

\$728,493,321



**FannieMae**®

**Guaranteed REMIC Pass-Through Certificates  
Fannie Mae REMIC Trust 2006-118**

**The Certificates**

We, the Federal National Mortgage Association (Fannie Mae), will issue the classes of certificates listed in the chart on this page.

**Payments to Certificateholders**

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

- interest accrued on the balance of your certificate (except as limited in the case of the partial accrual classes), and
- principal to the extent available for payment on your class.

We will pay principal at rates that may vary from time to time. We may not pay principal to certain classes for long periods of time.

**The Fannie Mae Guaranty**

We will guarantee that required payments of principal and interest on the certificates are available for distribution to investors on time. These payments will be subject to certain limitations described in this prospectus supplement.

**The Trust and its Assets**

The trust will own Fannie Mae MBS.

The mortgage loans underlying the Fannie Mae MBS are first lien, single-family, adjustable-rate loans.

<i>Class</i>	<i>Group</i>	<i>Original Class Balance</i>	<i>Principal Type</i>	<i>Interest Rate</i>	<i>Interest Type</i>	<i>CUSIP Number</i>	<i>Final Distribution Date</i>
A1 .....	1	\$375,940,332	SEQ	(1)	FLT/AFC/PZ	31396L4R8	December 2036
IP1 .....	1	(2)	CPT	(3)	CPT/PZ	31396L4S6	December 2036
A2 .....	2	352,552,789	SEQ	(1)	FLT/AFC/PZ	31396L4T4	December 2036
IP2 .....	2	(4)	CPT	(3)	CPT/PZ	31396L4U1	December 2036
R .....		0	NPR	0	NPR	31396L4V9	December 2036
RL .....		0	NPR	0	NPR	31396L4W7	December 2036

- (1) Based on LIBOR.
- (2) The IP1 Class consists of the X1 Component, which is an interest only component, and the PO1 Component, which is a principal only component, each as further described in this prospectus supplement. The initial notional principal balance of the X1 Component is \$375,940,432 and the initial principal balance of the PO1 Component is \$100.
- (3) The X1 and X2 Components bear interest at variable rates as described in this prospectus supplement.
- (4) The IP2 Class consists of the X2 Component, which is an interest only component, and the PO2 Component, which is a principal only component, each as further described in this prospectus supplement. The initial notional principal balance of the X2 Component is \$352,552,889 and the initial principal balance of the PO2 Component is \$100.

The dealer will offer the certificates from time to time in negotiated transactions at varying prices. We expect the settlement date to be November 30, 2006.

**Carefully consider the risk factors starting on page S-9 of this prospectus supplement and on page 10 of the REMIC prospectus. Unless you understand and are able to tolerate these risks, you should not invest in the certificates.**

You should read the REMIC prospectus as well as this prospectus supplement.

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 agency or instrumentality thereof 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.



## TABLE OF CONTENTS

	<u>Page</u>		<u>Page</u>
<b>AVAILABLE INFORMATION</b> .....	S- 3	<i>Additions to the Principal Balance</i>	
<b>INCORPORATION BY REFERENCE</b> .....	S- 3	<i>of the A1 Class</i> .....	S-24
<b>RECENT DEVELOPMENTS</b> .....	S- 4	<i>Additions to the Principal Balance</i>	
<b>REFERENCE SHEET</b> .....	S- 6	<i>of the PO1 Component</i> .....	S-24
<b>ADDITIONAL RISK FACTORS</b> .....	S- 9	<i>Group 2 Principal Distribution</i>	
<b>DESCRIPTION OF THE</b>		<i>Amount</i> .....	S-24
<b>CERTIFICATES</b> .....	S-12	<i>Additions to the Principal Balance</i>	
GENERAL .....	S-12	<i>of the A2 Class</i> .....	S-24
<i>Structure</i> .....	S-12	<i>Additions to the Principal Balance</i>	
<i>Fannie Mae Guaranty</i> .....	S-13	<i>of the PO2 Component</i> .....	S-24
<i>Characteristics of Certificates</i> .....	S-13	STRUCTURING ASSUMPTIONS .....	S-24
<i>Authorized Denominations</i> .....	S-13	<i>Pricing Assumptions</i> .....	S-24
<i>Distribution Dates</i> .....	S-13	<i>Prepayment Assumptions</i> .....	S-25
<i>Record Date</i> .....	S-14	YIELD TABLES .....	S-25
<i>Class Factors</i> .....	S-14	<i>General</i> .....	S-25
<i>No Optional Termination</i> .....	S-14	<i>The IP1 and IP2 Classes</i> .....	S-25
<b>THE MBS</b> .....	S-14	PRINCIPAL DISTRIBUTION TABLE FOR	
General .....	S-14	<b>THE PO1 COMPONENT</b> .....	S-26
Prepayment Premiums .....	S-14	PRINCIPAL DISTRIBUTION TABLE FOR	
Characteristics of the MTA ARM		<b>THE PO2 COMPONENT</b> .....	S-27
Loans .....	S-15	WEIGHTED AVERAGE LIVES OF THE	
<i>The MTA Index</i> .....	S-15	<b>CERTIFICATES</b> .....	S-29
<i>Mortgage Interest Accrual Rate and</i>		DECREMENT TABLES .....	S-30
<i>Interest Rate Changes</i> .....	S-15	CHARACTERISTICS OF THE R AND	
<i>Cap and Floor in Mortgage Interest</i>		<b>RL CLASSES</b> .....	S-32
<i>Accrual Rate</i> .....	S-15	<b>CERTAIN ADDITIONAL FEDERAL</b>	
<i>Monthly Payment Amount,</i>		<b>INCOME TAX CONSEQUENCES</b> ..	S-33
<i>Amortization and Deferred Interest</i>	S-15	U.S. TREASURY CIRCULAR 230 NOTICE	S-33
<i>Borrower Payment Options under the</i>		REMIC ELECTIONS AND SPECIAL TAX	
<i>MTA ARM Loans</i> .....	S-16	<b>ATTRIBUTES</b> .....	S-33
<b>FINAL DATA STATEMENT</b> .....	S-17	TAXATION OF CERTIFICATES OF THE A1,	
<b>DISTRIBUTIONS OF INTEREST</b> .....	S-17	<b>IP1, A2 AND IP2 CLASSES</b> .....	S-34
Categories of Classes and Components	S-17	<i>Allocations</i> .....	S-34
Components .....	S-17	<i>Tax Attributes</i> .....	S-35
General .....	S-17	TAXATION OF BENEFICIAL OWNERS OF	
Interest Accrual Periods .....	S-18	<b>REGULAR CERTIFICATES</b> .....	S-35
Notional Components .....	S-18	TAXATION OF THE INTEREST	
The Group 1 Classes .....	S-18	<b>CARRYOVER AMOUNTS</b> .....	S-36
Amounts Available for Payment of		<i>Treatment of Payments under the</i>	
Interest .....	S-18	<i>Notional Principal Contracts</i> .....	S-36
Amounts Payable on the A1 Class	S-19	<i>Special Consequences for Beneficial</i>	
Amounts Payable on the IP1 Class	S-20	<i>Owners of IP1 and IP2 Class</i>	
The Group 2 Classes .....	S-21	<i>Certificates</i> .....	S-37
Amounts Available for Payment of		<i>Disposition of the Notional Principal</i>	
Interest .....	S-21	<i>Contracts</i> .....	S-37
Amounts Payable on the A2 Class	S-21	TAXATION OF BENEFICIAL OWNERS OF	
Amounts Payable on the IP2 Class	S-22	<b>RESIDUAL CERTIFICATES</b> .....	S-37
<b>CALCULATION OF LIBOR</b> .....	S-23	TAX RETURN DISCLOSURE	
<b>DISTRIBUTIONS OF PRINCIPAL</b> .....	S-23	<b>REQUIREMENTS</b> .....	S-38
Categories of Classes and Components	S-23	<b>PLAN OF DISTRIBUTION</b> .....	S-38
Principal Distribution Amount .....	S-23	<i>General</i> .....	S-38
Group 1 Principal Distribution		<i>Increase in Certificates</i> .....	S-38
Amount .....	S-24	<b>LEGAL MATTERS</b> .....	S-38
		<b>EXHIBIT A</b> .....	A- 1

## AVAILABLE INFORMATION

You should purchase the certificates only if you have read and understood this prospectus supplement and the following documents (the “Disclosure Documents”):

- our Prospectus for Fannie Mae Guaranteed REMIC Pass-Through Certificates dated May 1, 2002 (the “REMIC Prospectus”);
- our Prospectus for Fannie Mae Guaranteed Mortgage Pass-Through Certificates (Single-Family Residential Mortgage Loans) dated January 1, 2006 (the “MBS Prospectus”); and
- any information incorporated by reference in this prospectus supplement as discussed below under the heading “Incorporation by Reference.”

You can obtain copies of the REMIC Prospectus and the MBS Prospectus by writing or calling us at:

Fannie Mae  
MBS Helpline  
3900 Wisconsin Avenue, N.W., Area 2H-3S  
Washington, D.C. 20016  
(telephone 1-800-237-8627).

In addition, the Disclosure Documents, together with the class factors, are available on our corporate Web site at [www.fanniemae.com](http://www.fanniemae.com).

You also can obtain copies of the Disclosure Documents by writing or calling the dealer at:

Greenwich Capital Markets, Inc.  
Prospectus Department  
600 Steamboat Road  
Greenwich, Connecticut 06380  
(telephone 203-618-2318).

## INCORPORATION BY REFERENCE

In this prospectus supplement, we are incorporating by reference the MBS Prospectus described above. In addition, we are incorporating by reference the documents listed below. This means that we are disclosing information to you by referring you to these documents. These documents are considered part of this prospectus supplement, so you should read this prospectus supplement, and any applicable supplements or amendments, together with these documents.

You should rely only on the information provided or incorporated by reference in this prospectus supplement, the REMIC Prospectus and the MBS Prospectus and any applicable supplements or amendments.

We incorporate by reference the following documents we have filed, or may file, with the Securities and Exchange Commission (“SEC”):

- our Annual Report on Form 10-K for the fiscal year ended December 31, 2003 (“Form 10-K”);
- all other reports we have filed pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934 since the end of the fiscal year covered by the Form 10-K until the date of this prospectus supplement, excluding any information “furnished” to the SEC on Form 8-K; and
- all proxy statements that we file with the SEC and all documents that we file with the SEC pursuant to Section 13(a), 13(c), 14 or 15(d) of the Securities Exchange Act of 1934 subsequent to the date of this prospectus supplement and prior to the completion of the offering of the certificates, excluding any information we “furnish” to the SEC on Form 8-K.

Any information incorporated by reference in this prospectus supplement is deemed to be modified or superseded for purposes of this prospectus supplement to the extent information contained or incorporated by reference in this prospectus supplement modifies or supersedes such information. In such case, the information will constitute a part of this prospectus supplement only as so modified or superseded.

We file annual, quarterly and current reports, proxy statements and other information with the SEC. You can obtain copies of the periodic reports we file with the SEC without charge by calling or writing our Office of Investor Relations, Fannie Mae, 3900 Wisconsin Avenue, NW, Washington, DC 20016, telephone: (202) 752-7115. The periodic and current reports that we file with the SEC are also available on our Web site. Information appearing on our Web site is not incorporated in this prospectus supplement except as specifically stated in this prospectus supplement.

In addition, you may read our SEC filings and other information about Fannie Mae at the offices of the New York Stock Exchange, the Chicago Stock Exchange and the Pacific Exchange. Our SEC filings are also available at the SEC's Web site at [www.sec.gov](http://www.sec.gov). We are providing the address of the SEC's Web site solely for the information of prospective investors. Information appearing on the SEC's Web site is not incorporated in this prospectus supplement except as specifically stated in this prospectus supplement.

## RECENT DEVELOPMENTS

Our safety and soundness regulator, the Office of Federal Housing Enterprise Oversight ("OFHEO"), announced in July 2003 that it was conducting a special examination of our accounting policies and practices, and in September 2004 issued a preliminary report of its findings to date. OFHEO subsequently identified additional accounting and internal control issues in February 2005, and issued its Report of the Special Examination of Fannie Mae (the "OFHEO Report") on May 23, 2006.

On December 22, 2004, we reported that the Audit Committee of our Board of Directors (the "Board") had determined that our previously filed interim and audited financial statements and the independent auditor's reports thereon for the period from January 2001 through the second quarter of 2004 should no longer be relied upon because such financial statements were prepared using accounting principles that did not comply with U.S. generally accepted accounting principles ("GAAP"). We have subsequently initiated an extensive restatement and re-audit of our financial statements with our new independent auditor, Deloitte & Touche LLP. We anticipate that the impact of the restatement will be material to Fannie Mae's financial statements for many, if not all, of the periods involved.

Our Board and management have initiated numerous internal and external reviews of our accounting processes and controls, our financial reporting processes, and our application of GAAP. See "Risk Factors—There are numerous ongoing internal reviews and external investigations of Fannie Mae" in the MBS Prospectus. One of these external investigations was conducted by the law firm of Paul, Weiss, Rifkind, Wharton & Garrison LLP ("Paul Weiss"), under the direction of former U.S. Senator Warren Rudman. On February 23, 2006, the Paul Weiss report to the Special Committee of the Board was publicly released, and included numerous findings about Fannie Mae's accounting policies, practices and systems, compensation practices, corporate governance, and internal controls. On February 24, 2006, we filed a Form 8-K with the U.S. Securities and Exchange Commission (the "SEC") that includes the Paul Weiss report.

