419,470.26	3.59
Arizona .....	171	6,755,354.89	3.27
Nevada .....	161	5,976,504.85	2.89
Maryland .....	135	5,533,477.03	2.68
Virginia .....	109	4,484,339.75	2.17
Florida .....	107	3,784,955.28	1.83
Oregon .....	73	2,608,602.15	1.26
New York .....	52	2,608,146.58	1.26
Utah .....	76	2,456,611.65	1.19
Wisconsin .....	80	2,224,379.27	1.08
Illinois .....	55	1,999,297.16	0.97
North Carolina .....	49	1,935,533.32	0.94
Pennsylvania .....	62	1,916,122.12	0.93
New Jersey .....	32	1,413,573.08	0.68
Missouri .....	35	1,136,560.28	0.55
Michigan .....	29	1,000,776.79	0.48
Massachusetts .....	17	845,349.45	0.41
Minnesota .....	22	747,814.65	0.36
Georgia .....	18	738,383.60	0.36
Ohio .....	20	720,937.93	0.35
Kansas .....	21	663,999.89	0.32
South Carolina .....	16	593,555.03	0.29
Connecticut .....	13	512,590.30	0.25
Oklahoma .....	15	485,313.68	0.23
Indiana .....	18	463,766.06	0.22
New Mexico .....	14	411,542.76	0.20
District of Columbia .....	5	382,233.89	0.18
Other .....	91	2,774,069.63	1.34
Total .....	<u>4,732</u>	<u>\$206,840,140.53</u>	<u>100.00%</u>

### Credit Score (1)

<u>Credit Score</u>	<u>Number of Mortgage Loans</u>	<u>Aggregate Principal Balance Outstanding</u>	<u>Percent of Mortgage Loans</u>
Not available .....	2	\$ 107,119.29	0.05%
641 – 660 .....	189	7,992,434.14	3.86
661 – 680 .....	386	17,284,161.88	8.36
681 – 700 .....	1,431	61,655,209.99	29.81
701 – 720 .....	957	41,673,527.10	20.15
721 – 750 .....	961	42,076,226.74	20.34
751 – 800 .....	780	34,917,623.82	16.88
801 – 850 .....	26	1,133,837.57	0.55
Total .....	<u>4,732</u>	<u>\$206,840,140.53</u>	<u>100.00%</u>

(1) As of the Issue Date, the weighted average credit score of the Mortgage Loans is expected to be approximately 714.

### Amortization Type of Mortgage Loans

<u>Amortization Type</u>	<u>Number of Mortgage Loans</u>	<u>Aggregate Principal Balance Outstanding</u>	<u>Percent of Mortgage Loans</u>
Balloon .....	2,605	\$119,629,882.68	57.84%
Fully Amortizing .....	2,127	87,210,257.85	42.16
Total .....	<u>4,732</u>	<u>\$206,840,140.53</u>	<u>100.00%</u>

### Lien Position for Mortgage Loans

<u>Lien Position</u>	<u>Number of Mortgage Loans</u>	<u>Aggregate Principal Balance Outstanding</u>	<u>Percent of Mortgage Loans</u>
2nd Lien .....	4,732	\$206,840,140.53	100.00%
Total .....	<u>4,732</u>	<u>\$206,840,140.53</u>	<u>100.00%</u>

### FANNIE MAE PURCHASE PROGRAM

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 Loans—General” above.

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

## **Selling and Servicing Guides**

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

### **Mortgage Loan Eligibility Standards—Conventional Loans**

#### ***Dollar Limitations***

The Charter Act requires that we establish maximum original principal balance dollar limitations for the conventional loans that we purchase. These limitations, which we refer to as our conforming loan limits, typically are adjusted annually. As of January 1, 2003, our conforming loan limit for conventional loans secured by first liens on residences containing one dwelling unit is \$322,700, except for mortgage loans secured by property in Alaska, Guam, Hawaii or the Virgin Islands where it is \$484,050. Our conforming loan limit as of January 1, 2003 for conventional loans secured by first liens on residences containing two dwelling units is \$413,100, three dwelling units is \$499,300 and four dwelling units is \$620,500, except for mortgage loans secured by property in Alaska, Guam, Hawaii or the Virgin Islands where for two dwelling units it is \$619,650, for three dwelling units it is \$748,950 and for four dwelling units it is \$930,750. Our conforming loan limit for mortgage loans secured by subordinate liens on single-family one- to four-unit residences is 50% of the amount for first lien loans secured by one unit residences, or, as of January 1, 2003, \$161,350, except in Alaska, Guam, Hawaii and the Virgin Islands, where it is \$242,025. In addition, the aggregate original principal balance of all the mortgage loans we own that are secured by the same residence cannot exceed the amount of our first lien conforming loan limit for single family one- to four-unit residences. Aside from the limits imposed under the Charter Act, we may, from time to time, impose maximum dollar limitations on specific types of mortgage loans that we purchase.

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

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

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

### **Underwriting Guidelines**

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

We review and change our underwriting guidelines, from time to time, including expanding our underwriting criteria in order to make home loans more accessible to borrowers who are members of groups that have been underserved by mortgage lenders, including low and moderate income families,

people with no prior credit history and those with less than perfect credit history, rural residents and people with special housing needs. In our discretion, we may grant waivers from our underwriting guidelines when we purchase any particular mortgage loan.

### **Seller and Servicer Eligibility**

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

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

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

### **Seller Representations and Warranties**

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

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

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

## DESCRIPTION OF THE CERTIFICATES

### Book-Entry Procedures

*General.* The Fed Book-Entry Certificates will be issued and maintained only on the book-entry system of the Federal Reserve Banks. The Fed Book-Entry Certificates may be held of record only by entities eligible to maintain book-entry accounts with the Federal Reserve Banks. Beneficial owners ordinarily will hold Fed Book-Entry Certificates through one or more financial intermediaries, such as banks, brokerage firms and securities clearing organizations. A Holder that is not the beneficial owner of a Fed Book-Entry Certificate, and each other financial intermediary in the chain to the beneficial owner, will have to establish and maintain accounts for their respective customers. A beneficial owner's rights with respect to us and the Federal Reserve Banks may be exercised only through the Holder of the related Fed Book-Entry Certificate. Neither we nor the Federal Reserve Banks will have any direct obligation to a beneficial owner of a Fed Book-Entry Certificate that is not the Holder of that Certificate. The Federal Reserve Banks will act only upon the instructions of the Holder in recording transfers of a Fed Book-Entry Certificate.

We have a fiscal agency agreement in effect with the Federal Reserve Bank of New York. Under this agreement, the regulations (found at 24 C.F.R. Part 81, Subpart E) that govern our use of the book-entry system and the pledging and transfer of interests apply to the Fed Book-Entry Certificates. These regulations may be modified, amended, supplemented, superseded, eliminated or otherwise altered without the consent of any Certificateholder. The Federal Reserve Banks' operating circulars and letters also apply. The Fed Book-Entry Certificates are freely transferable on the records of any Federal Reserve Bank but are not convertible to physical certificates. Fed Book-Entry Certificates maintained on the book-entry system of a Federal Reserve Bank can be separately traded and owned.