The OFHEO Report presents OFHEO's findings about Fannie Mae's corporate culture, executive compensation programs, accounting policies and internal controls, internal and external auditors, senior management, and the Board. In conjunction with the release of the OFHEO Report, Fannie Mae entered into settlement agreements with both OFHEO and the SEC on May 23, 2006. The settlement agreements require Fannie Mae to pay civil penalties totaling \$400 million. In addition, the

settlement agreement with OFHEO requires Fannie Mae to undertake certain remedial actions within a specified time frame to address the recommendations contained in the OFHEO Report, including an undertaking by Fannie Mae not to increase its “mortgage portfolio” assets except as permitted by a plan to be submitted by Fannie Mae for approval by OFHEO. The settlement agreements constitute comprehensive settlements between Fannie Mae and both OFHEO and the SEC relating to the activities of Fannie Mae during the time period in question. Please refer to our Form 8-K filed with the SEC on May 30, 2006 for further information about the OFHEO Report and the settlement agreements. A complete copy of the OFHEO Report is available on OFHEO’s website at [www.ofheo.gov](http://www.ofheo.gov).

On July 20, 2006, the Federal Reserve Board implemented revisions to its payment systems risk policy requiring all government sponsored enterprises, including Fannie Mae, to fully fund their accounts with the Federal Reserve Banks before making payments to debt and mortgage-backed securities investors. Fannie Mae complied with this policy by entering into various funding agreements with market participants. In connection with this policy change, Fannie Mae also entered into a new fiscal agency agreement with the Federal Reserve Bank of New York. In addition, Fannie Mae, as trustee for its mortgage-backed securities, invests collections on mortgage loans underlying our mortgage-backed securities in highly rated financial instruments, which may include Fannie Mae’s senior debt securities or other debt securities if certain rating requirements are satisfied.

On August 24, 2006, we announced that we had been advised by the United States Attorney’s Office for the District of Columbia that it was discontinuing its investigation of Fannie Mae’s accounting policies and practices, and did not plan to file charges against Fannie Mae. Please refer to our Form 8-K filed with the SEC on August 24, 2006 for further information.

We have not filed Quarterly Reports on Form 10-Q for the third quarter of 2004, the first, second and third quarters of 2005, or the first, second and third quarters of 2006, nor have we filed our Annual Reports on Form 10-K for the years ended December 31, 2004 and December 31, 2005. As we most recently reported in the Current Report on Form 8-K filed with the SEC on November 8, 2006, we currently estimate that we will complete our financial restatement and file our Annual Report on Form 10-K for the year ended December 31, 2004 by the end of 2006. See “Risk Factors—There is a lack of financial information about us available in the market” in the MBS Prospectus.

Forms 8-K that we file with the SEC prior to the completion of the offering of the certificates are incorporated by reference in this prospectus supplement. This means that we are disclosing information to you by referring you to those documents. You should refer to “Incorporation by Reference” above for further details on the information that we incorporate by reference in this prospectus supplement and where to find it.

## REFERENCE SHEET

This reference sheet 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 supplement and each of the additional disclosure documents listed on page S-3.

### Assets Underlying Each Group of Classes

<u>Group</u>	<u>Assets</u>
1	Group 1 MBS
2	Group 2 MBS

### Assumed Characteristics of the Mortgage Loans Underlying the MBS

The table in Exhibit A of this prospectus supplement lists certain assumed characteristics of the mortgage loans underlying the MBS as of November 1, 2006. However, the actual characteristics of most of those mortgage loans will differ from the weighted averages in Exhibit A, perhaps significantly.

### 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 principal payments 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 November 30, 2006.

### Distribution Dates

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

### Book-Entry and Physical Certificates

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

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

<u>DTC Book-Entry</u>	<u>Physical</u>
All classes of certificates other than the R and RL Classes	R and RL Classes

### Components

Each of the IP1 and IP2 Classes consists of multiple payment components. The IP1 Class consists of the X1 and PO1 Components, and the IP2 Class consists of the X2 and PO2 Components.

Each component will have the original principal or notional principal balance, principal type and interest type set forth below.

	<b>Original Principal or Notional Principal Balance</b>	<b>Principal Type</b>	<b>Interest Type</b>
X1 .....	\$375,940,432*	NTL	WAC/IO
PO1 .....	\$ 100†	SEQ	PO/PZ†
X2 .....	\$352,552,889*	NTL	WAC/IO
PO2 .....	\$ 100††	SEQ	PO/PZ††

\* Notional balance. These components are interest only components. See below for a description of how their notional balances are calculated.

† The principal balance of the PO1 Component will increase as a result of the addition of certain deferred interest amounts on the Group 1 Loans as further described under “Description of the Certificates—Distributions of Principal—*Group 1 Principal Distribution Amount—Additions to the Principal Balance of the PO1 Component*” in this prospectus supplement.

†† The principal balance of the PO2 Component will increase as a result of the addition of certain deferred interest amounts on the Group 2 Loans as further described under “Description of the Certificates—Distributions of Principal—*Group 2 Principal Distribution Amount—Additions to the Principal Balance of the PO2 Component*” in this prospectus supplement.

### Interest Rates

On the initial distribution date, the A1 Class is expected to bear interest at an annual rate of approximately 5.38%. On each subsequent distribution date, the A1 Class will receive interest in amounts calculated as described under “Description of the Certificates—Distributions of Interest—*The Group 1 Classes—Amounts Payable on the A1 Class*” in this prospectus supplement.

As described in this prospectus supplement, the IP1 Class consists of two payment components, the X1 and PO1 Components. On each distribution date, the X1 Component will receive interest in the amount calculated as described under “Description of the Certificates—Distributions of Interest—*The Group 1 Classes—Amounts Payable on the IP1 Class*” in this prospectus supplement. The PO1 Component is a principal only component and will receive no interest.

On the initial distribution date, the A2 Class is expected to bear interest at an annual rate of approximately 5.38%. On each subsequent distribution date, the A2 Class will receive interest in amounts calculated as described under “Description of the Certificates—Distributions of Interest—*The Group 2 Classes—Amounts Payable on the A2 Class*” in this prospectus supplement.

As described in this prospectus supplement, the IP2 Class consists of two payment components, the X2 and PO2 Components. On each Distribution Date, the X2 Component will receive interest in the amount calculated as described under “Description of the Certificates—Distributions of Interest—*The Group 2 Classes—Amounts Payable on the IP2 Class*” in this prospectus supplement. The PO2 Component is a principal only component and will receive no interest.

### Notional Components

A notional component will not receive any principal. Its notional principal balance is the balance used to calculate accrued interest. The notional principal balances each will equal the percentage of the outstanding balance specified below immediately before the current distribution date:

<u>Component</u>	
X1 .....	100% of the Group 1 MBS
X2 .....	100% of the Group 2 MBS

**Distributions of Principal**

*Group 1 Principal Distribution Amount*

To the A1 Class and the PO1 Component, in that order, to zero.

*Group 2 Principal Distribution Amount*

To the A2 Class and the PO2 Component, in that order, to zero.

**Weighted Average Lives (years) \***

<u>Group 1</u>	<u>CPR Prepayment Assumption</u>				
	<u>0%</u>	<u>10%</u>	<u>25%</u>	<u>35%</u>	<u>50%</u>
A1 Class .....	20.8	8.8	3.7	2.5	1.5
X1 Component .....	21.4	8.8	3.7	2.5	1.5

  

<u>Group 2</u>	<u>CPR Prepayment Assumption</u>				
	<u>0%</u>	<u>10%</u>	<u>25%</u>	<u>35%</u>	<u>50%</u>
A2 Class .....	20.7	8.5	3.6	2.4	1.5
X2 Component .....	21.1	8.5	3.6	2.4	1.5

\* Determined as specified under “Description of the Certificates—Weighted Average Lives of the Certificates” in this prospectus supplement.

## ADDITIONAL RISK FACTORS

*The rate of principal payments on the certificates will be affected by the rate of principal payments on the underlying mortgage loans.* The rate at which you receive principal payments on the certificates will be sensitive to the rate of principal payments on the mortgage loans underlying the related MBS, including prepayments. Because borrowers generally may prepay their mortgage loans at any time (subject to the payment of a prepayment premium, as further described in this prospectus supplement), the rate of principal payments on the mortgage loans is likely to vary over time. It is highly unlikely that the mortgage loans will prepay

- at any of the prepayment rates we assumed in this prospectus supplement, or
- at any constant prepayment rate until maturity.

The rate of principal payments also will be affected by the relationship over time of the interest rates on those loans, which are subject to monthly adjustment, to the monthly payment amounts for those loans, which generally are subject to annual adjustment. Moreover, the rate of principal payments will be affected by various payment options available generally to the related borrowers as described in this prospectus supplement.

*The rate of prepayment of the mortgage loans underlying the MBS may be lower than that of mortgage loans without prepayment premiums.* The mortgage loans underlying the MBS provide for the payment of prepayment premiums by the borrowers in the event of full prepayments or certain partial prepayments of principal during specified periods. The prepayment premiums may reduce the likelihood or the amount of prepayments of the mortgage loans during these periods. However, we cannot estimate the prepayment experience of these mortgage loans or how that experience might compare to that of mortgage loans without prepayment premiums. In addition, we do not attempt to determine whether the imposition of prepayment premiums is enforceable or collectible under the laws of any state or territory. Further, we are unaware of any conclusive data on the prepayment rate of mortgage loans with

prepayment premiums. Any prepayment premiums that we receive will be retained as additional servicing compensation and will not be paid to certificateholders.

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

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

Furthermore, in the case of certificates purchased at a premium and the IP1 and IP2 Classes, you could lose money on your investment if prepayments occur at a rapid rate. Additionally, the rate and timing of principal distributions on the MBS relative to the amount and timing of the creation of deferred interest on the mortgage loans will affect the yields to maturity of the related classes.

*Hurricanes in the Gulf Coast region may present risk of increased mortgage loan prepayments.* In August and September 2005, Hurricane Katrina and Hurricane Rita resulted in catastrophic damage to the Gulf Coast of the United States, including portions of coastal and inland Alabama, Florida, Louisiana, Mississippi and Texas. Hundreds of thousands of people were displaced and interruptions in the regional economy remain significant. A prolonged economic downturn in the Gulf Coast region could lead to increased borrower defaults on mortgage loans in the affected areas, in turn resulting in early payments of principal of the certificates backed by those mortgage loans. Additionally, casualty losses on mortgaged properties with hurricane or flood damage may result in early payment of principal of the related certificates.

**You must make your own decisions about the various applicable assumptions, including prepayment assumptions, when deciding whether to purchase the certificates.**

*The rate of principal payment of the mortgage loans underlying the MBS also will be*

affected by the interaction of their interest rates with their monthly payment amounts. The rate of principal payments also will be affected by the relationship over time of the interest rates on those loans, which are subject to monthly adjustment, to the minimum monthly payment amounts for those loans, which are subject to annual adjustment. As a result of the mismatch in the timing of rate and payment adjustments, negative amortization (or increased negative amortization) or faster amortization of principal (or decreased negative amortization) may occur. Moreover, the rate of principal payments will be affected by various payment options available generally to the related borrowers as described in this prospectus supplement.

*Application of the weighted average Group 1 MBS pass-through rate cap to the A1 Class may adversely affect its yield.* The interest rate on the A1 Class is subject to the weighted average Group 1 MBS pass-through rate cap. Any resulting interest carryover amount (*i.e.*, the amount by which interest payments on the A1 Class are reduced due to application of the weighted average Group 1 MBS pass-through rate cap) will be paid to the A1 Class on the current distribution date or future distribution dates only to the extent the amount available for interest payments on the A1 Class and the X1 Component exceeds the amount of current interest due on the A1 Class. As a result, we cannot assure you that funds will be adequate to cover the interest carryover amount on any distribution date. **Our guaranty will not cover any interest carryover amounts on the A1 Class.**

*Application of principal distributions on the Group 1 MBS to pay interest on the A1 and IP1 Classes will have the effect of lengthening the weighted average life of the A1 Class.* If as a result of the negative amortization feature of the related mortgage loans, some or all of the principal distributions on the Group 1 MBS are applied to pay interest on the A1 and IP1 Classes instead of being applied to reduce the principal balance of the A1 Class, the weighted average life of the A1 Class will be extended correspondingly.

*The X1 Component will receive interest payments solely from funds available to pay interest on the Group 1 Classes that remain*

*after interest payments on the A1 Class.* The amount of interest payments on the X1 Component will be very sensitive to the level of LIBOR relative to the pass-through rates on the Group 1 MBS and to the amount of principal and interest distributed on the Group 1 MBS. The pass-through rates on the Group 1 MBS are calculated based upon the interest rates of the underlying mortgage loans, which adjust monthly based primarily on the MTA index. See “Description of the Certificates—Characteristics of the MTA ARM Loans—*The MTA Index*” in this prospectus supplement. For so long as the A1 Class remains outstanding, we will not pay interest on the X1 Component on any distribution date until we have paid all accrued and unpaid interest on the A1 Class on that date (including any interest carryover amounts).

*Application of the weighted average Group 2 MBS pass-through rate cap to the A2 Class may adversely affect its yield.* The interest rate on the A2 Class is subject to the weighted average Group 2 MBS pass-through rate cap. Any resulting interest carryover amount (*i.e.*, the amount by which interest payments on the A2 Class are reduced due to application of the weighted average Group 2 MBS pass-through rate cap) will be paid to the A2 Class on the current distribution date or future distribution dates only to the extent the amount available for interest payments on the A2 Class and the X2 Component exceeds the amount of current interest due on the A2 Class. As a result, we cannot assure you that funds will be adequate to cover the interest carryover amount on any distribution date. **Our guaranty will not cover any interest carryover amounts on the A2 Class.**

*Application of principal distributions on the Group 2 MBS to pay interest on the A2 and IP2 Classes will have the effect of lengthening the weighted average life of the A2 Class.* If as a result of the negative amortization feature of the related mortgage loans, some or all of the principal distributions on the Group 2 MBS are applied to pay interest on the A2 and IP2 Classes instead of being applied to reduce the principal balance of the A2 Class, the weighted average life of the A2 Class will be extended correspondingly.