*Method of Payment.* Our fiscal agent for the Fed Book-Entry Certificates is the Federal Reserve Bank of New York. On each Distribution Date, the Federal Reserve Banks, acting on our behalf, will make payments on the Fed Book-Entry Certificates by crediting Holders' accounts at the Federal Reserve Banks.

### Interest Payments

#### *Categories of Classes*

For the purpose of interest payments, the Classes will be categorized as follows:

<u>Interest Type*</u>	<u>Classes</u>
Available Funds	A1, A5 and A6
Floating Rate	A1
Fixed Rate	A2, A3, A4, A5 and A6
Weighted Average Coupon	AIO
Interest Only	AIO
No Payment Residual	R and RL

\* See "—Class Definitions and Abbreviations" below.

*General.* We will pay interest on the Certificates at the applicable annual interest rates shown on the cover or in the applicable amounts described in this prospectus subject to the limitations specified below. We will calculate interest, in the case of the A1 Class, on the basis of an assumed 360-day year and the actual number of days elapsed in the applicable Interest Accrual Period and, in the case of the A2, A3, A4, A5, A6 and AIO Classes, on the basis of an assumed 360-day year consisting of twelve 30-day months. We will pay interest monthly on each Distribution Date, beginning in May 2003.

Subject to the limitations specified below, interest to be paid on each Certificate on a Distribution Date will consist of the interest accrued during the related Interest Accrual Period on the related

Certificate’s outstanding principal balance (or notional principal balance) immediately prior to that Distribution Date.

*Interest Accrual Periods.* Interest to be distributed on a Distribution Date will accrue on the Certificates during the applicable periods set forth below (each, an “Interest Accrual Period”).

<u>Classes</u>	<u>Interest Accrual Period</u>
The Classes other than the A1 and AIO Classes (collectively, the “Delay Classes”)	Calendar month preceding the month in which the Distribution Date occurs
The A1 Class	Period from and including the preceding Distribution Date to and including the day prior to the current Distribution Date (other than the initial Interest Accrual Period, which is the 27-day period beginning on April 30, 2003)
The AIO Classes	Period beginning on the 25th day of the month preceding the month in which the Distribution Date occurs and ending on the 24th day of the month in which the Distribution Date occurs

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

*Notional Class.* The AIO Class is a Notional Class and, accordingly, will not have a principal balance. During each Interest Accrual Period, the Notional Class will be entitled to receive interest on its notional principal balance in the amounts described under “—*The AIO Class*” below.

Although the Notional Class will not have a principal balance and will not be entitled to any principal payments, a class factor for that Class will be available upon request. References in this prospectus to the principal balances of the Certificates generally shall refer also to the notional principal balance of the Notional Class.

*The A1, A5 and A6 Classes.* On each Distribution Date, we will pay interest on the A1 Class in an amount equal to interest accrued during the related Interest Accrual Period at an annual rate of the lesser of (i) One-Month LIBOR (calculated as described below under “—*Calculation of One-Month LIBOR*”) plus 6 basis points and (ii) the Net WAC of the Mortgage Loans for the related Distribution Date.

On each Distribution Date, we will pay interest on each of the A5 and A6 Classes in an amount equal to interest accrued during the related Interest Accrual Period at the annual rate of:

- during each Interest Accrual Period on or prior to the Optional Termination Date, the lesser of (i) the rate set forth on the cover page of this prospectus supplement for each Class and (ii) the Net WAC of the Mortgage Loans for the related Distribution Date
- and
- during each Interest Accrual Period after the Optional Termination Date, the lesser of (i) the rate set forth on the cover page of this prospectus supplement for each Class plus 0.50% and (ii) the Net WAC of the Mortgage Loans for the related Distribution Date.

The “Net WAC” of the Mortgage Loans for any Distribution Date means the weighted average of the Net Mortgage Rates of the Mortgage Loans in effect on, and weighted on the basis of the principal balances of the Mortgage Loans as of the first day of the month immediately preceding the month in which that Distribution Date occurs (after giving effect to scheduled payments of principal due on or before that date). The “Net Mortgage Rate” of a Mortgage Loan for any date means the mortgage

interest rate for that loan in effect on that date *reduced* by the applicable Trust Expense Rate (defined herein) and adjusted, in the case of the A1 Class, to reflect the accrual of interest on an actual/360 basis. The weighted average Trust Expense Rate with respect to the Mortgage Loans for the initial Distribution Date is expected to be approximately 1.767%.

*The AIO Class.* On each Distribution Date, we will pay interest on the AIO Class in an amount equal to interest for the related Interest Accrual Period calculated at the Net WAC of the Mortgage Loans for that Distribution Date minus the weighted average interest rate of the A1, A2, A3, A4, A5 and A6 Classes (adjusted, with respect to the A1 Class, for the actual number of days elapsed in the applicable Interest Accrual Period).

### **Calculation of One-Month LIBOR**

*General.* The “Index Determination Date” for the A1 Class means the second business day before the first day of each Interest Accrual Period other than the initial Interest Accrual Period. One-Month LIBOR for the initial Interest Accrual Period will be 1.31% per annum. For purposes of calculating One-Month LIBOR, the term “business day” means a day on which banks are open for dealing in foreign currency and exchange in London and New York City.

We are responsible for calculating One-Month LIBOR on each Index Determination Date using the method described below. The Index value that we calculate on each Index Determination Date and the interest rate that we determine for the A1 Class for the related Interest Accrual Period will be final and binding, absent manifest error. You may obtain each such interest rate by telephoning us in Washington, D.C. at 800-237-8627 or 202-752-6547.

*Calculation Method.* We will calculate One-Month LIBOR on each Index Determination Date based on the Interest Settlement Rate of the British Bankers’ Association (“BBA”) for one-month U.S. dollar deposits. The “Interest Settlement Rate” is found on Moneyline Telerate Page 3750 as of 11:00 a.m. (London time) on that date. Currently, it is based on rates quoted by 16 BBA-designated banks as being, in their view, the offered rate at which these deposits are being quoted to prime banks in the London interbank market. The Interest Settlement Rate is calculated by eliminating the four highest rates and the four lowest rates, averaging the eight remaining rates, carrying the percentage result to six decimal places and rounding to five decimal places.

If we are unable to use the method described above, we will calculate One-Month LIBOR using the quotations for one-month U.S. dollar deposits offered by the principal London office of each of the Reference Banks (as defined below) as of 11:00 a.m. (London time) on each Index Determination Date. We may rely on these quotations as they appear on the Reuters Screen LIBO Page (as defined in the *International Swap Dealers Association, Inc. Code of Standard Wording, Assumptions and Provisions for Swaps*, 1986 Edition). Alternatively, we may obtain them directly from the Reference Banks.

Under this method, One-Month LIBOR is calculated on each Index Determination Date as follows:

- If at least two Reference Banks are making quotations, One-Month LIBOR for the next Interest Accrual Period shall be the arithmetic mean of those quotations (rounded upwards, if necessary, to the nearest  $\frac{1}{32}$  of 1%).
- Otherwise, One-Month LIBOR for the next Interest Accrual Period shall be the One-Month LIBOR that was determined on the previous Index Determination Date or the Reserve Interest Rate, whichever is higher.