*The X2 Component will receive interest payments solely from funds available to pay interest on the Group 2 Classes that remain after interest payments on the A2 Class.* The amount of interest payments on the X2 Component will be very sensitive to the level of LIBOR relative to the pass-through rates on the Group 2 MBS and to the amount of principal and interest distributed on the Group 2 MBS. The pass-through rates on the Group 2 MBS are calculated based upon the interest rates of the underlying mortgage loans, which adjust monthly based primarily on the MTA index. See “Description of the Certificates—Characteristics of the MTA ARM Loans—*The MTA Index*” in this prospectus supplement. For so long as the A2 Class remains outstanding, we will not pay interest on the X2 Component on any distribution date until we have paid all accrued and unpaid interest on the A2 Class on that date (including any interest carryover amounts).

*The A1 and A2 Classes may not receive their full accrued interest amounts on each distribution date.* The amounts of interest that we are obligated to pay to the A1 and A2 Classes on each distribution date are subject to certain limitations as described in this prospectus supplement. In the event the amounts available for interest payments on the A1 and A2 Classes are insufficient to pay the full amounts of current interest accrued on the A1 and A2 Classes for any distribution date due to the negative amortization feature of the related mortgage loans, the amounts of such insufficiency will be added to the principal balances of the related Classes. In that case, the effective yields on the A1 and A2 Classes may be reduced below the yields that otherwise would be produced.

*Weighted average lives and yields on the certificates are affected by actual characteristics of the underlying mortgage loans.* We have assumed that the mortgage loans underlying the MBS have certain characteristics. However, the actual mortgage loans probably will have different characteristics from those we assumed. As a result, your yields could be lower than you expect, even if the mortgage loans prepay at the indicated constant prepayment rates. In addition, slight differences between the assumed mortgage loan characteristics and the actual

mortgage loans could affect the weighted average lives of the classes of certificates.

*Level of floating rate index affects yields on certain certificates.* The yield on any floating rate certificate will be affected by the level of its interest rate index. If the level of the index differs from the level you expect, then your actual yield may be lower than you expect.

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

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

*Unpredictable timing of last payment affects yields on certificates.* The actual final payment of your class is likely to occur earlier, and could occur much earlier, than the final distribution date listed on the cover page of this prospectus supplement. If you assume that the actual final payment will occur on the final distribution date specified, your yield could be lower than you expect.

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

*Uncertain market for the certificates could make them difficult to sell and cause their values to fluctuate.* We cannot be sure that a market for resale of the certificates will develop. Further, if a market develops, it may not continue or be sufficiently liquid to allow you to sell your certificates. 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. You should purchase certificates only if you understand and can tolerate the risk that the value of

your certificates will vary over time and that your certificates may not be easily sold.

*Terrorist activities and related 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 or any related military 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 sectors, including those affecting the performance of mortgage loan borrowers. Among other things, reduced investor confidence could result in substantial volatility in securities markets and a decline in real estate-related investments. In addition, 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.

## DESCRIPTION OF THE CERTIFICATES

The material under this heading summarizes certain features of the Certificates. You will find additional information about the Certificates in the other sections of this prospectus supplement, as well as in the additional Disclosure Documents and the Trust Agreement. If we use a capitalized term in this prospectus supplement without defining it, you will find the definition of that term in the applicable Disclosure Document or in the Trust Agreement.

### General

*Structure.* We will create the Fannie Mae REMIC Trust specified on the cover of this prospectus supplement (the “Trust”) pursuant to a trust agreement dated as of September 1, 2006 and a supplement thereto dated as of November 1, 2006 (the “Issue Date”). The trust agreement and related supplement together are referred to as the “Trust Agreement.” We will issue the Guaranteed REMIC Pass-Through Certificates (the “Certificates”) pursuant to the Trust Agreement. We will execute the Trust Agreement in our corporate capacity and as trustee (the “Trustee”).

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

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

The assets of the Trust will consist of the Lower Tier Regular Interests.

The assets of the Lower Tier REMIC will include two groups of Fannie Mae Guaranteed Mortgage Pass-Through Certificates (the “Group 1 MBS” and “Group 2 MBS” and, together, the “MBS”).

Each Group 1 and Group 2 MBS represents a beneficial ownership interest in a pool of first lien, one- to four-family (“single-family”), adjustable-rate residential mortgage loans based on the MTA Index (defined below) having the characteristics described in this prospectus supplement. We refer to these loans as the “Group 1 Loans” and “Group 2 Loans,” respectively, and together, the “MTA ARM Loans.”

*Fannie Mae Guaranty.* We guarantee that the following amounts will be available for distribution to Certificateholders:

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

In addition, we guarantee that the following amounts will be available for distribution to each holder of an MBS:

- scheduled installments of principal and interest on the underlying MTA ARM Loans on time, whether or not the related borrowers pay us, and
- the full principal balance of any foreclosed MTA ARM Loan, whether or not we recover it.

Our guarantees are not backed by the full faith and credit of the United States. See “Description of Certificates—The Fannie Mae Guaranty” in the REMIC Prospectus and “Description of the Certificates—Fannie Mae Guaranty” in the MBS Prospectus.

**We do not guarantee that any A1 Interest Carryover Amounts or A2 Interest Carryover Amounts will be available for distribution to Certificateholders.**

*Characteristics of Certificates.* The Group 1 and Group 2 Classes each will be represented by one certificate (the “DTC Certificates”) to be registered at all times in the name of the nominee of The Depository Trust Company (“DTC”), a New York-chartered limited purpose trust company, or any successor or depository selected or approved by us. We refer to the nominee of DTC as the “Holder” or “Certificateholder” of the DTC Certificates. DTC will maintain the DTC Certificates through its book-entry facilities.

A Holder is not necessarily the beneficial owner of a Certificate. Beneficial owners ordinarily will hold Certificates through one or more financial intermediaries, such as banks, brokerage firms and securities clearing organizations. See “Description of Certificates—Denominations and Form” in the REMIC Prospectus.

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 or RL Certificate can be transferred at the corporate trust office of the Transfer Agent, or at the office of the Transfer Agent in New York, New York. U.S. Bank National Association (“US Bank”) in Boston, Massachusetts 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. See also “—Characteristics of the R and RL Classes” below.

The Holder of the R Class will receive the proceeds of any remaining assets of the Trust, 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.

*Authorized Denominations.* We will issue the Certificates in the following denominations:

<u>Classes</u>	<u>Denomination</u>
A1, A2, IP1 and IP2 Classes	\$100,000 minimum plus whole dollar increments

We will issue the R and RL Classes as single Certificates with no principal balances.

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

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

*Class Factors.* On or shortly after the eleventh calendar day of each month, we will publish a factor (carried to eight decimal places) for each Class of Certificates (or, in the case of the IP1 and IP2 Classes, each Component). When the applicable class factor is multiplied by the original principal balance of a Certificate of any Class or, in the case of the IP1 and IP2 Classes, each related Component, the product will equal the current principal balance (or notional principal balance) of that Certificate or Component after taking into account payments on the Distribution Date in the same month (as well as any addition to principal in the case of the Partial Accrual Classes).

*No Optional Termination.* We have no option to effect an early termination of the Lower Tier REMIC or Trust. Further, we will not repurchase the Mortgage Loans underlying any MBS in a “clean-up call.” See “Description of the Certificates—Termination” in the MBS Prospectus.

## **The MBS**

*General.* We expect the MBS to have the characteristics listed on Exhibit A to this prospectus supplement and the general characteristics described in the MBS Prospectus. The MBS provide that principal and interest on the MTA ARM Loans are passed through monthly, beginning in the month after we issue the MBS. The MTA ARM Loans are conventional, adjustable-rate mortgage loans secured by first mortgages or deeds of trust on single-family residential properties. The MTA ARM Loans have original maturities of 30 years.

*Prepayment Premiums.* A majority of the Group 1 Loans provide for the payment of prepayment premiums during either the first 12 months or the first 36 months following origination equal to six months’ interest on prepayments in full and on partial prepayments made during any 12-month period that exceed 20% of the original principal balance of the loan. With respect to these Group 1 Loans, roughly one-third (by principal balance as of the Issue Date) have a prepayment period of 12 months, and roughly two-thirds (by principal balance as of the Issue Date) have a prepayment period of 36 months.

The prepayment premiums applicable to the remaining portion of the Group 1 Loans vary with respect to the length of the prepayment period (ranging from 12 months to 36 months following origination) and the amount of the premium imposed. The amounts of these prepayment premiums range from two months’ interest to 5% of the unpaid principal balance.

The Group 2 Loans provide for the payment of prepayment premiums during the three-year period following origination. A portion of the Group 2 Loans provide for prepayment premiums on prepayments in full generally equal to one of the following amounts:

- two months’ interest on the portion of the prepayment that exceeds one-third of the original principal balance; or
- 1% of the original principal balance; or
- 2% of the unpaid principal balance at the time of payoff; or
- 5% of the unpaid principal balance if prepaid during the first year, 4% of the unpaid principal balance if prepaid during the second year, and 3% of the unpaid principal balance if prepaid during the third year.

The remaining portion of the Group 2 Loans provide for prepayment premiums on both full and partial prepayments. These premiums are equal to six months’ interest on the portion of all prepayments made during any 12-month period within the three-year prepayment period that exceeds 20% of the original principal balance.

See “Description of the Certificates,” “The Mortgage Pools,” “The Mortgage Loans—Adjustable Rate Mortgages (ARMs)” and “Yield, Maturity, and Prepayment Considerations” in the MBS Prospectus.

Finally, we note that all of the Group 1 Loans have a minimum annual servicing fee of 0.125%. See “The Mortgage Loans—Adjustable-Rate Mortgage (ARMs)—*Minimum servicing fee on ARM pools*” in the MBS Prospectus.

## **Characteristics of the MTA ARM Loans**

### *The MTA Index*

The Group 1 Loans and Group 2 Loans are MTA ARM Loans. For an initial period of up to 12 months, the interest rate for each MTA ARM Loan is fixed. After this period, the interest rate varies to respond to changes in the 12-month average of the monthly average yields on United States Treasury Securities adjusted to a constant maturity of one year (the “MTA Index”), as published by the Board of Governors of the Federal Reserve System in the Federal Reserve Statistical Release: Selected Interest Rates H.15 (519). The MTA Index value for each interest rate change date is computed by adding together the monthly yields for the preceding 12 months most recently available as of 15 days prior to the interest rate change date and dividing the result by 12.

### *Mortgage Interest Accrual Rate and Interest Rate Changes*

For an initial period of up to 12 months, the interest rate for each MTA ARM Loan is set at a fixed, competitive market rate (the “Initial Mortgage Interest Rate”), which generally is less than the Mortgage Margin for that loan. After this initial period, the interest rate of the MTA ARM Loan (the “Mortgage Interest Accrual Rate”) is set every month, subject to the cap and floor described below, to equal (i) the applicable MTA Index value plus (ii) a specified percentage amount (the “Mortgage Margin”) that the lender sets when the MTA ARM Loan is originated.

### *Cap and Floor on Mortgage Interest Accrual Rate*

The Mortgage Interest Accrual Rate for each MTA ARM Loan, when adjusted at the monthly interest rate change date, may not be greater than the maximum Mortgage Interest Accrual Rate (lifetime rate cap) or less than its Mortgage Margin (lifetime rate floor), as specified in the related mortgage note.

### *Monthly Payment Amount, Amortization, and Deferred Interest*

Each month borrowers must make the minimum monthly payment required by the related mortgage note (the “Monthly Payment Amount”). The initial Monthly Payment Amount for an MTA ARM Loan is the amount which will fully amortize the loan at its initial fixed interest rate in equal monthly installments over its remaining term to maturity. The Monthly Payment Amount will adjust every 12 months after the first payment adjustment date, which occurs after 12 months from origination. The new Monthly Payment Amount will be set at the amount necessary to pay interest at the Mortgage Interest Accrual Rate effective during the month immediately preceding the month in which the first payment is due in the new amount and to fully amortize the outstanding principal balance of the MTA ARM Loan on a level debt service basis over the remainder of its term. However, the Monthly Payment Amount may not (except as described below) increase or decrease by more than 7.5% of the prior Monthly Payment Amount.

Because of the payment increase restriction and because the Mortgage Interest Accrual Rate changes more often than the changes in the Monthly Payment Amount, the probability exists that some of the interest that accrues and would otherwise be payable will be deferred (“Deferred Interest”) if the MTA Index increases. In that case, no portion of the Monthly Payment Amount would be applied to reduce the principal balance of the MTA ARM Loan. Any interest treated this way will be added to the outstanding principal balance of the MTA ARM Loan and future interest accruals will be computed on this higher outstanding balance. Because the initial amortization schedule for an MTA ARM Loan is based on its Initial Mortgage Interest Rate (generally less than the related

Mortgage Margin), a borrower who pays only the Monthly Payment Amount is likely to incur a substantial amount of Deferred Interest during the first five years even if the MTA Index does not increase.

Additionally, you should understand that if the MTA Index decreases, the possibility exists that the portion of the Monthly Payment Amount allocable to principal will exceed the amount of principal required to fully amortize the MTA ARM Loan on a level debt service basis to its stated maturity. This possibility exists because of the payment decrease restriction we described above and because the Mortgage Interest Accrual Rate changes more often than the changes in the Monthly Payment Amount. This excess portion of the Monthly Payment Amount would be applied in reduction of principal, and would amortize the MTA ARM Loans faster than if the MTA Index did not decrease.

Notwithstanding the 7.5% payment change restrictions, the payment change restrictions are waived initially on the fifth anniversary of the first payment due date, every five years thereafter, and on the final payment change date, so that a new Monthly Payment Amount may be set that will fully amortize the MTA ARM Loan on a level debt service basis during the remaining term at the Mortgage Interest Accrual Rate accruing during the month immediately preceding the month in which the first payment is due in the new amount. Should any annual increases be insufficient to fully amortize the MTA ARM Loan in the final year of the loan, there will be a final payment equal to all accrued interest and the remaining unpaid principal balance that will be due on the stated maturity date.

Furthermore, if additions of Deferred Interest to principal would cause the outstanding principal of an ARM Loan to exceed either 110% or 115% (as applicable) of its original principal balance, there will be an unscheduled payment increase (not subject to the 7.5% payment increase restriction). As a result, the amount due thereafter will be the amount that would pay all interest, if it were to continue to accrue at the Mortgage Interest Accrual Rate in effect in the month immediately prior to the date of such payment increase, and would fully amortize the outstanding principal balance of the MTA ARM Loan on a level debt service basis over the remainder of its term.

However, later additions of Deferred Interest to principal are not prohibited and could occur again due to subsequent interest rate changes.

The Monthly Payment Amount is to be changed subsequently only in the way described above if additions of Deferred Interest would again cause the outstanding principal of the MTA ARM Loan to exceed either 110% or 115% (as applicable) of its original principal balance, and on the next annual payment change date.

#### *Borrower Payment Options under the MTA ARM Loans*

As noted earlier, a borrower must pay at least the Monthly Payment Amount each month. In addition, each month the servicer may offer borrowers one or more of the following payment options:

- when the Monthly Payment Amount is less than the amount of interest due that month, the borrower can pay the full amount of interest accrued at the monthly Mortgage Interest Accrual Rate;
- when the Monthly Payment Amount is less than a fully amortizing monthly payment, the borrower can pay the full amortizing amount; and
- if the original term of the MTA ARM Loan is more than 15 years, the borrower can make a monthly payment that would fully amortize the outstanding balance of the loan based on a 15 year term.

Even if one of these payment options is not explicitly offered, a borrower may have the ability to make additional payments. See “The Mortgage Loans—Adjustable-Rate Mortgages (ARMs)—Deferred interest/negative amortization loans” in the MBS Prospectus.

## Final Data Statement

After issuing the Certificates, we will prepare a Final Data Statement containing certain information, including the Pool number, the current WAC (or original WAC, if the current WAC is not available) and the current WAM (or Adjusted WAM, if the current WAM is not available) of the ARM Loans underlying each of the MBS as of the Issue Date. The Final Data Statement also will include the weighted averages of all the current or original WACs and the weighted averages of all the current or Adjusted WAMs, based on the current unpaid principal balances of the MTA ARM Loans underlying each of the MBS as of the Issue Date and certain additional information relating to interest on the ARM Loans on an aggregate basis. You may obtain the Final Data Statement by telephoning us at 1-800-237-8627. In addition, the Final Data Statement is available on our corporate Web site at [www.fanniemae.com](http://www.fanniemae.com).

## Distributions of Interest

### *Categories of Classes and Components*

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

<u>Interest Type*</u>	<u>Classes and Components</u>
<b>Group 1 Classes and Components</b>	
Floating Rate	A1
Weighted Average Coupon	X1
Partial Accrual	A1 and IP1
Available Funds	A1
Interest Only	X1
Principal Only	PO1
Component	IP1
<b>Group 2 Classes and Components</b>	
Floating Rate	A2
Weighted Average Coupon	X2
Partial Accrual	A2 and IP2
Available Funds	A2
Interest Only	X2
Principal Only	PO2
Component	IP2
<b>No Payment Residual</b>	R and RL

\* See "Description of Certificates—Class Definitions and Abbreviations" in the REMIC Prospectus.

*Components.* Interest payments on the IP1 and IP2 Classes will be calculated based on the applicable payment components, which have the designations and original principal or notional principal balances specified in this prospectus supplement under "Reference Sheet—Components." The payment characteristics of the IP1 and IP2 Classes will reflect a combination of the payment characteristics of their respective components. Components are not separately tradeable from the related Class.

*General.* We will pay interest on the Certificates at the applicable annual interest rates described in this prospectus supplement. We calculate interest based on an assumed 360-day year consisting of twelve 30-day months or, in the case of the A1 and A2 Classes, an assumed 360-day year and the actual number of days in each related Interest Accrual Period. We pay interest monthly on each Distribution Date, beginning in the month after the Settlement Date specified in the Reference Sheet.

On the initial Distribution Date, interest to be paid on each A1 Class and A2 Class Certificate (or added to principal) will consist of 25 days' interest on the initial balance of that Certificate, and interest to be paid on each IP1 and IP2 Class Certificate (or added to principal) will consist of 30 days'

interest on the initial balance of that Certificate. On each subsequent Distribution Date, interest to be paid on each Certificate (or added to principal in the case of the Partial Accrual Classes) will consist of one month's interest on the outstanding balance of that Certificate immediately prior to that Distribution Date. For a description of the Partial Accrual Classes, see “—*The Group 1 Classes—Amounts Payable on the A1 Class*,” “—*The Group 1 Classes—Amounts Payable on the IP1 Class*,” “—*The Group 2 Classes—Amounts Payable on the A2 Class*” and “—*The Group 2 Classes—Amounts Payable on the IP2 Class*” below.

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

<u>Classes</u>	<u>Interest Accrual Periods</u>
The A1 and A2 Classes	The period beginning on the 25th day of the month preceding the month in which the Distribution Date occurs (or, in the case of the initial Distribution Date, the Settlement Date) through and including the 24th day of the month in which the Distribution Date occurs
The IP1 and IP2 Classes (collectively, the “Delay Classes”)	Calendar month preceding the month in which the Distribution Date occurs

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

*Notional Components.* The Notional Components will not have principal balances. During each Interest Accrual Period, the Notional Components will bear interest on their respective notional principal balances at the applicable interest rates. The notional principal balances of the Notional Components will be calculated as specified under “Reference Sheet—Notional Components” in this prospectus supplement.

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

*The Group 1 Classes*

Amounts Available for Payment of Interest. On each Distribution Date, the amount available for payments of interest on the Group 1 Classes in the aggregate (the “Group 1 Available Interest Amount”) will be equal to the *sum* of

- the aggregate amount of interest distributions on the Group 1 MBS on that date

*plus*

- the *lesser* of (x) the aggregate principal distributions on the Group 1 MBS on that date and (y) the Group 1 Deferred Interest Amount, if any, for that date.

On each Distribution Date, the “Group 1 Deferred Interest Amount” is the aggregate amount of Deferred Interest added to the principal balances of the Group 1 Loans as of the first day of the month in which the Distribution Date occurs.

On each Distribution Date, the amount available for the payment of interest on the A1 Class (including the A1 Interest Carryover Amount) is the *lesser* of

- the Group 1 Available Interest Amount

*and*

- the *sum* of the A1 Class Interest Payment Cap Amount for that date *plus* the A1 Interest Carryover Amount, if any, payable from amounts otherwise payable as interest on the X1 Component.

The “A1 Class Interest Payment Cap Amount” for any Distribution Date is equal to the amount of interest calculated on the principal balance of the A1 Class at an annual rate equal to a fraction, expressed as a percentage, the *numerator* of which is the Group 1 Available Interest Amount for that date, and the *denominator* of which is the principal balance of the Group 1 MBS (before giving effect to distributions made and any additions to principal on that date, and adjusted to take into account the number of days in the related Interest Accrual Period).

On each Distribution Date, the amount available for the payment of interest on the X1 Component will be equal to the *excess*, if any, of

- the Group 1 Available Interest Amount for that date

*over*

- the amount payable as interest on the A1 Class for that date as described under “—Amounts Payable on the A1 Class” below.

Amounts Payable on the A1 Class. During the initial Interest Accrual Period, the A1 Class is expected to bear interest at an annual rate equal to approximately 5.38%. Subject to the limitations described below, during each subsequent Interest Accrual Period the A1 Class will bear interest at an annual rate (the “A1 Class Interest Rate”) equal to the *lesser* of

- the A1 Class Formula Rate for the related Interest Accrual Period and
- the Weighted Average Group 1 MBS Pass-Through Rate for the related Distribution Date.

The “A1 Class Formula Rate” will be based on the formula indicated below, but always subject to the specified minimum interest rate:

<u>Minimum Interest Rate</u>	<u>Formula for Calculation of Interest Rate (1)</u>
0.06%	LIBOR + 6 basis points

(1) We will establish LIBOR on the basis of the “BBA Method.”

Changes in LIBOR will affect the yield with respect to the A1 Class. These changes may not correspond to changes in Mortgage Interest Accrual Rates of the Group 1 Loans. Lower Mortgage Interest Accrual Rates could occur while an increase in the level of LIBOR occurs. Similarly, higher Mortgage Interest Accrual Rates could occur while a decrease in the level of LIBOR occurs.

The “Weighted Average Group 1 MBS Pass-Through Rate” for any Distribution Date is equal to the weighted average of the pass-through rates of the Group 1 MBS for that Distribution Date, weighted on the basis of the principal balances of the Group 1 MBS immediately preceding that Distribution Date (adjusted to take into account the number of days in the related Interest Accrual Period).

The application of the Weighted Average Group 1 MBS Pass-Through Rate cap to the A1 Class may reduce the interest rate on the A1 Class and result in the creation of A1 Interest Carryover Amounts.

You may obtain the A1 Class Interest Rate by telephoning us at 1-800-237-8627.

“A1 Interest Carryover Amount” means, with respect to any Distribution Date, the *sum* of

- interest on the principal balance of the A1 Class at the *excess* of the A1 Class Formula Rate for the related Interest Accrual Period *over* the Weighted Average Group 1 MBS Pass-Through Rate for that Distribution Date (but not less than zero)

*plus*

- the unpaid portion of any such excess for prior Distribution Dates.

The A1 Interest Carryover Amount will not bear interest.

On each Distribution Date, we also will pay to the A1 Class an amount up to the A1 Interest Carryover Amount, if any, for that Distribution Date to the extent the Group 1 Available Interest Amount for that Distribution Date exceeds the amount of current interest due on the A1 Class on that Distribution Date. **We do not guarantee that any A1 Interest Carryover Amounts will be available on any Distribution Date for payment to Holders of the A1 Class.**

On any Distribution Date, if as a result of the negative amortization feature of the Group 1 Loans the A1 Class Interest Payment Cap Amount for that date is insufficient to pay interest on the A1 Class at the A1 Class Interest Rate, the amount of interest required to be paid on the A1 Class on that date will be reduced (but not to less than zero) by the amount of such insufficiency (such amount, the “A1 Class Net Deferred Interest”). On each Distribution Date, the principal balance of the A1 Class will be increased by the A1 Class Net Deferred Interest, if any, for that date.

Amounts Payable on the IP1 Class. The IP1 Class consists of the X1 and PO1 Components. Subject to the limitations described below, during each Interest Accrual Period the X1 Component will bear interest at an annual rate equal to the *excess* of

- the Weighted Average Group 1 MBS Pass-Through Rate for the related Distribution Date

*over*

- the A1 Class Interest Rate (adjusted to an actual/360 basis) *multiplied* by a fraction the *numerator* of which is the principal balance of the A1 Class immediately prior to such Distribution Date and the *denominator* of which is the principal balance of the Group 1 MBS immediately prior to the related Distribution Date.

Notwithstanding the foregoing, the interest payable on the X1 Component on any Distribution Date will be reduced (but not to less than zero) by an amount equal to the A1 Interest Carryover Amount actually paid to Holders of the A1 Class on that date. **The amount of any such interest reduction will not be covered by our guaranty and will not be payable to Holders of the IP1 Class on any subsequent Distribution Date.**

Furthermore, if on any Distribution Date the Group 1 MBS Net Deferred Interest exceeds the A1 Class Net Deferred Interest for that Distribution Date, the interest payable on the X1 Component on that date will be reduced (but not to less than zero) by the amount of such excess and, correspondingly, the principal balance of the PO1 Component will be increased by the amount of such excess. We refer to the amount of any such excess as the “IP1 Class Net Deferred Interest.”

The “Group 1 MBS Net Deferred Interest” for any Distribution Date is the *excess*, if any, of

- the Group 1 Deferred Interest Amount as of the first day of the month in which that Distribution Date occurs

*over*

- the aggregate principal distributions on the Group 1 MBS on that Distribution Date.

*The Group 2 Classes*

Amounts Available for Payment of Interest. On each Distribution Date, the amount available for payments of interest on the Group 2 Classes in the aggregate (the “Group 2 Available Interest Amount”) will be equal to the *sum* of

- the aggregate amount of interest distributions on the Group 2 MBS on that date

*plus*

- the *lesser* of (x) the aggregate principal distributions on the Group 2 MBS on that date and (y) the Group 2 Deferred Interest Amount, if any, for that date.

On each Distribution Date, the “Group 2 Deferred Interest Amount” is the aggregate amount of Deferred Interest added to the principal balances of the Group 2 Loans as of the first day of the month in which the Distribution Date occurs.

On each Distribution Date, the amount available for the payment of interest on the A2 Class (including the A2 Interest Carryover Amount) is the *lesser* of

- the Group 2 Available Interest Amount

*and*

- the *sum* of the A2 Class Interest Payment Cap Amount for that date *plus* the A2 Interest Carryover Amount, if any, payable from amounts otherwise payable as interest on the X2 Component.