The “Reserve Interest Rate” means the annual rate that we determine as the arithmetic mean (rounded upwards, if necessary, to the nearest  $\frac{1}{32}$  of 1%) of the one-month U.S. dollar lending rates that New York City banks (which we select) are then quoting to the principal London offices of at least two of the Reference Banks. If we cannot establish the arithmetic mean, then the Reserve

Interest Rate is the lowest one-month U.S. dollar lending rate that New York City banks (which we select) are then quoting to leading European banks. The term “Reference Bank” means a leading bank (that we do not control either solely or with a third party) which engages in Eurodollar deposit transactions in the international Eurocurrency market.

**Principal Payments**

*General.* 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 all amounts previously paid as principal on that Certificate.

*Categories of Classes*

For the purpose of payments of principal, the Classes will be categorized as follows:

<u>Principal Type*</u>	<u>Classes</u>
Sequential-Pay	A1, A2, A3, A4, A5 and A6
NAS	A6
Notional	AIO
No Payment Residual	R and RL

\* See “—Class Definitions and Abbreviations” below.

*Principal Distribution Amount*

We will pay principal on the Classes of Certificates on each Distribution Date in an amount (the “Principal Distribution Amount”) equal to the aggregate of the following principal amounts:

- the principal portion of any scheduled monthly payment on a Mortgage Loan, whether or not received, due during the related Due Period,
- the principal balance of any Mortgage Loan that was liquidated or prepaid in full during the related Due Period,
- the principal balance of any Mortgage Loan that has been repurchased during the related Due Period as described in “The Trust Agreement—Collection and Other Servicing Procedures”, and
- the amount of any partial prepayment of any Mortgage Loan received during the related Due Period.

On each Distribution Date, we will pay the Principal Distribution Amount in the following priority:

- (i) to the A6 Class an amount equal to the *lesser* of
    - the Principal Distribution Amount
    - and*
    - the *product* of
      - the Lockout Percentage (described below) for that Distribution Date *multiplied* by
      - the A6 Class Specified Percentage for that date *multiplied* by
      - Principal Distribution Amount
- } Sequential Pay / NAS Class
- (ii) sequentially, to the A1, A2, A3, A4, A5 and A6 Classes, in that order, until their principal balances are reduced to zero.
- } Sequential Pay Classes

The “A6 Class Specified Percentage” for any Distribution Date will be equal to

- the outstanding principal balance of the A6 Class on that Distribution Date (before taking into account payments made on that date)

*divided by*

- the aggregate outstanding principal balances on the A1, A2, A3, A4, A5 and A6 Classes on that Distribution Date (before taking into account payments made on that date);

*provided, however,* that the A6 Class Specified Percentage may never exceed 100%.

The “Lockout Percentage” for any Distribution Date during the periods specified below will be as follows:

<u>Distribution Date in</u>	<u>Lockout Percentage</u>
May 2003 through April 2006 .....	0%
May 2006 through April 2008 .....	45%
May 2008 through April 2009 .....	80%
May 2009 through April 2010 .....	100%
May 2010 and after .....	300%

The “Due Period” for any Distribution Date means the period from and including the second day of the prior calendar month to and including the first day of the month in which that Distribution Date occurs.

We will make principal prepayments (including liquidation proceeds) as long as the servicer gives us information about them in time for the published factors to reflect these payments. See “Reference Sheet—*Class Factors*.” If we do not receive the information on time, we will pay such principal payments on the next Distribution Date.

### **Class Definitions and Abbreviations**

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

<u>Abbreviation</u>	<u>Category of Class</u>	<u>Definition</u>
<b>INTEREST TYPES</b>		
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	Interest Only	Has an interest rate that is fixed throughout the life of the class.
FLT	Floating Rate	Has an interest rate that resets periodically based upon a designated index and that varies directly with changes in the index.
IO	Interest Only	Receives some or all of the interest payments made on the related 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 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.
NPR	No Payment Residual	Receives no payments of interest.

<u>Abbreviation</u>	<u>Category of Class</u>	<u>Definition</u>
WAC	Weighted Average Coupon	Has an interest rate that represents an effective weighted average interest rate that may change from period to period.
<b>PRINCIPAL TYPES</b>		
NAS	Non-accelerated Security	Receives either no or a limited percentage of principal payments prior to a designated date and thereafter to receive a gradually increasing percentage of principal payments in a month.
NPR	No Payment Residual	Receives no payments of principal.
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.
SEQ	Sequential Pay	Receive principal payments in a prescribed sequence but without a predetermined schedule. It receives payments of principal continuously from the first distribution date on which it receives principal until the class is retired.

### **Special Characteristics of the R and RL Classes**

The R 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 Classes are reduced to zero, we will pay the Holder of the R 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 proceeds of those assets to the Holder of the RL Class. We do not expect that any material assets will remain in either 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 the R or RL 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 R or RL 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 R or RL Certificate will not be owned directly or indirectly by a disqualified organization,
- it is not acquiring the R or RL Certificate 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 R or RL Certificate,
- it intends to pay taxes on the R or RL Certificate as they become due,
- it will not cause income from the R or RL Certificate to be attributed to a foreign permanent establishment or fixed base of the transferee or another taxpayer, and

- it will not transfer the R or RL Certificate unless it has received from the new transferee an affidavit containing these same eight 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 a Residual Certificate—Sales and Other Dispositions of a Residual Certificate—Residual Certificate Transferred to or Held by Disqualified Organizations*” in this prospectus. 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 R or RL Certificate 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 R 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 of tax” means that the transferor of the R or RL Class Certificate had “improper knowledge” at the time of the transfer. In other words, the transferor knew, or should have known, that the transferee would be unwilling or unable to pay taxes due on its share of the taxable income of the related REMIC. A transferor is presumed not to have improper knowledge if four 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. Third, the transfer satisfies either the “asset test” or the “formula test.” If you plan to transfer an R or RL Class Certificate, you should consult your own tax advisor for further information.

A transfer satisfies the asset test if (i) 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), (ii) the transferee is an “eligible corporation” as defined in section 860L(a)(2) of the Code and it 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 satisfy the asset test, and (iii) the facts and circumstances known to the transferor do not reasonably indicate that the taxes associated with the residual interest will not be paid. A transfer

satisfies the formula test if the present value of the anticipated tax liabilities associated with holding the R or RL Class Certificate is less than or equal to the present value of the sum of (i) any consideration given to the transferee to acquire the Certificate, (ii) expected future distributions on that Certificate, and (iii) anticipated tax savings associated with holding that Certificate as the related REMIC trust generates losses. The regulations contain additional details regarding their application and you should consult your own tax advisor regarding the application of the Regulations to an actual transfer of the R or RL Class Certificate.

The Holder of the R Class will be considered to be the holder of the “residual interest” in the REMIC constituted by the Upper 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 R and RL Classes (i) information that they need to prepare their federal income tax returns and (ii) any reports regarding the R or RL Class that may be required under the Code.

### **Structuring Assumptions**

*Pricing Assumptions.* Except where otherwise noted, the information in the tables related to the Certificates in this prospectus has been prepared on the basis of (i) the assumed characteristics of the Mortgage Loans set forth in this prospectus under “The Mortgage Loans” and on Exhibit A to this prospectus, 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 Mortgage Loans prepay at the PPA levels specified in the related table;
- One-Month LIBOR remains constant at 1.31%;
- the Servicer does not exercise its repurchase option;
- the settlement date for the sale of the Certificates occurs on April 30, 2003; and
- each Distribution Date for the Certificates occurs on the 25th day of the month, beginning in May 2003.