The “A2 Class Interest Payment Cap Amount” for any Distribution Date is equal to the amount of interest calculated on the principal balance of the A2 Class at an annual rate equal to a fraction, expressed as a percentage, the *numerator* of which is the Group 2 Available Interest Amount for that date, and the *denominator* of which is the principal balance of the Group 2 MBS (before giving effect to distributions made and any additions to principal on that date, and adjusted to take into account the number of days in the related Interest Accrual Period).

On each Distribution Date, the amount available for the payment of interest on the X2 Component will be equal to the *excess*, if any, of

- the Group 2 Available Interest Amount for that date

*over*

- the amount payable as interest on the A2 Class for that date as described under “—Amounts Payable on the A2 Class” below.

Amounts Payable on the A2 Class. During the initial Interest Accrual Period, the A2 Class is expected to bear interest at an annual rate equal to approximately 5.38%. Subject to the limitations described below, during each subsequent Interest Accrual Period the A2 Class will bear interest at an annual rate (the “A2 Class Interest Rate”) equal to the *lesser* of

- the A2 Class Formula Rate for the related Interest Accrual Period and
- the Weighted Average Group 2 MBS Pass-Through Rate for the related Distribution Date.

The “A2 Class Formula Rate” will be based on the formula indicated below, but always subject to the specified minimum interest rate:

Minimum Interest Rate

0.06%

Formula for Calculation of Interest Rate (1)

LIBOR + 6 basis points

(1) We will establish LIBOR on the basis of the “BBA Method.”

Changes in LIBOR will affect the yield with respect to the A2 Class. These changes may not correspond to changes in Mortgage Interest Accrual Rates of the Group 2 Loans. Lower Mortgage Interest Accrual Rates could occur while an increase in the level of LIBOR occurs. Similarly, higher Mortgage Interest Accrual Rates could occur while a decrease in the level of LIBOR occurs.

The “Weighted Average Group 2 MBS Pass-Through Rate” for any Distribution Date is equal to the weighted average of the pass-through rates of the Group 2 MBS for that Distribution Date, weighted on the basis of the principal balances of the Group 2 MBS immediately preceding that Distribution Date (adjusted to take into account the number of days in the related Interest Accrual Period).

The application of the Weighted Average Group 2 MBS Pass-Through Rate cap to the A2 Class may reduce the interest rate on the A2 Class and result in the creation of A2 Interest Carryover Amounts.

You may obtain the A2 Class Interest Rate by telephoning us at 1-800-237-8627.

“A2 Interest Carryover Amount” means, with respect to any Distribution Date, the *sum* of

- interest on the principal balance of the A2 Class at the *excess* of the A2 Class Formula Rate for the related Interest Accrual Period *over* the Weighted Average Group 2 MBS Pass-Through Rate for that Distribution Date (but not less than zero)

*plus*

- the unpaid portion of any such excess for prior Distribution Dates.

The A2 Interest Carryover Amount will not bear interest.

On each Distribution Date, we also will pay to the A2 Class an amount up to the A2 Interest Carryover Amount, if any, for that Distribution Date to the extent the Group 2 Available Interest Amount for that Distribution Date exceeds the amount of current interest due on the A2 Class on that Distribution Date. **We do not guarantee that any A2 Interest Carryover Amounts will be available on any Distribution Date for payment to Holders of the A2 Class.**

On any Distribution Date, if as a result of the negative amortization feature of the Group 2 Loans the A2 Class Interest Payment Cap Amount for that date is insufficient to pay interest on the A2 Class at the A2 Class Interest Rate, the amount of interest required to be paid on the A2 Class on that date will be reduced (but not to less than zero) by the amount of such insufficiency (such amount, the “A2 Class Net Deferred Interest”). On each Distribution Date, the principal balance of the A2 Class will be increased by the A2 Class Net Deferred Interest, if any, for that date.

Amounts Payable on the IP2 Class. The IP2 Class consists of the X2 and PO2 Components. Subject to the limitations described below, during each Interest Accrual Period the X2 Component will bear interest at an annual rate equal to the *excess* of

- the Weighted Average Group 2 MBS Pass-Through Rate for the related Distribution Date  
*over*
- the A2 Class Interest Rate (adjusted to an actual/360 basis) *multiplied* by a fraction the *numerator* of which is the principal balance of the A2 Class immediately prior to such Distribution Date and the *denominator* of which is the principal balance of the Group 2 MBS immediately prior to the related Distribution Date.

Notwithstanding the foregoing, the interest payable on the X2 Component on any Distribution Date will be reduced (but not to less than zero) by an amount equal to the Interest Carryover Amount actually paid to Holders of the A2 Class on that date. **The amount of any such interest reduction will not be covered by our guaranty and will not be payable to Holders of the IP2 Class on any subsequent Distribution Date.**

Furthermore, if on any Distribution Date the Group 2 MBS Net Deferred Interest exceeds the A2 Class Net Deferred Interest for that Distribution Date, the interest payable on the X2 Component on that date will be reduced (but not to less than zero) by the amount of such excess and, correspondingly, the principal balance of the PO2 Component will be increased by the amount of such excess. We refer to the amount of any such excess as the “IP2 Class Net Deferred Interest.”

The “Group 2 MBS Net Deferred Interest” for any Distribution Date is the *excess*, if any, of

- the Group 2 Deferred Interest Amount as of the first day of the month in which that Distribution Date occurs

*over*

- the aggregate principal distributions on the Group 2 MBS on that Distribution Date.

### Calculation of LIBOR

On each Index Determination Date, we will calculate LIBOR for the related Interest Accrual Period. We will calculate LIBOR on the basis of the “BBA Method,” as described in the REMIC Prospectus under “Description of Certificates—Indexes for Floating Rate Classes and Inverse Floating Rate Classes—*LIBOR*.”

If we are unable to calculate LIBOR on the initial Index Determination Date, LIBOR for the following Interest Accrual Period will be equal to 5.32%.

### Distributions of Principal

#### *Categories of Classes and Components*

For the purpose of principal payments, the Classes and Components fall into the following categories:

<u>Principal Type*</u>	<u>Classes and Components</u>
<b>Group 1 Classes and Components</b>	
Sequential Pay	A1 and PO1
Notional	X1
Component	IP1
<b>Group 2 Classes and Components</b>	
Sequential Pay	A2 and PO2
Notional	X2
Component	IP2

\* See “Description of Certificates—Class Definitions and Abbreviations” in the REMIC Prospectus.

#### *Principal Distribution Amount*

On the Distribution Date in each month, we will pay principal on the Certificates in an aggregate amount (the “Principal Distribution Amount”) equal to the sum of

- the aggregate amount of principal distributions on the Group 1 MBS on that date *less* the amount of principal distributions applied to pay interest on the A1 Class and the X1 Component on that date as described under “—Distributions of Interest—*The Group 1 Classes*” above (the “Group 1 Principal Distribution Amount”), and
- the aggregate amount of principal distributions of the Group 2 MBS on that date *less* the amount of principal distributions applied to pay interest on the A2 Class and the X2 Component on that date as described under “—Distributions of Interest—*The Group 2 Classes*” above (the “Group 2 Principal Distribution Amount”).

### *Group 1 Principal Distribution Amount*

On each Distribution Date, we will pay the Group 1 Principal Distribution Amount, sequentially, as principal of the A1 Class and the PO1 Component, in that order, until their principal balances are reduced to zero. } Sequential Pay Class and Component

#### *Additions to the Principal Balance of the A1 Class*

On each Distribution Date, the principal balance of the A1 Class will be increased by the amount, if any, of the A1 Class Net Deferred Interest for that Distribution Date. See “— Distributions of Interest—*The Group 1 Classes*” above for a description of the A1 Class Net Deferred Interest.

#### *Additions to the Principal Balance of the PO1 Component*

On each Distribution Date, the principal balance of the PO1 Component will be increased by the amount, if any, of the IP1 Class Net Deferred Interest for that Distribution Date. See “—Distributions of Interest—*The Group 1 Classes*” above for a description of the IP1 Class Net Deferred Interest.

### *Group 2 Principal Distribution Amount*

On each Distribution Date, we will pay the Group 2 Principal Distribution Amount, sequentially, as principal of the A2 Class and the PO2 Component, in that order, until their principal balances are reduced to zero. } Sequential Pay Class and Component

#### *Additions to the Principal Balance of the A2 Class*

On each Distribution Date, the principal balance of the A2 Class will be increased by the amount, if any, of the A2 Class Net Deferred Interest for that Distribution Date. See “—Distributions of Interest—*The Group 2 Classes*” above for a description of the A2 Class Net Deferred Interest.

#### *Additions to the Principal Balance of the PO2 Component*

On each Distribution Date, the principal balance of the PO2 Component will be increased by the amount, if any, of the IP2 Class Net Deferred Interest for that Distribution Date. See “—Distributions of Interest—*The Group 2 Classes*” above for a description of the IP2 Class Net Deferred Interest.

## **Structuring Assumptions**

*Pricing Assumptions.* Except where otherwise noted, the information in the tables in this prospectus supplement has been prepared based on the following assumptions collectively, the “Pricing Assumptions”):

- the MTA ARM Loans have the aggregate characteristics set forth in Exhibit A to this prospectus supplement;
- the MTA Index value is and remains 4.827%;
- in the case of the A1 and A2 Classes, LIBOR is and remains 5.32%;
- the Mortgage Loans prepay at the constant percentages of CPR specified in the related table;
- in the case of the MTA ARM Loans, borrower payments of any amounts in excess of the required Monthly Payment Amounts will be treated as prepayments of principal;

- the settlement date for the sale of the Certificates is November 30, 2006; and
- each Distribution Date occurs on the 25th day of a month.

*Prepayment Assumptions.* Prepayments of mortgage loans commonly are measured relative to a prepayment standard or model. The model used in this prospectus supplement is the constant prepayment model (“CPR”), which represents the annual rate of prepayments relative to the then outstanding principal balance of a pool of new mortgage loans. Thus, “0% CPR” means no prepayments, “30% CPR” means an annual prepayment rate of 30%, and so forth. It is highly unlikely that prepayments will occur at any *constant* CPR rate or at any other *constant* rate.

## Yield Tables

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

- determining the monthly discount rate that, when applied to the assumed streams of cash flows to be paid on the applicable Classes, would cause the discounted present values of the assumed streams of cash flows to equal the assumed aggregate purchase prices of those Classes, 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 prices of the applicable Certificates will be as assumed.

In addition, because some of the MTA ARM 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 payments on the Certificates are likely to differ from those assumed. This would be the case even if all the related MTA ARM Loans prepay at the indicated constant percentages of CPR. Moreover, it is unlikely that

- the related MTA ARM Loans will prepay at a constant CPR rate until maturity or
- all of the related MTA ARM Loans will prepay at the same rate.

*The IP1 and IP2 Classes.* **The yields on the IP1 and IP2 Classes will be sensitive to the rate of principal payments, including prepayments, of the related MTA ARM Loans, to the relationship over time of LIBOR and the MTA Index, and to the level of LIBOR. In addition, the rate of principal payments (including prepayments) of the related MTA ARM Loans is likely to vary, and may vary considerably, from pool to pool.**

Changes in LIBOR and/or the MTA Index may not correspond to changes in prevailing mortgage interest rates. It is possible that lower prevailing mortgage interest rates, which might be expected to result in faster prepayments, could occur while the level of LIBOR and/or the MTA Index increased.

The rates of payments on the IP1 and IP2 Classes will also be subject to various additional limitations and factors, including the effect of monthly interest rate adjustments and annual payment adjustments on the related MTA ARM Loans, and various payment options generally available to the related borrowers as described under the heading “—Characteristics of the MTA ARM Loans” above.

The information shown in the yield tables has been prepared on the basis of the Pricing Assumptions and the assumptions that the aggregate purchase prices of the IP1 and IP2 Classes (expressed in each case as a percentage of its original notional principal balance) are as follows:

<u>Class</u>	<u>Price*</u>
IP1 .....	4.28125%
IP2 .....	2.93750%

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

#### Sensitivity of the IP1 Class to Prepayments

	<u>CPR Prepayment Assumption</u>				
	<u>0%</u>	<u>10%</u>	<u>25%</u>	<u>35%</u>	<u>50%</u>
Pre-tax Yield to Maturity .....	26.1%	37.6%	17.5%	2.9%	(21.2)%

#### Sensitivity of the IP2 Class to Prepayments

	<u>CPR Prepayment Assumption</u>				
	<u>0%</u>	<u>10%</u>	<u>25%</u>	<u>35%</u>	<u>50%</u>
Pre-tax Yield to Maturity .....	26.4%	41.7%	21.3%	6.6%	(18.0)%

#### Principal Distribution Table for the PO1 Component

The following table shows the amounts that would be available for principal payments on the PO1 Component at various constant percentages of CPR based on the payment allocations described under “—Distributions of Principal” in this prospectus supplement. The amounts shown in the table have been calculated on the basis of the Pricing Assumptions and are hypothetical numbers only.

It is highly unlikely that

- the Group 1 Loans will have the assumed characteristics or
- the Group 1 Loans will prepay at the constant CPR rates shown in the table or at any other constant rate.

The rate of principal distributions on the PO1 Component will depend on the actual amortization and prepayments of the Group 1 Loans, which will likely include MTA ARM Loans that have remaining terms to maturity shorter than those assumed and interest rates higher or lower than those assumed. As a result, the amounts added to the principal balance of the PO1 Component or the amounts distributed thereon are likely to differ from those shown in the table below even if all the Group 1 Loans prepay at the indicated constant percentages for CPR.

In addition, it is highly unlikely that the Group 1 Loans will prepay at a constant CPR rate until maturity or that all of the related Group 1 Loans will prepay at the same rate. The timing of changes in prepayment rates may significantly affect the amount of principal distributions even if the average prepayment rate is consistent with the investor’s expectation.

Principal distributions will also be affected by the payment priority governing the Group 1 Classes. In particular, the PO1 Component is not entitled to receive any principal distributions until the principal balance of the A1 Class is reduced to zero.

Although we guarantee that interest and principal of the IP1 Class will be available for distribution subject to the limitations described in this prospectus supplement, we can give no assurance as to any particular principal payment scenario.

**Aggregate Principal Distributions on the PO1 Component  
(for illustrative purposes only)**

**(Amounts in thousands)**

<u>Distribution Date</u>	<u>CPR Prepayment Assumption</u>				
	<u>0%</u>	<u>10%</u>	<u>25%</u>	<u>35%</u>	<u>50%</u>
November 2007.....	\$ (7,382) *	\$0	\$0	\$0	\$0
November 2008.....	(7,593) *	0	0	0	0
November 2009.....	(7,619) *	0	0	0	0
November 2010.....	(3,450) *	0	0	0	0
November 2011.....	(995) *	0	0	0	0
November 2012.....	0	0	0	0	0
November 2013.....	0	0	0	0	0
November 2014.....	0	0	0	0	0
November 2015.....	0	0	0	0	0
November 2016.....	0	0	0	0	0
November 2017.....	0	0	0	0	0
November 2018.....	0	0	0	0	0
November 2019.....	0	0	0	0	0
November 2020.....	0	0	0	0	0
November 2021.....	0	0	0	0	0
November 2022.....	0	0	0	0	0
November 2023.....	0	0	0	0	0
November 2024.....	0	0	0	0	0
November 2025.....	0	0	0	0	0
November 2026.....	0	0	0	0	0
November 2027.....	0	0	0	0	0
November 2028.....	0	0	0	0	0
November 2029.....	0	0	0	0	0
November 2030.....	0	0	0	0	0
November 2031.....	0	0	0	0	0
November 2032.....	0	0	0	0	0
November 2033.....	0	0	0	0	0
November 2034.....	0	0	0	0	0
November 2035.....	0	0	0	0	0
November 2036.....	27,040**	0	0	0	0
Total .....	\$ 0	\$0	\$0	\$0	\$0

\* Represents IP1 Class Net Deferred Interest that is added to the principal balance of the PO1 Component.

\*\* Amount may not equal the aggregate addition to the principal balance of the PO1 Component due to rounding.

**Principal Distribution Table for the PO2 Component**

The following table shows the amounts that would be available for principal payments on the PO2 Component at various constant percentages of CPR based on the payment allocations described under “—Distributions of Principal” in this prospectus supplement. The amounts shown in the table have been calculated on the basis of the Pricing Assumptions and are hypothetical numbers only.

It is highly unlikely that

- the Group 2 Loans will have the assumed characteristics or
- the Group 2 Loans will prepay at the constant CPR rates shown in the table or at any other constant rate.

The rate of principal distributions on the PO2 Component will depend on the actual amortization and prepayments of the Group 2 Loans, which will likely include MTA ARM Loans that have remaining terms to maturity shorter than those assumed and interest rates higher or lower than those assumed. As a result, the amounts added to the principal balance of the PO2 Component or the amounts distributed thereon are likely to differ from those shown in the table below even if all the Group 2 Loans prepay at the indicated constant percentages for CPR.

In addition, it is highly unlikely that the Group 2 Loans will prepay at a constant CPR rate until maturity or that all of the Group 2 Loans will prepay at the same rate. The timing of changes in prepayment rates may significantly affect the amount of principal distributions even if the average prepayment rate is consistent with the investor's expectation.

Principal distributions will also be affected by the payment priority governing the Group 2 Classes. In particular, the PO2 Component is not entitled to receive any principal distributions until the principal balance of the A2 Class is reduced to zero.

Although we guarantee that interest and principal of the IP2 Class will be available for distribution subject to the limitations described in this prospectus supplement, we can give no assurance as to any particular principal payment scenario.

**Aggregate Principal Distributions on the PO2 Component  
(for illustrative purposes only)  
(Amounts in thousands)**

<u>Distribution Date</u>	<u>CPR Prepayment Assumption</u>				
	<u>0%</u>	<u>10%</u>	<u>25%</u>	<u>35%</u>	<u>50%</u>
November 2007.....	\$ (5,425) *	\$0	\$0	\$0	\$0
November 2008.....	(5,268) *	0	0	0	0
November 2009.....	(5,420) *	0	0	0	0
November 2010.....	(3,636) *	0	0	0	0
November 2011.....	0	0	0	0	0
November 2012.....	0	0	0	0	0
November 2013.....	0	0	0	0	0
November 2014.....	0	0	0	0	0
November 2015.....	0	0	0	0	0
November 2016.....	0	0	0	0	0
November 2017.....	0	0	0	0	0
November 2018.....	0	0	0	0	0
November 2019.....	0	0	0	0	0
November 2020.....	0	0	0	0	0
November 2021.....	0	0	0	0	0
November 2022.....	0	0	0	0	0
November 2023.....	0	0	0	0	0
November 2024.....	0	0	0	0	0
November 2025.....	0	0	0	0	0
November 2026.....	0	0	0	0	0
November 2027.....	0	0	0	0	0
November 2028.....	0	0	0	0	0
November 2029.....	0	0	0	0	0
November 2030.....	0	0	0	0	0
November 2031.....	0	0	0	0	0
November 2032.....	0	0	0	0	0
November 2033.....	0	0	0	0	0
November 2034.....	0	0	0	0	0
December 2035.....	0	0	0	0	0
December 2036.....	19,749**	0	0	0	0
Total.....	\$ 0	\$0	\$0	\$0	\$0

\* Represents IP2 Class Net Deferred Interest that is added to the principal balance of the PO2 Component.

\*\* Amount may not equal the aggregate addition to the principal balance of the PO2 Component due to rounding.

**Weighted Average Lives of the Certificates**

The weighted average life of a Certificate is determined 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).

For a description of the factors which may influence the weighted average life of a Certificate, see “Description of Certificates—Weighted Average Life and Final Distribution Date” in the REMIC Prospectus.

In general, the weighted average lives of the Certificates will be shortened if the level of prepayments of principal of the related MTA ARM Loans increases. However, the weighted average lives will depend upon a variety of other factors, including

- the timing of changes in the rate of principal payments and
- the priority sequences of payments of principal of the Classes.

See “—Distributions of Principal” above.

The effect of these factors may differ as to various Classes and the effects on any Class may vary at different times during the life of that Class. Accordingly, we can give no assurance as to the weighted average life of any Class. Further, to the extent the prices of the Certificates represent discounts or premiums to their original principal balances, variability in the weighted average lives of those Classes of Certificates could result in variability in the related yields to maturity. For an example of how the weighted average lives of the Classes may be affected at various constant prepayment rates, see the Decrement Tables below.

As described under “Reference Sheet—Components” in this prospectus supplement, the IP1 and IP2 Classes consist of multiple payment components for purposes of calculating payments. Since the components are not divisible, the payment characteristics of the IP1 and IP2 Classes will reflect a combination of the payment characteristics of the related components.

### Decrement Tables

The following tables indicate the percentages of original principal balances of the specified Classes and Components that would be outstanding after each date shown at various constant CPR rates, and the corresponding weighted average lives of the Classes and Components. The tables have been prepared on the basis of the Pricing Assumptions. However, in the case of the information set forth for each Group 1 and Group 2 Class under 0% CPR, we assumed that the underlying MTA ARM Loans have the original and remaining terms to maturity and bear interest at the annual rates specified in the table below.

<u>Mortgage Loans Relating to Trust Assets Specified Below</u>	<u>Original Terms to Maturity</u>	<u>Remaining Terms to Maturity</u>	<u>Interest Rates</u>
Group 1 MBS	360 months	360 months	(1)
Group 2 MBS	360 months	360 months	(1)

(1) As specified under the applicable column headed “Weighted Average Current Mortgage Rate (%)” on Exhibit A.

It is unlikely

- that all of the underlying MTA ARM Loans will have the interest rates, WALAs or remaining terms to maturity assumed or
- that the underlying MTA ARM Loans will prepay at any *constant* CPR rate.

In addition, the diverse remaining terms to maturity of the MTA ARM Loans could produce slower or faster principal distributions than indicated in the tables at the specified constant CPR rates, even if the weighted average remaining terms to maturity and the weighted average loan ages of the MTA ARM Loans are identical to the weighted averages specified in the Pricing Assumptions. This is the case because pools of loans with identical weighted averages are nonetheless likely to reflect differing dispersions of the related characteristics.

## Percent of Original Principal Balances Outstanding

Date	A1 Class					X1† Component					A2 Class					X2† Component				
	CPR Prepayment Assumption					CPR Prepayment Assumption					CPR Prepayment Assumption					CPR Prepayment Assumption				
	0%	10%	25%	35%	50%	0%	10%	25%	35%	50%	0%	10%	25%	35%	50%	0%	10%	25%	35%	50%
Initial Percent	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100
November 2007	101	93	77	67	51	103	93	77	67	51	101	92	77	67	51	102	92	77	67	51
November 2008	102	86	59	45	26	106	86	59	45	26	102	85	59	44	26	105	85	59	44	26
November 2009	102	79	46	30	14	108	79	46	30	14	102	78	45	29	13	107	78	45	29	13
November 2010	102	72	35	19	7	109	72	35	19	7	102	70	34	19	7	107	70	34	19	7
November 2011	102	64	26	13	3	109	64	26	13	3	101	63	25	12	3	106	63	25	12	3
November 2012	101	57	19	8	2	108	57	19	8	2	99	55	19	8	2	105	55	19	8	2
November 2013	99	51	14	5	1	106	51	14	5	1	98	49	14	5	1	103	49	14	5	1
November 2014	97	45	10	3	*	104	45	10	3	*	96	43	10	3	*	101	43	10	3	*
November 2015	95	40	8	2	*	103	40	8	2	*	94	38	7	2	*	100	38	7	2	*
November 2016	94	35	6	1	*	101	35	6	1	*	92	34	5	1	*	98	34	5	1	*
November 2017	91	31	4	1	*	99	31	4	1	*	90	30	4	1	*	96	30	4	1	*
November 2018	89	27	3	1	*	96	27	3	1	*	88	26	3	1	*	93	26	3	1	*
November 2019	87	24	2	*	*	94	24	2	*	*	85	23	2	*	*	91	23	2	*	*
November 2020	84	21	2	*	*	91	21	2	*	*	83	20	2	*	*	88	20	2	*	*
November 2021	81	18	1	*	*	88	18	1	*	*	80	17	1	*	*	85	17	1	*	*
November 2022	78	16	1	*	*	85	16	1	*	*	77	15	1	*	*	82	15	1	*	*
November 2023	74	14	1	*	*	82	14	1	*	*	73	13	1	*	*	79	13	1	*	*
November 2024	71	12	*	*	*	78	12	*	*	*	70	11	*	*	*	75	11	*	*	*
November 2025	67	10	*	*	*	74	10	*	*	*	66	9	*	*	*	71	9	*	*	*
November 2026	62	8	*	*	*	69	8	*	*	*	62	8	*	*	*	67	8	*	*	*
November 2027	58	7	*	*	*	65	7	*	*	*	57	6	*	*	0	63	6	*	*	*
November 2028	52	6	*	*	0	60	6	*	*	*	52	5	*	*	0	58	5	*	*	*
November 2029	47	5	*	*	0	54	5	*	*	*	47	4	*	*	0	52	4	*	*	*
November 2030	41	4	*	*	0	48	4	*	*	*	41	3	*	*	0	46	3	*	*	*
November 2031	34	3	*	*	0	42	3	*	*	*	34	2	*	*	0	40	2	*	*	0
November 2032	27	2	*	*	0	35	2	*	*	0	28	2	*	*	0	33	2	*	*	0
November 2033	20	1	*	*	0	27	1	*	*	0	20	1	*	*	0	26	1	*	*	0
November 2034	11	1	*	*	0	19	1	*	*	0	12	*	*	*	0	18	*	*	*	0
November 2035	3	*	*	*	0	10	*	*	*	0	4	0	0	0	0	9	0	0	0	0
November 2036	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Weighted Average Life (years)**	20.8	8.8	3.7	2.5	1.5	21.4	8.8	3.7	2.5	1.5	20.7	8.5	3.6	2.4	1.5	21.1	8.5	3.6	2.4	1.5

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

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

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

## 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 Trust remain after the principal balances of all Classes are reduced to zero, we will pay the Holder of the R Class the proceeds from 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. Fannie Mae does not expect that any material assets will remain in either case.

A Residual Certificate will be subject to certain transfer restrictions. We will not permit transfer of record or beneficial ownership of a Residual Certificate to a “disqualified organization.” In addition, we will not permit transfer of record or beneficial ownership of a Residual Certificate 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. Any transferee of a Residual Certificate must execute and deliver an affidavit and an Internal Revenue Service Form W-9 (or, if applicable, a Form W-8ECI) on which the transferee provides its taxpayer identification number. See “Description of Certificates—Special Characteristics of Residual Certificates” and “Certain Federal Income Tax Consequences—*Taxation of Beneficial Owners of Residual Certificates*” in the REMIC Prospectus. 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. In addition, the transferee must receive an affidavit containing these same representations from any new transferee. Transferors of a Residual Certificate should consult with their own tax advisors for further information regarding such transfers.

Treasury Department regulations (the “Regulations”) provide that a transfer of a “noneconomic residual interest” 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. Having a significant purpose to impede the assessment or collection of tax means that the transferor of a Residual Certificate 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 REMIC trust (that is, the transferor had “improper knowledge”).