*Prepayment Assumptions.* Prepayments on mortgage loans are commonly measured relative to a constant prepayment standard or model. The model used in this Prospectus Supplement for the Mortgage Loans is a prepayment assumption (the “Prepayment Assumption” or “PPA”) that represents an assumed rate of prepayment each month relative to the then outstanding principal balance of the Mortgage Loans for the life of such Mortgage Loans. A 100% Prepayment Assumption for the Mortgage Loans assumes a constant prepayment rate of 4.00% per annum of the outstanding principal balance of such Mortgage Loans for the first month following origination of the Mortgage Loan and approximately an additional 1.45% in each month thereafter for the next eleven months; and in each month thereafter during the life of such Mortgage Loans, a constant prepayment rate of 20% per annum is assumed. As used in the tables below; a 0% Prepayment Assumption assumes prepayment rates equal to 0% of the Prepayment Assumption, i.e. no prepayments; a 50% Prepayment Assumption assumes prepayment rates equal to 50% of the Prepayment Assumption, and so forth. The Prepayment Assumption does not purport to be either a historical description of the prepayment experience of the mortgage loans or a prediction of the anticipated rate of prepayment of any mortgage loans, including the Mortgage Loans to be included in the Trust Fund. *This model does not purport to be an historical description of the prepayment experience of any pool of mortgage loans or a prediction of the anticipated rate of prepayment of any pool or mortgage loans, including the Mortgage Loans. It is highly unlikely that the Mortgage Loans will prepay at any constant percentage of the Prepayment Assumption or at any other constant rate.*

## Yield Table

*General.* The table below illustrates the sensitivity of the pre-tax corporate bond equivalent yield to maturity of the AIO Class to various prepayment scenarios and to various assumed purchase prices. We calculated the yields set forth in the table by

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

These calculations do not take into account variations in the interest rates at which you could reinvest distributions on the Certificates. Accordingly, these calculations do not illustrate the return on any investment in the Certificates when 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 price 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 are likely to differ from those assumed. This would be the case even if all the Mortgage Loans prepay at the indicated percentages of PPA. Moreover, it is unlikely that

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

*The AIO Class.* **The yield on the AIO Class will be very sensitive to the rate of principal payments (including liquidations and prepayments) of the Mortgage Loans.**

The information shown in the yield table has been prepared on the basis of the Pricing Assumptions and the additional assumptions specified below.

### Sensitivity of the AIO Class to Prepayments

Price†	Yield to Call* Prepayment Assumption				
	PPA: 50%	PPA: 75%	PPA: 150%	PPA: 225%	PPA: 300%
6.5% .....	77.6%	68.6%	40.4%	10.3%	(23.7)%

  

Price†	Yield to Maturity** Prepayment Assumption				
	PPA: 50%	PPA: 75%	PPA: 150%	PPA: 225%	PPA: 300%
6.5% .....	77.6%	68.6%	40.6%	12.0%	(18.3)%

\* Assumes that the optional clean-up call is exercised at the earliest possible date.

\*\* Assumes that the optional clean-up call is not exercised.

† The prices do not include accrued interest.

### **Weighted Average Lives of the Certificates**

The “weighted average life” of a Certificate refers to the average length of time, weighted by principal, that will elapse from the time we issue the Certificate 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 the 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 the Certificate referred to in clause (a).

The weighted average lives of the Certificates will be influenced by, among other factors, the rate at which principal payments are made on the Mortgage Loans. For the purpose of the preceding sentence, principal payments include scheduled payments, balloon payments, principal prepayments, liquidations due to default, casualty and condemnation, payments made pursuant to optional repurchases of delinquent Mortgage Loans or pursuant to the optional clean-up call and payments made pursuant to our guaranty of payment. It is currently our intention to exercise our option to repurchase Mortgage Loans that are delinquent, in whole or in part, with respect to three consecutive installments of principal and interest as described below. We cannot give any assurance that we will not change this policy. The interaction of the above factors may result in differing principal prepayment speeds and the effects on any Class may vary at different times during the life of that Class. Accordingly, we cannot give any assurance as to the weighted average life of any Class.

### **Maturity Considerations and Final Distribution Dates**

We expect the original maturities of substantially all of the Mortgage Loans to be between 15 and 30 years. The Mortgage Loans other than the Balloon Mortgage Loans 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 “Final Distribution Date” for each Class of Certificates is the day by which the principal balance of that Class is required to be fully paid and will occur in March 2033. The Final Distribution Date of the Certificates will be determined so that distributions on the Mortgage Loans will be sufficient to retire the Classes of Certificates on or before the Final Distribution Date without the necessity of any call on our guaranty.

## Decrement Tables

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

It is unlikely that all the Mortgage Loans:

- will have the interest rates or remaining terms to maturity assumed, or
- will prepay at any *constant* percentage of PPA.

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

### Percent of Original Principal Balances Outstanding

Date	A1 Class					A2 Class				
	Prepayment Assumption					Prepayment Assumption				
	PPA: 0%	PPA: 75%	PPA: 150%	PPA: 225%	PPA: 300%	PPA: 0%	PPA: 75%	PPA: 150%	PPA: 225%	PPA: 300%
Initial Percent .....	100	100	100	100	100	100	100	100	100	100
April 2004 .....	98	69	41	12	0	100	100	100	100	0
April 2005 .....	95	40	0	0	0	100	100	39	0	0
April 2006 .....	92	16	0	0	0	100	100	0	0	0
April 2007 .....	89	0	0	0	0	100	68	0	0	0
April 2008 .....	85	0	0	0	0	100	0	0	0	0
April 2009 .....	82	0	0	0	0	100	0	0	0	0
April 2010 .....	78	0	0	0	0	100	0	0	0	0
April 2011 .....	74	0	0	0	0	100	0	0	0	0
April 2012 .....	71	0	0	0	0	100	0	0	0	0
April 2013 .....	66	0	0	0	0	100	0	0	0	0
April 2014 .....	62	0	0	0	0	100	0	0	0	0
April 2015 .....	56	0	0	0	0	100	0	0	0	0
April 2016 .....	50	0	0	0	0	100	0	0	0	0
April 2017 .....	44	0	0	0	0	100	0	0	0	0
April 2018 .....	0	0	0	0	0	0	0	0	0	0
April 2019 .....	0	0	0	0	0	0	0	0	0	0
April 2020 .....	0	0	0	0	0	0	0	0	0	0
April 2021 .....	0	0	0	0	0	0	0	0	0	0
April 2022 .....	0	0	0	0	0	0	0	0	0	0
April 2023 .....	0	0	0	0	0	0	0	0	0	0
April 2024 .....	0	0	0	0	0	0	0	0	0	0
April 2025 .....	0	0	0	0	0	0	0	0	0	0
April 2026 .....	0	0	0	0	0	0	0	0	0	0
April 2027 .....	0	0	0	0	0	0	0	0	0	0
April 2028 .....	0	0	0	0	0	0	0	0	0	0
April 2029 .....	0	0	0	0	0	0	0	0	0	0
April 2030 .....	0	0	0	0	0	0	0	0	0	0
April 2031 .....	0	0	0	0	0	0	0	0	0	0
April 2032 .....	0	0	0	0	0	0	0	0	0	0
April 2033 .....	0	0	0	0	0	0	0	0	0	0
Weighted Average Life (years)**	10.9	1.8	0.9	0.6	0.4	14.5	4.1	2.0	1.3	0.9

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

Date	A3 Class					A4 Class				
	Prepayment Assumption					Prepayment Assumption				
	PPA: 0%	PPA: 75%	PPA: 150%	PPA: 225%	PPA: 300%	PPA: 0%	PPA: 75%	PPA: 150%	PPA: 225%	PPA: 300%
Initial Percent	100	100	100	100	100	100	100	100	100	100
April 2004	100	100	100	100	85	100	100	100	100	100
April 2005	100	100	100	33	0	100	100	100	100	23
April 2006	100	100	44	0	0	100	100	100	18	0
April 2007	100	100	6	0	0	100	100	100	0	0
April 2008	100	82	0	0	0	100	100	43	0	0
April 2009	100	57	0	0	0	100	100	2	0	0
April 2010	100	38	0	0	0	100	100	0	0	0
April 2011	100	29	0	0	0	100	100	0	0	0
April 2012	100	18	0	0	0	100	100	0	0	0
April 2013	100	7	0	0	0	100	100	0	0	0
April 2014	100	0	0	0	0	100	89	0	0	0
April 2015	100	0	0	0	0	100	62	0	0	0
April 2016	100	0	0	0	0	100	37	0	0	0
April 2017	100	0	0	0	0	100	17	0	0	0
April 2018	16	0	0	0	0	100	0	0	0	0
April 2019	10	0	0	0	0	100	0	0	0	0
April 2020	4	0	0	0	0	100	0	0	0	0
April 2021	0	0	0	0	0	92	0	0	0	0
April 2022	0	0	0	0	0	70	0	0	0	0
April 2023	0	0	0	0	0	55	0	0	0	0
April 2024	0	0	0	0	0	46	0	0	0	0
April 2025	0	0	0	0	0	36	0	0	0	0
April 2026	0	0	0	0	0	26	0	0	0	0
April 2027	0	0	0	0	0	15	0	0	0	0
April 2028	0	0	0	0	0	2	0	0	0	0
April 2029	0	0	0	0	0	0	0	0	0	0
April 2030	0	0	0	0	0	0	0	0	0	0
April 2031	0	0	0	0	0	0	0	0	0	0
April 2032	0	0	0	0	0	0	0	0	0	0
April 2033	0	0	0	0	0	0	0	0	0	0
Weighted Average Life (years)**	14.8	6.8	3.0	1.9	1.3	21.0	12.6	5.0	2.8	1.9

Date	A5 Class***					A5 Class****				
	Prepayment Assumption					Prepayment Assumption				
	PPA: 0%	PPA: 75%	PPA: 150%	PPA: 225%	PPA: 300%	PPA: 0%	PPA: 75%	PPA: 150%	PPA: 225%	PPA: 300%
Initial Percent	100	100	100	100	100	100	100	100	100	100
April 2004	100	100	100	100	100	100	100	100	100	100
April 2005	100	100	100	100	100	100	100	100	100	100
April 2006	100	100	100	100	0	100	100	100	100	0
April 2007	100	100	100	29	0	100	100	100	29	0
April 2008	100	100	100	0	0	100	100	100	0	0
April 2009	100	100	100	0	0	100	100	100	0	0
April 2010	100	100	71	0	0	100	100	71	0	0
April 2011	100	100	69	0	0	100	100	69	0	0
April 2012	100	100	56	0	0	100	100	0	0	0
April 2013	100	100	41	0	0	100	100	0	0	0
April 2014	100	100	28	0	0	100	100	0	0	0
April 2015	100	100	19	0	0	100	100	0	0	0
April 2016	100	100	13	0	0	100	100	0	0	0
April 2017	100	100	8	0	0	100	100	0	0	0
April 2018	100	28	2	0	0	100	0	0	0	0
April 2019	100	22	1	0	0	100	0	0	0	0
April 2020	100	17	1	0	0	100	0	0	0	0
April 2021	100	13	*	0	0	100	0	0	0	0
April 2022	100	9	*	0	0	100	0	0	0	0
April 2023	100	7	*	0	0	100	0	0	0	0
April 2024	100	6	*	0	0	100	0	0	0	0
April 2025	100	4	*	0	0	100	0	0	0	0
April 2026	100	3	*	0	0	100	0	0	0	0
April 2027	100	2	*	0	0	100	0	0	0	0
April 2028	100	2	*	0	0	100	0	0	0	0
April 2029	84	1	*	0	0	0	0	0	0	0
April 2030	63	1	*	0	0	0	0	0	0	0
April 2031	39	*	*	0	0	0	0	0	0	0
April 2032	14	*	*	0	0	0	0	0	0	0
April 2033	0	0	0	0	0	0	0	0	0	0
Weighted Average Life (years)**	27.5	15.7	9.6	3.8	2.4	25.7	14.5	7.7	3.8	2.4

\* 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 Certificates” above.  
\*\*\* Assumes that the optional clean-up call is not exercised.  
\*\*\*\* Assumes that the optional clean-up call is exercised at the earliest possible date.

Date	A6 Class****					A6 Class****				
	Prepayment Assumption					Prepayment Assumption				
	PPA: 0%	PPA: 75%	PPA: 150%	PPA: 225%	PPA: 300%	PPA: 0%	PPA: 75%	PPA: 150%	PPA: 225%	PPA: 300%
Initial Percent	100	100	100	100	100	100	100	100	100	100
April 2004	100	100	100	100	100	100	100	100	100	100
April 2005	100	100	100	100	100	100	100	100	100	100
April 2006	100	100	100	100	69	100	100	100	100	69
April 2007	99	92	85	76	0	99	92	85	76	27
April 2008	98	85	72	0	0	98	85	72	50	11
April 2009	97	74	53	0	0	97	74	53	27	4
April 2010	95	61	36	0	0	95	61	36	14	2
April 2011	87	34	13	0	0	87	34	13	8	1
April 2012	80	19	0	0	0	80	19	4	4	*
April 2013	72	11	0	0	0	72	11	1	2	*
April 2014	64	6	0	0	0	64	6	*	1	*
April 2015	57	3	0	0	0	57	3	*	1	*
April 2016	49	2	0	0	0	49	2	*	*	*
April 2017	41	1	0	0	0	41	1	*	*	*
April 2018	0	0	0	0	0	0	0	0	*	*
April 2019	0	0	0	0	0	0	0	0	*	*
April 2020	0	0	0	0	0	0	0	0	*	*
April 2021	0	0	0	0	0	0	0	0	*	*
April 2022	0	0	0	0	0	0	0	0	*	0
April 2023	0	0	0	0	0	0	0	0	*	0
April 2024	0	0	0	0	0	0	0	0	*	0
April 2025	0	0	0	0	0	0	0	0	*	0
April 2026	0	0	0	0	0	0	0	0	*	0
April 2027	0	0	0	0	0	0	0	0	*	0
April 2028	0	0	0	0	0	0	0	0	*	0
April 2029	0	0	0	0	0	0	0	0	*	0
April 2030	0	0	0	0	0	0	0	0	*	0
April 2031	0	0	0	0	0	0	0	0	0	0
April 2032	0	0	0	0	0	0	0	0	0	0
April 2033	0	0	0	0	0	0	0	0	0	0
Weighted Average Life (years)**	11.9	7.4	6.0	4.5	3.2	11.9	7.4	6.1	5.4	3.7