As discussed under the caption “Special Characteristics of Residual Certificates” in the REMIC Prospectus, the Regulations presume that a transferor does not have improper knowledge if two conditions are met. The Treasury Department has amended the Regulations to provide additional requirements that a transferor must satisfy to avail itself of the safe harbor regarding the presumed lack of improper knowledge. For transfers occurring on or after August 19, 2002, a transferor of a Residual Certificate is presumed not to have improper knowledge if, in addition to meeting the two conditions discussed in the REMIC Prospectus, both (i) the transferee represents that it will not cause income from the Residual Certificate to be attributed to a foreign permanent establishment or fixed base of the transferee or another taxpayer and (ii) the transfer satisfies either the “asset test” or the “formula test.” The representation described in (i) will be included in the affidavit discussed above. See “Description of Certificates—Special Characteristics of Residual Certificates” and “Certain Federal Income Tax Consequences—*Taxation of Beneficial Owners of Residual Certificates*” in the REMIC Prospectus.

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” and the transferee agrees in writing that any subsequent transfer of the Residual Certificate 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 Certificate will not be paid. A transfer satisfies the formula test if the present value of the anticipated tax liabilities associated with holding the Residual Certificate is less than or equal to the present value of the sum of (i) any consideration given to the transferee to acquire the Residual Certificate, (ii) expected future distributions on the Residual Certificate, and (iii) anticipated tax savings associated with holding the Residual 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 a transfer of a Residual Certificate.

The Holder of the R Class will be considered to be the holder of the “residual interest” in the REMIC constituted by the Trust, 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” in the REMIC Prospectus. Pursuant to the Trust Agreement, we will be obligated to provide to these Holders (i) information necessary to enable them to prepare their federal income tax returns and (ii) any reports regarding the R or RL Class that may be required under the Code.

### **CERTAIN ADDITIONAL 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 tax discussion supplements the discussion under the caption “Certain Federal Income Tax Consequences” in the REMIC Prospectus. When read together, the two discussions describe the current federal income tax treatment of beneficial owners of Certificates. These two tax discussions do not purport to deal with all federal tax consequences applicable to all categories of beneficial owners, some of which may be subject to special rules. In addition, these discussions may not apply to your particular circumstances for one of the reasons explained in the REMIC Prospectus. 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.

#### **U.S. Treasury Circular 230 Notice**

The tax discussions contained in the REMIC Prospectus (including the sections entitled “Certain Federal Income Tax Consequences” and “ERISA Considerations”) and this prospectus supplement were not intended or written to be used, and cannot be used, for the purpose of avoiding United States federal tax penalties. These discussions were written to support the promotion or marketing of the transactions or matters addressed in this prospectus supplement. You should seek advice based on your particular circumstances from an independent tax advisor.

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

We will elect to treat the Lower Tier REMIC and the Trust as REMICs for federal income tax purposes.

The REMIC constituted by the Trust will be taxed as if it had issued four “regular interests” corresponding to each of the A1, IP1, A2 and IP2 Classes. Each of the regular interests corresponding to the A1, IP1, A2 and IP2 Classes will be entitled to receive interest and principal payments at the times and in the amounts equal to those made to the Class to which it corresponds, except that the interest rate on these regular interests will be determined without regard to the A1 Interest Carryover Amount or A2 Interest Carryover Amount. A beneficial owner of an A1 or A2 Class Certificate will be treated for federal income tax purposes as the beneficial owner of a pro rata interest in the corresponding regular interest. Any excess of the amount of interest actually payable to an A1 or A2 Class Certificate over the amount of interest payable on the corresponding regular interest will be deemed to have been received pursuant to a notional principal contract as discussed under “—Taxation of the Interest Carryover Amounts” below. The regular interests corresponding to the IP1 and

IP2 Classes will be taxed as if they were entitled to receive interest payments at the times and in the amounts equal to those made to the Classes to which they correspond, except that the interest rates on such regular interests will be determined without regard to the A1 Interest Carryover Amount or A2 Interest Carryover Amount. Any excess of the amount of interest payable on the regular interests corresponding to the IP1 and IP2 Classes over the amount of interest payable to the IP1 and IP2 Classes will be deemed to have been paid to the A1 Class by the IP1 Class or to the A2 Class by the IP2 Class, as applicable, pursuant to notional principal contracts as discussed under “—Taxation of the Interest Carryover Amounts” below. For purposes of this discussion, each of the regular interests offered hereby and issued by the Trust is referred to as a “Regular Certificate” and, together, as “Regular Certificates.”

Because the Lower Tier REMIC and the Trust will qualify as REMICs, the Regular Certificates and the R and RL Classes generally will be treated as “regular or residual interests in a REMIC” for domestic building and loan associations, as “real estate assets” for real estate investment trusts, and, except for the R and RL Classes, as “qualified mortgages” for other REMICs. See “Certain Federal Income Tax Consequences—*REMIC Election and Special Tax Attributes*” in the REMIC Prospectus.

### **Taxation of Certificates of the A1, IP1, A2 and IP2 Classes**

Except as provided below, a beneficial owner of an A1, IP1, A2 or IP2 Class Certificate will be treated

- as holding an undivided interest in a REMIC regular interest, and
- as having entered into a notional principal contract.

Consequently, each beneficial owner of an A1, IP1, A2 or IP2 Class Certificate will be required to report its pro rata share of income accruing with respect to the corresponding REMIC regular interest, as discussed under “—Taxation of Beneficial Owners of Regular Certificates” below. In addition, each beneficial owner of an A1, IP1, A2 or IP2 Class Certificate will be required to report its pro rata share of net income with respect to the applicable notional principal contract and will be permitted to recognize its share of a net deduction with respect to that notional principal contract, subject to the discussions under “—Taxation of the Interest Carryover Amounts” below. You should consult your own tax advisor regarding the consequences to you in light of your particular circumstances of taxing separately the two components comprising each A1, IP1, A2 and IP2 Class Certificate (that is, the corresponding REMIC regular interest and the related notional principal contract).

#### *Allocations*

A beneficial owner of an A1, IP1, A2 or IP2 Class Certificate must allocate its cost to acquire that Certificate between the corresponding REMIC regular interest and the related notional principal contract based on their relative fair market values. When a beneficial owner of an A1, IP1, A2 or IP2 Class Certificate sells or disposes of the Certificate, the beneficial owner must allocate the sale proceeds between the corresponding REMIC regular interest and related notional principal contract based on their relative fair market values and must treat the sale or other disposition of the Certificate as a sale or other disposition of a pro rata portion of the corresponding REMIC regular interest and the related notional principal contract.

Because a beneficial owner of an IP1 or IP2 Class Certificate generally will be deemed to have received a premium for entering into a notional principal contract, a beneficial owner of an IP1 or IP2 Class Certificate may have a basis in the corresponding REMIC regular interest that is greater than the price paid by the beneficial owner for the IP1 or IP2 Class Certificate itself. Further, in connection with a sale or disposition of an IP1 or IP2 Class Certificate, the beneficial owner may be deemed to have paid a termination payment to the new holder, in which case the beneficial owner may be treated as having received an amount for the corresponding REMIC regular interest that is greater than the amount received for the IP1 or IP2 Class Certificate itself. In any case, when a beneficial owner of an IP1 or IP2 Class Certificate sells or disposes of the IP1 or IP2 Class Certificate, the beneficial owner must treat the sale or other disposition of the Certificate as a sale or other disposition

of a pro rata portion of the corresponding REMIC regular interest and the related notional principal contract.

We intend to report income and expense with respect to all Certificates as if the notional principal contract corresponding to each Certificate had only a nominal value, relative to the value of the corresponding REMIC regular interest, as of the Settlement Date. See “—Taxation of the Interest Carryover Amounts” below. The notional principal contracts are difficult to value, and the Internal Revenue Service (IRS) could assert that the value of the notional principal contracts as of the Settlement Date are greater (or perhaps, less) than the value we will use for information reporting purposes. If, for example, the IRS were to assert successfully that the notional principal contract corresponding to the A1 Class had a higher value as of the Settlement Date, a greater portion of the purchase price for that Class would be allocated to the notional principal contract and a lesser portion would be allocated to the corresponding REMIC regular interest, which could result in differences in the beneficial owner’s timing and character of income, gains, deductions and losses with respect to that Class. See “—Taxation of Beneficial Owners of Regular Certificates,” and “—Taxation of the Interest Carryover Amounts” below. You therefore should consider the tax consequences to you if the IRS were to assert a different value for the notional principal contracts corresponding to each of the A1 and IP1 Classes and the A2 and IP2 Classes.

It is possible that, with respect to the A1 and IP1 Classes and the A2 and IP2 Classes, respectively, the corresponding notional principal contracts provides no value, in which case the full purchase price of such a Class should be allocated to the corresponding REMIC regular interest. In such a case, a beneficial owner of the Class would not be treated as having paid or received a premium for entering into a notional principal contract. See “—Taxation of the Interest Carryover Amounts” below.

#### *Tax Attributes*

Although the A1, IP1, A2 and IP2 Class Certificates will represent beneficial ownership in REMIC regular interests, which are afforded certain tax attributes under the Code (see “— REMIC Elections and Special Tax Attributes” above), the interest in the corresponding notional principal contract represented by an A1, IP1, A2 or IP2 Class Certificate will not constitute:

- a “real estate asset” within the meaning of section 856(c)(5)(B) of the Code,
- a “qualified mortgage” within the meaning of section 860G(a)(3) of the Code or a “permitted investment” within the meaning of section 860G(a)(5) of the Code, or
- an asset described in section 7701(a)(19)(C)(xi) of the Code.

Income received under any notional principal contract will not constitute income described in section 856(c)(3)(B) with respect to a real estate investment trust.

#### **Taxation of Beneficial Owners of Regular Certificates**

The Regular Certificates will be issued with original issue discount (“OID”). If a Class is issued with OID, a beneficial owner of a Certificate of that Class generally must recognize some taxable income in advance of the receipt of the cash attributable to that income. See “Certain Federal Income Tax Consequences—*Taxation of Beneficial Owners of Regular Certificates*—Treatment of Original Issue Discount” in the REMIC Prospectus. In addition, certain Classes of Certificates may be treated as having been issued at a premium. See “Certain Federal Income Tax Consequences—*Taxation of Beneficial Owners of Regular Certificates*—Regular Certificates Purchased at a Premium” in the REMIC Prospectus.

The Prepayment Assumptions that will be used in determining the rate of accrual of OID will be as follows:

<u>Group</u>	<u>Prepayment Assumption</u>
1	25% CPR
2	25% CPR

See “Certain Federal Income Tax Consequences—*Taxation of Beneficial Owners of Regular Certificates—Treatment of Original Issue Discount—Daily Portions of Original Issue Discount*” in the REMIC Prospectus. No representation is made as to whether the MTA ARM Loans underlying the MBS will prepay at any of those rates or any other rate. See “Description of the Certificates—Weighted Average Lives of the Certificates” in this prospectus supplement and “Description of Certificates—Weighted Average Life and Final Distribution Date” in the REMIC Prospectus.

The regular interests that correspond to the A1 and IP1 Classes may pay interest based on the Weighted Average Group 1 MBS Pass-Through Rate and may not qualify as “variable rate debt instruments” under the OID Regulations. Similarly, the regular interests that correspond to the A2 and IP2 Classes may pay interest based on the Weighted Average Group 2 MBS Pass-Through Rate 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.

### **Taxation of the Interest Carryover Amounts**

The beneficial owners of an A1, IP1, A2 or IP2 Class Certificate will be treated as having entered into a “notional principal contract” within the meaning of Treasury Department Regulations promulgated under section 446 of the Code (the “NPC Regulations”). Pursuant to one of these notional principal contracts, a beneficial owner of an A1 Class Certificate will be treated as agreeing to pay a premium to the beneficial owners of the IP1 Class Certificates for the right to receive the A1 Interest Carryover Amount with respect to the A1 Class Certificate. Similarly, pursuant to the other of these notional principal contracts, a beneficial owner of an A2 Class Certificate will be treated as agreeing to pay a premium to the beneficial owners of the IP2 Class Certificates for the right to receive the A2 Interest Carryover Amount with respect to the A2 Class Certificate. A beneficial owner of an A1, IP1, A2 or IP2 Class Certificate will be treated as having entered into the related notional principal contract on the date the beneficial owner acquires the Certificate.

#### *Treatment of Payments under the Notional Principal Contracts*

Under the NPC Regulations, the premium that is deemed to have been paid for the notional principal contract must be amortized over the life of the A1 or A2 Class, as applicable, taking into account the declining balance of such Class. For information reporting purposes, we intend to amortize the premium under a constant yield method, similar to that used to amortize OID. You should consult your tax advisor regarding the method for amortizing this premium.

Any payment made to the A1 or A2 Class will be treated as a periodic payment under the NPC Regulations. To the extent that the periodic payments for any year exceeds the amount of the premium amortized in that year, such excess shall represent net income for that year in the case of a beneficial owner of an A1 or A2 Class Certificate, as applicable, and a net deduction for that year in the case of a beneficial owner of an IP1 or IP2 Class Certificate. Conversely, to the extent that the amount of the premium amortized in any year exceeds the periodic payments for that year, such excess shall represent a net deduction for that year in the case of a beneficial owner of an A1 or A2 Class Certificate, as applicable, and net income for that year in the case of a beneficial owner of an IP1 or IP2 Class Certificate, as applicable. Although not clear, net income or a net deduction should be treated as ordinary income or as an ordinary deduction.