Date	AIO Class****					AIO Class****				
	Prepayment Assumption					Prepayment Assumption				
	PPA: 0%	PPA: 75%	PPA: 150%	PPA: 225%	PPA: 300%	PPA: 0%	PPA: 75%	PPA: 150%	PPA: 225%	PPA: 300%
Initial Percent	100	100	100	100	100	100	100	100	100	100
April 2004	99	85	72	58	44	99	85	72	58	44
April 2005	98	72	49	31	17	98	72	49	31	17
April 2006	96	60	34	17	7	96	60	34	17	7
April 2007	94	50	24	9	3	94	50	24	9	0
April 2008	93	42	16	5	1	93	42	16	0	0
April 2009	91	35	11	3	*	91	35	11	0	0
April 2010	89	29	8	1	*	89	29	8	0	0
April 2011	86	24	5	1	*	86	24	5	0	0
April 2012	84	20	4	*	*	84	20	0	0	0
April 2013	81	16	2	*	*	81	16	0	0	0
April 2014	78	13	2	*	*	78	13	0	0	0
April 2015	75	11	1	*	*	75	11	0	0	0
April 2016	71	9	1	*	*	71	9	0	0	0
April 2017	67	7	*	*	*	67	7	0	0	0
April 2018	17	2	*	*	*	17	0	0	0	0
April 2019	16	1	*	*	*	16	0	0	0	0
April 2020	15	1	*	*	*	15	0	0	0	0
April 2021	13	1	*	*	*	13	0	0	0	0
April 2022	11	1	*	0	0	11	0	0	0	0
April 2023	10	*	*	0	0	10	0	0	0	0
April 2024	9	*	*	0	0	9	0	0	0	0
April 2025	8	*	*	0	0	8	0	0	0	0
April 2026	8	*	*	0	0	8	0	0	0	0
April 2027	7	*	*	0	0	7	0	0	0	0
April 2028	6	*	*	0	0	6	0	0	0	0
April 2029	5	*	*	0	0	5	0	0	0	0
April 2030	3	*	*	0	0	3	0	0	0	0
April 2031	2	*	*	0	0	2	0	0	0	0
April 2032	1	*	*	0	0	1	0	0	0	0
April 2033	0	0	0	0	0	0	0	0	0	0
Weighted Average Life (years)**	13.8	5.3	2.8	1.8	1.2	13.7	5.2	2.7	1.7	1.2

\* 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 Certificates” above.  
\*\*\* Assumes that the optional clean-up call is not exercised.  
\*\*\*\* Assumes that the optional clean-up call is exercised at the earliest possible date.

## THE AGREEMENTS

We summarize below certain provisions of the Trust Agreement not discussed elsewhere in this prospectus. Certain capitalized terms that we use in these summaries are defined in the Trust Agreement and the Sale and Servicing Agreement. 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 Trust Agreement and the Sale and Servicing Agreement, the terms of the Trust Agreement or the Sale and Servicing Agreement, as applicable, 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 Lower Tier REMIC. As Trustee, we, or our document custodian, will hold, on behalf of the Certificateholders, the original Mortgage Notes, endorsed in blank, and assignments of the mortgage instruments in recordable form. Usually assignments are in a form suitable for recording but they are not recorded. 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 effect on the interests of Certificateholders.

### **Servicing the Mortgage Loans**

Pursuant to the Trust Agreement, we are responsible for servicing and administering the Mortgage Loans. We are permitted, in our discretion, to contract with the originator of each Mortgage Loan, or another eligible servicing institution, to perform such functions under our supervision as more fully described below (each, a “Lender”).

Pursuant to the Sale and Servicing Agreement, we have contracted with the Servicer to service and administer the Mortgage Loans as more fully described below. The Sale and Servicing Agreement is a contract solely among Fannie Mae, the Servicer and the Seller. Certificateholders will not be deemed to be parties to it and will have no claims, rights, obligations, duties, or liabilities with respect to the Servicer.

The Servicer will be obligated to perform diligently all services and duties customary to the servicing of mortgages. We will monitor the Servicer’s performance and we have the right to remove the Servicer for cause at any time we consider its removal to be in the best interest of Certificateholders. The duties performed by the Servicer include general loan servicing responsibilities, collection and remittance of principal and interest payments, administration of mortgage escrow accounts, collection of insurance claims, and, if necessary, foreclosure.

Each month, an amount calculated based on the principal balance of each related Mortgage Loan will be retained to pay various Trust expenses, including servicing fees payable to the Servicer, certain mortgage insurance fees, if any, and amounts to compensate us for providing our guaranty (together, for any Mortgage Loan, the “Trust Expense Rate”). We are not entitled to be reimbursed for such expenses out of the assets of the Trust. Late charges, assumption fees and similar charges, to the extent they are collected from borrowers, will be retained by the Servicer as additional servicing compensation.

### **Distributions on Mortgage Loans; Deposits in the Certificate Account**

We will deposit or credit to one or more accounts (collectively, the “Certificate Account”) an amount equal to the sum of the amounts collected as principal and interest on the Mortgage Loans as these amounts are received.

Any amounts deposited into the Certificate Account on a Distribution Date will be available to pay (i) interest accrued and distributable on the Certificates on that date 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).

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 benefit of 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.

### **Reports to Certificateholders**

We will make available the class factors for each Class of Certificates on or shortly after the 11th calendar day of each month. If you multiply the class factor for a Class of Certificates by the original principal balance (or original notional principal balance) of that Class of Certificates, you will obtain the current principal balance (or current notional principal balance) of that Class of Certificates, after giving effect to the current month's principal payment.

We will provide each Certificateholder 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**

In connection with its servicing activities, the Servicer has full power and authority to do or cause to be done any and all things it may deem necessary or appropriate, including the foreclosure or comparable conversion of a defaulted Mortgage Loan. Subject to certain conditions and limitations described in the Sale and Servicing Agreement, the Servicer will, at our direction and on our behalf, purchase from the Lower Tier REMIC any Mortgage Loan that has become delinquent by four or more monthly payments. The purchase price will be equal to the principal balance of the delinquent Mortgage Loan together with accrued interest. We will pay the purchase price to Certificateholders in the same manner as full prepayments of Mortgage Loans. See "Description of the Certificates—Principal Payments" in this prospectus.

With respect to each Mortgage Loan, the Seller makes certain warranties to us.

In the event of a material breach of any warranty or a material defect in the Mortgage Loan documentation, we may withdraw the defective Mortgage Loan from the Trust at a price equal to its stated principal balance together with interest thereon. See—"Fannie Mae Purchase Program" in this prospectus for a description of the representations and warranties of the Seller.

If at any time we acquire, service or guaranty a first lien mortgage loan secured by the same Mortgaged Property as a Mortgage Loan, and the combined original principal balance of the first lien mortgage loan and the Mortgage Loan exceeds our then current conforming loan limit for single-family one- to four-unit residences, the Seller will be required to repurchase the affected Mortgage Loan. Any such repurchase will have the same effect on Certificateholders as a prepayment in full of the related Mortgage Loan.

## **Certain Matters Regarding Fannie Mae**

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. Even if our other duties under the Trust Agreement should terminate, we would still be obligated under that guaranty. In the event that we are unable to fulfill our continuing guaranty obligations, the Trust Agreement may be modified to provide for monthly distributions to be made from then-available Mortgage Loan payments and other recoveries in a manner similar to practices and procedures followed in the servicing of whole loans for institutional investors. See “—Rights upon Event of Default” below.

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 involvement in any legal action that we think will expose us to expense or liability unless the action is related to our duties under the Trust Agreement. On the other hand, we may decide to participate in legal actions if we think our participation would be in the interests of the Certificateholders. In this case, we will pay our legal expenses and costs.

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 any 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 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 Lower Tier Trust and the Trust.

## **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 Notional Class in the aggregate will be 1.5%; the percentage of the voting rights allocated among holders of all other Classes in the aggregate among all holders of

each such Class in proportion to the outstanding principal balances or nominal principal balances of such Certificates.

### **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; or
- 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 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 any residual interest give their consent, no amendment may adversely affect their rights.

### **Termination**

The Trust Agreement 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 Agreement also will terminate if the Servicer exercises the optional clean-up call. The purchase price for such optional purchase will equal the outstanding principal balance of each Mortgage Loan (including one month's interest at the Net Mortgage Rate).

Subject to certain conditions and limitations described in the Sale and Servicing Agreement, the Servicer may exercise the optional clean-up call if the aggregate remaining principal balance of the Mortgage Loans is reduced to 5% or less of the aggregate principal balance of all of the Mortgage Loans as of the Issue Date.

If the Servicer exercises the optional clean-up call, the Certificates will be retired. In no event, however, will the Lower Tier Trust and 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 Certificates
- Taxes on the REMICs
- Reporting and Other Administrative Matters
- Backup Withholding
- Foreign Investors
- Tax Return Disclosure Requirements

### ***REMIC Elections and Special Tax Attributes***

We will elect to treat the Upper Tier REMIC and the 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 and the Lower Tier REMIC will be treated as REMICs for federal income tax purposes. The Certificates (other than the R 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 R Class will be designated as the “residual interest” in the Upper Tier REMIC. The Lower Tier Regular Interests will be designated as the “regular interests” in the Lower Tier REMIC and the RL Class will be designated as the “residual interest” in the Lower Tier REMIC (together with the R Class, the “Residual Certificates”).

Because the Upper Tier REMIC and the 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% 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 or an additional loan will be a “qualified mortgage” if it 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 Trust 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.

### **Treatment of Original Issue Discount**

The AIO Class will be issued with “original issue discount” (“OID”) within the meaning of section 1273(a) of the Code and the A Class Certificates may be issued with OID. 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 OID accruing on the Regular Certificates. We will supply this information at the time and in the manner required by 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 price 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 with respect to a Regular Certificate corresponding to a Notional Class, however, is equal to the sum of all distributions to be made to 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% 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 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 150% PPA. See "Description of the Certificates—Structuring Assumptions—*Prepayment Assumptions*" in this prospectus. No representation is made as to whether the Mortgage Loans will prepay at either of those rates or any other rate.

#### *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 Regular Certificate during the accrual period of amounts included in the stated redemption price at maturity, over
- (ii) the adjusted issue price of the Regular 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,
- the prepayment assumption, and
- in the case of Floating Rate or Weighted Average Coupon Classes, an assumption that the value of the index upon which the variable rate is based remains the same as its value on the Settlement Date over the entire life of the Regular Certificates.

The adjusted issue price of a Regular Certificate at any time will equal the issue price of the Regular Certificate, increased by the aggregate amount of previously accrued OID with respect to the Regular Certificate, and reduced by the amount of any distributions made on the Regular 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 either of the rates 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 Certificates—Maturity Considerations and Final Distribution Dates” and “—Decrement Tables” in this prospectus.

#### *Weighted Average Coupon Classes*

The Regular Certificates may pay interest based on a weighted average of the interest rates on the Mortgage Loans and may not qualify as “variable rate debt instruments” under the OID Regulations. Under the OID Regulations, a debt instrument that provides for a variable rate of interest but that does not qualify as a variable rate debt instrument is a contingent payment debt instrument. The regulations governing contingent payment debt instruments do not apply, however, to regular interests in a REMIC. For information reporting purposes with respect to the Regular Certificates, we intend to compute the accruals of interest and OID by applying the principles of the OID Regulations applicable to variable rate debt instruments.

#### **Subsequent Holders’ Treatment of Original Issue Discount**

If a Regular Certificate is issued with OID and a subsequent holder purchases the Regular 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 Regular Certificate for each day it holds the Regular Certificate. If the cost of the Regular Certificate to the subsequent holder exceeds the adjusted issue price of the Regular 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 Regular Certificate, and the denominator is the sum of the daily portions of OID on the Regular Certificate for all days on or after the day of purchase.

#### **Regular Certificates Purchased at a Premium**

If a Regular Owner purchases a Regular 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 Regular 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 may 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 Regular 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% 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 the Notional Class.

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

The gain or loss, if any, will be capital gain or loss, provided the Regular 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% 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 Regular 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 Lower Tier REMIC.

### *Taxation of Beneficial Owners of the Residual Certificates*

### **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 related REMIC is the REMIC in which the Residual Certificate represents a residual interest. 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 REMIC for the quarter and then allocating that amount among the Residual Owners with respect to that REMIC 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 Regular 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 each REMIC will be the income from the "qualified mortgages" it holds and any reinvestment earnings less deductions allowed to the REMIC. In general, a Mortgage Loan will be a "qualified mortgage" to the Lower Tier REMIC 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 Lower Tier Regular Interests will be "qualified mortgages" to Upper Tier REMIC.

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:

- 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 REMIC's regular interests (but not its residual interest).
- Market discount equal to any excess of the total principal balances of the qualified mortgages over the REMIC's basis in these mortgages generally will be included in income by the REMIC as it accrues under a constant yield method, taking into account the prepayment assumption described above.
- If a 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.
- A REMIC 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 will be allowed for any expenses incurred in connection with the formation of the REMICs and the issuance of the Regular and Residual Certificates.
- Any gain or loss to a 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.

A REMIC's basis in qualified mortgages is the aggregate of the issue prices of all the Regular and Residual Certificates in the REMIC on the Settlement Date. If, however, the amount of any class of Regular or Residual Certificates that is sold 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. This could occur, for example, if the qualified mortgages are considered to be purchased by the REMIC at a discount, some or all of the regular interests in the REMIC are issued at a discount, and the discount included as a result of a prepayment on a qualified mortgage that is used to pay principal on the regular interests in the REMIC exceeds the REMIC's deduction for unaccrued original issue discount relating to the regular interests in the REMIC. Taxable income may also be greater in earlier years because interest expense deductions, expressed as a percentage of the outstanding principal amount of the regular interests, may increase over time as the earlier classes of regular interests are paid, whereas interest income of the REMIC 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 a 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 its Residual Certificate 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 that Residual Certificate.