A beneficial owner’s ability to recognize a net deduction with respect to a notional principal contract is limited under section 67 of the Code in the case of (i) estates and trusts, and (ii) individuals owning an interest in an A1, IP1, A2 or IP2 Class Certificate directly or through an investment in a “pass-through entity” (other than in connection with such individual’s trade or business). Pass-through entities include partnerships, S corporations, grantor trusts, and non-publicly

offered regulated investment companies, but do not include estates, nongrantor trusts, cooperatives, real estate investment trusts and publicly offered regulated investment companies. Generally, such a beneficial owner can recognize a net deduction only to the extent that these costs, when aggregated with certain of the beneficial owner's other miscellaneous itemized deductions, exceed 2% of the beneficial owner's adjusted gross income. For this purpose, an estate or nongrantor trust computes adjusted gross income in the same manner as in the case of an individual, except that deductions for administrative expenses of the estate or trust that would not have been incurred if the property were not held in such trust or estate are treated as allowable in arriving at adjusted gross income. In addition, section 68 of the Code may provide for certain limitations on itemized deductions otherwise allowable for a beneficial owner who is an individual. Further, such a beneficial owner may not be able to recognize a net deduction with respect to the notional principal contract in computing the beneficial owner's alternative minimum tax liability.

#### *Special Consequences for Beneficial Owners of IP1 and IP2 Class Certificates*

Payments that are deemed to have been made by the IP1 Class to the A1 Class and by the IP2 Class to the A2 Class pursuant to the respective notional principal contract will be made through an "outside reserve fund" described in the Regulations, which will not be an asset of the REMIC constituted by the Trust or the Lower Tier REMIC for tax purposes. This outside reserve fund will be funded with interest payments on the REMIC regular interests corresponding to the IP1 and IP2 Classes, and the beneficial owners of the IP1 and IP2 Class Certificates will be treated for federal income tax purposes as the beneficial owners of their allocable share of this outside reserve fund. As a result, a beneficial owner of an IP1 or IP2 Class Certificate will be required to accrue income with respect to interest payments on the corresponding REMIC regular interest and will be entitled to a net deduction with respect to payments made from the outside reserve fund to fund the A1 Interest Carryover Amount or A2 Interest Carryover Amount, as the case may be. Therefore, if your ability to recognize a net deduction with respect to the notional principal contract were limited, you could be required to accrue more interest income than the amount of interest actually distributed on your IP1 or IP2 Class Certificate. You should consult your own tax advisor regarding your ability to recognize a net deduction with respect to a notional principal contract, regardless of whether you hold an A1, IP1, A2 or IP2 Class Certificate.

#### *Disposition of the Notional Principal Contract*

Any amount that is considered to be allocated to notional principal contracts in connection with the sale or other disposition of an A1, IP1, A2 or IP2 Class Certificate as described above under "—Taxation of Certificates of the A1, IP1, A2 and IP2 Classes—Allocations" will be considered a "termination payment" under the NPC Regulations. Under the NPC Regulations, a beneficial owner of an A1, IP1, A2 or IP2 Class Certificate will have gain or loss from the disposition of the related notional principal contract equal to (i) the sum of the unamortized portion of any premium received or deemed to have been received by the beneficial owner upon entering into the notional principal contract and any termination payment it receives or is deemed to have received, less (ii) the sum of the unamortized portion of any premium paid or deemed to have been paid by the beneficial owner upon entering into the notional principal contract and any termination payment it makes or is deemed to have made. The gain or loss should be capital gain or loss, provided the notional principal contract is a capital asset to the beneficial owner. The ability to deduct capital losses is subject to limitations.

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

Effective generally for Residual Certificates first held on or after August 1, 2006, Temporary Regulations issued by the Treasury Department have modified the general rule that the taxable income of the Trust (or the Lower Tier REMIC) is not includible in the income of a foreign person (or, if excess inclusions, subject to withholding tax) until paid or distributed. See "Certain Federal Income Tax Consequences—Taxation of Beneficial Owners of Residual Certificates—Treatment of Excess Inclusions" and "—Foreign Investors—Residual Certificates" in the REMIC Prospectus. Under the Temporary Regulations, the amount of taxable income allocable to a foreign partner in a

domestic partnership that is the beneficial owner of a Residual Certificate must be taken into account by the foreign partner on the last day of the partnership's taxable year, except to the extent that some or all of that amount is required to be taken into account at an earlier time as a result of a distribution to the foreign partner or a disposition of the foreign partner's indirect interest in the Residual Certificate. Similar rules apply to excess inclusions allocable to a foreign person that holds an interest in a real estate investment trust, regulated investment company, common trust fund or certain cooperatives.

For purposes of determining the portion of the taxable income of the Trust (or the Lower Tier REMIC) that generally will not be treated as excess inclusions, the rate to be used is 5.77% (which is 120% of the "federal long-term rate"). See "Certain Federal Income Tax Consequences—*Taxation of Beneficial Owners of Residual Certificates*—Treatment of Excess Inclusions" and "—*Foreign Investors*—Residual Certificates" in the REMIC Prospectus.

The Treasury Department has issued Regulations providing that, to clearly reflect income, an inducement fee paid to a transferee of a noneconomic residual interest in a REMIC must be included in income over a period that is reasonably related to the period during which the applicable REMIC is expected to generate taxable income or net loss allocable to the transferee. The Regulations set forth two safe harbor methods under which a taxpayer's accounting for the inducement fee will be considered to clearly reflect income for these purposes. In addition, under the Regulations an inducement fee shall be treated as income from sources within the United States. You should consult your own tax advisor regarding the application of the Regulations to the transfer of a Residual Certificate.

### **Tax Return Disclosure Requirements**

Treasury Department Regulations that are directed at "tax shelters" 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 own tax advisor concerning any possible disclosure obligation with respect to your investment in the Certificates.

## **PLAN OF DISTRIBUTION**

*General.* We are obligated to deliver the Certificates to Greenwich Capital Markets, Inc. (the "Dealer") in exchange for the MBS. The Dealer proposes to offer the Certificates directly to the public from time to time in negotiated transactions at varying prices to be determined at the time of sale. The Dealer may effect these transactions to or through other dealers.

*Increase in Certificates.* Before the Settlement Date, we and the Dealer may agree to offer Classes in addition to those contemplated as of the date of this prospectus supplement. In this event, we will increase the related MBS in principal balance, but we expect that all these additional MBS will have the same characteristics as described under "Description of the Certificates—The MBS" in this prospectus supplement. The proportion that the original principal balance of each Group 1 or Group 2 Class bears to the aggregate original principal balance of all Group 1 or Group 2 Classes, respectively, will remain the same.

## **LEGAL MATTERS**

Sidley Austin LLP will provide legal representation for Fannie Mae. Sidley Austin LLP also will provide legal representation for the Dealer.

Assumed Characteristics of the MTA ARM Loans  
as of November 1, 2006

Group 1 MBS

Original Unpaid Principal Balance (\$)	Cut-Off Date	Unpaid Principal Balance (\$)	Weighted Average Current Net Mortgage Rate (%)	Weighted Average Current Mortgage Rate (%)	Weighted Average Remaining Term to Maturity ("WARM")	Weighted Average Loan Age (in Months) ("WALA")	Weighted Average Original Term (in Months)	Weighted Average Margin (%)	Weighted Average Lifetime Rate Cap (%)	Weighted Average Lifetime Rate For Cap (%)	Weighted Average Months to Next Rate Change	Rate Reset Frequency (in Months)	Weighted Average Months to Next Payment Change	Payment Reset Frequency (in Months)	Maximum Negative Amortization (%)	Payment Cap (%)	Payment Recast Frequency (in Months)	P&I Payment (\$)
86,529,533.05	85,509,930.47	7,187	7.62	7.62	358	2	360	3.142	9.962	3.142	1	1	10	12	115	7.5	60	390,168.03
1,248,200.11	1,233,492.20	1,324	1.977	1.977	358	2	360	3.713	10.040	3.713	2	1	10	12	115	7.5	60	5,755.48
371,991.84	367,608.55	7,127	7.802	7.802	358	2	360	3.252	10.062	3.252	10	1	10	12	115	7.5	60	1,709.55
41,942,908.60	41,909,498.14	7,126	7.716	7.716	359	1	360	3.222	9.949	3.222	1	1	11	12	115	7.5	60	173,837.88
1,169,200.40	1,168,269.05	1,206	1.823	1.823	359	1	360	3.392	9.976	3.392	2	1	11	12	115	7.5	60	5,668.63
74,610,551.00	73,656,642.42	7,158	7.731	7.731	357	3	360	3.108	9.984	3.108	1	1	9	12	115	7.5	60	369,133.96
62,833,330.93	62,653,415.86	7,240	7.949	7.949	358	2	360	3.223	9.956	3.223	1	1	10	12	115	7.5	60	320,439.99
600,080.07	588,361.82	1,087	1.899	1.899	358	2	360	3.850	10.059	3.850	2	1	10	12	115	7.5	60	3,068.01
37,627,566.80	37,598,380.61	6,229	6.992	6.992	359	1	360	3.281	9.951	3.281	1	1	11	12	115	7.5	60	123,908.17
1,520,047.24	1,518,868.20	1,480	2.278	2.278	359	1	360	3.274	9.986	3.274	2	1	11	12	115	7.5	60	6,883.79
221,648.95	221,477.03	1,325	1.750	1.750	359	1	360	4.137	9.613	4.137	3	1	11	12	115	7.5	60	1,720.95
26,447,587.88	26,427,792.39	6,046	6.773	6.773	359	1	360	3.272	9.956	3.272	1	1	11	12	115	7.5	60	72,420.58
475,743.13	475,387.05	1,233	1.883	1.883	359	1	360	3.132	9.879	3.132	2	1	11	12	115	7.5	60	47,447.97
638,870.97	638,392.79	1,200	1.750	1.750	359	1	360	3.672	9.779	3.672	3	1	11	12	115	7.5	60	2,497.26
275,313.02	275,106.96	7,075	7.750	7.750	359	1	360	3.947	9.904	3.947	11	1	11	12	115	7.5	60	2,497.26
40,124,375.01	40,060,733.34	5,913	6.514	6.514	359	1	360	3.188	9.974	3.188	1	1	11	12	115	7.5	60	106,929.66
876,834.74	875,443.98	1,366	1.982	1.982	359	1	360	3.596	9.989	3.596	2	1	11	12	115	7.5	60	3,144.99
752,825.25	751,631.19	1,145	1.750	1.750	359	1	360	3.670	9.978	3.670	3	1	11	12	115	7.5	60	3,144.99

**Group 2 MBS**

Original Unpaid Balance(\$)	Cut-Off Date Principle Balance(\$)	Weighted Average Current Mortgage Rate (%)	Weighted Average Remaining Term to Maturity ("WALM") (in Months)	Weighted Average Loan Age ("WALA") (in Months)	Weighted Average Original Term (in Months)	Weighted Average Margin (%)	Weighted Lifetime Rate (%)	Weighted Lifetime Rate (%)	Weighted Rate to Next Change (in Months)	Weighted Rate to Next Change (in Months)	Weighted Average Months to Next Payment Change	Payment Reset Frequency (in Months)	Maximum Negative Amortization (%)	Payment Cap (%)	Payment Frequency (in Months)	P&I Payment (\$)
17,010,296.00	13,703,107.47	6.651	343	17	360	2.787	9.953	2.787	1	1	7	12	115	7.5	60	61,487.52
156,000.00	140,434.14	6.773	347	13	360	3.104	9.958	3.104	1	1	11	12	115	7.5	60	729.65
656,000.00	573,093.14	6.780	347	13	360	3.180	9.957	3.180	1	1	11	12	115	7.5	60	2,532.37
468,000.00	402,854.60	6.767	347	13	360	3.051	9.952	3.051	1	1	11	12	115	7.5	60	2,017.55
215,024,216.00	181,316,194.21	6.760	346	14	360	2.952	9.951	2.952	1	1	10	12	115	7.5	60	767,843.88
156,000.00	134,815.00	6.778	347	13	360	3.163	9.955	3.163	1	1	11	12	115	7.5	60	543.64
3,380,000.00	2,808,073.51	6.779	345	15	360	3.113	9.948	3.113	1	1	9	12	115	7.5	60	16,410.63
312,000.00	279,271.48	6.763	347	13	360	2.921	9.951	2.921	1	1	11	12	115	7.5	60	1,169.19
156,000.00	137,980.98	6.774	347	13	360	3.048	9.951	3.048	1	1	11	12	115	7.5	60	535.92
156,000.00	139,246.48	6.764	347	13	360	2.962	9.953	2.962	1	1	11	12	115	7.5	60	558.45
200,001,196.00	152,917,818.44	6.978	343	17	360	3.160	9.954	3.160	1	1	7	12	115	7.5	60	736,246.55

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No one is authorized to give information or to make representations in connection with the Certificates other than the information and representations contained in this Prospectus Supplement and the additional Disclosure Documents. You must not rely on any unauthorized information or representation. This Prospectus Supplement and the additional Disclosure Documents do not constitute an offer or solicitation with regard to the Certificates if it is illegal to make such an offer or solicitation to you under state law. By delivering this Prospectus Supplement and the additional Disclosure Documents at any time, no one implies that the information contained herein or therein is correct after the date hereof or thereof.

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**TABLE OF CONTENTS**

	Page
Table of Contents . . . . .	S- 2
Available Information . . . . .	S- 3
Incorporation By Reference . . . . .	S- 3
Recent Developments . . . . .	S- 4
Reference Sheet . . . . .	S- 6
Additional Risk Factors . . . . .	S- 9
Description of the Certificates . . . . .	S-12
Certain Additional Federal Income Tax Consequences . . . . .	S-33
Plan of Distribution . . . . .	S-38
Legal Matters . . . . .	S-38
Exhibit A . . . . .	A-1

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**\$728,493,321**



**Guaranteed REMIC  
Pass-Through Certificates  
Fannie Mae REMIC Trust 2006-118**

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**PROSPECTUS SUPPLEMENT**

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**RBS Greenwich Capital**

**October 26, 2006**

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