### **Treatment of Excess Inclusions**

Any excess inclusions with respect to a Residual Certificate are subject to certain special tax rules. All taxable income with respect to a Residual Certificate will constitute excess inclusions.

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 a Residual Certificate, see “—*Foreign Investors*—Residual Certificates” below.

If a 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 a 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, “The Trust Agreement—Servicing Through Long Beach Mortgage Company” in this prospectus. Such a Residual Owner will be entitled to deduct these fees subject to sections 67 and 68 of the Code, as in the case of a net deduction with respect to a notional principal contract. See “—*Taxation of the Interest Carryover Amounts*—Treatment of Payments under the Notional Principal Contract” above. 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 with respect to the REMIC 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 a 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 the Residual Certificates**

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 a 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 a 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 Certificates 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 a 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 Certificates—Special Characteristics of the R, RM and RL Class Certificates.” 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 a 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 the Residual Certificates*

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 a Residual Certificate has tax avoidance potential unless, at the time of the transfer, the transferor reasonably expects that, for each excess inclusion, the related REMIC will pay to the transferee an amount that will equal at least 30% 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 Certificates—Special Characteristics of the R and RL Class Certificates” for a discussion of additional provisions applicable to transfers of the Residual Certificates.

#### *Amounts Paid to a Transferee of the Residual Certificates*

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 Lower Tier 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 Upper Tier REMIC and the Lower Tier REMIC 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 Upper Tier REMIC or the Lower Tier REMIC will engage in any transactions that will give rise to a tax on the Upper Tier REMIC or the Lower Tier REMIC. In any event, pursuant to our guaranty obligation, we will make distributions on the Certificates without offset or deduction for any tax imposed on the Upper Tier REMIC or the Lower Tier REMIC.

#### **Prohibited Transactions**

The Code imposes a tax on a REMIC equal to 100% 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% 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, each REMIC will each be treated as a partnership and the Residual Owners in each REMIC will be treated as partners. We will prepare, sign and file federal income tax returns for each REMIC, which returns are subject to audit by the IRS. We will also act as the tax matters partner for the REMICs either as a beneficial owner of the Residual Certificates or as a fiduciary for the Residual Owners. 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 a 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 the Residual Certificates, 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, with respect to the related REMIC, 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 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 REMIC level.

### ***Backup Withholding***

Distributions of interest and principal, as well as distributions of proceeds from the sale of 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***

Distributions made on a Certificate (other than a Residual Certificate) to, or on behalf of, a beneficial owner that is a Non-U.S. Person generally will be exempt from U.S. federal income and withholding taxes, provided (a) the beneficial 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 beneficial owner signs a statement under penalties of perjury that certifies that the beneficial owner is a Non-U.S. Person, and provides the name and address of the beneficial owner, and (c) the last U.S. Person in the chain of payment to the beneficial owner receives the statement from the beneficial 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 beneficial owner that also owns 10% or more of the Residual Certificates or of the voting stock of

Fannie Mae, or to a beneficial owner that is a “controlled foreign corporation” described in section 881(c)(3)(C) of the Code.

### ***Tax Return Disclosure Requirements***

The Treasury Department recently issued Regulations directed at “tax shelters” that could be read to apply to transactions generally not considered to be tax shelters. These Regulations require that taxpayers that participate in a “reportable transaction” disclose such transaction on their tax returns by attaching IRS Form 8886, and retain information related to the transaction. A transaction may be a “reportable transaction” based upon any of several indicia, one or more of which may be present with respect to the Certificates. You should consult your tax advisor concerning any possible disclosure obligation with respect to your investment in the Certificates.

## **LEGAL INVESTMENT CONSIDERATIONS**

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 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 FDIC, the Office of Thrift Supervision, the NCUA or other federal or state agencies with similar authority, you should review any applicable rules, guidelines and regulations prior to purchasing the Certificates. You should also review and consider the applicability of the Federal Financial Institutions Examination Council Supervisory Policy Statement on Securities Activities (to the extent adopted by their respective federal regulators), which, among other things, sets forth guidelines for financial institutions investing in certain types of mortgage related securities, including securities such as the Certificates. In addition, you should consult your regulators concerning the risk-based capital treatment of any Certificate.

You should consult your own legal advisors in determining whether and to what extent the Certificates constitute legal investments or are subject to restrictions on investment and whether and to what extent the Certificates can be used as collateral for various types of borrowings.

## **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**

The Employee Retirement Income Security Act of 1974, as amended (“ERISA”), and Section 4975 of the Code impose certain requirements on employee benefit plans subject to ERISA (such as employer-sponsored retirement plans) and on 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 requirements imposed by ERISA and the Code. Before a Plan invests in any Certificates, the Plan fiduciary must consider whether the governing instruments for the Plan would permit the investment, whether the 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.

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 Certificates did not exist. However, we have been advised by our counsel, Sidley Austin Brown & Wood LLP, that the Certificates qualify under the definition of “guaranteed governmental mortgage pool certificates” and, as a result, the purchase and holding of Certificates by Plans will not cause the underlying mortgage loans or the assets of Fannie Mae to be subject to the fiduciary requirements of ERISA or to the prohibited transaction requirements of ERISA and the Code.

### **PLAN OF DISTRIBUTION**

We will acquire the Mortgage Loans from the Seller in exchange for the Certificates pursuant to the Sale and Servicing Agreement. The Dealer, which has been retained by the Seller, proposes to offer the Certificates from time to time in negotiated transactions at varying prices to be determined at the time of sale. The Dealer may effect such transactions to or through other dealers.

### **LEGAL MATTERS**

Fannie Mae will be represented by Sidley Austin Brown & Wood LLP and, with respect to federal tax matters, by Dewey Ballantine LLP. Morgan, Lewis & Bockius LLP will provide legal representation for the Dealer.

**Exhibit A**

**Assumed Characteristics of the Mortgage Loans**

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

<u>Principal Balance</u>	<u>WAC</u>	<u>Net WAC</u>	<u>Weighted Average Original Term (in months)</u>	<u>Weighted Average Remaining Term (in months)</u>	<u>Weighted Average Remaining Amortization Term (in months)</u>	<u>Weighted Average Age (in months)</u>
\$119,629,882.68	9.817%	8.047%	180	174	354	6
30,152,425.81	9.117	7.296	180	173	173	7
23,762,826.83	9.594	7.734	240	234	234	6
33,295,005.21	9.032	7.389	360	354	354	6

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No dealer, salesman or other person has been authorized to give any information or to make any representations in connection with this offering other than those contained in this prospectus and the Information Statement and, if given or made, such information or representations must not be relied upon as having been authorized. This prospectus and the Information Statement do not constitute an offer to sell or a solicitation of an offer to buy any of the Certificates offered hereby in any state to any person to whom it is unlawful to make such offer or solicitation in such state. The delivery of this prospectus and the Information Statement at any time does not imply that the information contained herein or therein is correct as of any time subsequent to the date hereof or thereof.

**\$206,840,140**  
**(Approximate)**



**Guaranteed REMIC  
Pass-Through Certificates  
Fannie Mae REMIC Trust 2003-W7**

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**PROSPECTUS**

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**LEHMAN BROTHERS**

April 10, 2003

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