

Adjustable Rate Mortgage MBS Disclosure Enhancement

To continue providing Adjustable Rate Mortgage (“ARM”) MBS disclosure that is as effective and informative as possible, Fannie Mae is improving the ARM MBS subtype assignment process. ARM subtypes are alphanumeric codes that identify some of the key characteristics of the mortgages in an ARM pool. Today, subtypes typically provide information on ARM attributes including: Index, Initial Fixed-Rate Period, Rate and Payment Adjustment Frequency and Caps, Convertibility, and Other Features. A glossary of all current subtypes is available on www.FannieMae.com.

Effective June 1, 2005 we will amend the subtype attribute descriptors for the Initial Fixed Period, Interval Rate Cap, and Convertibility fields in order to increase consistency among subtypes. In addition, the Other Features field for subtypes will be streamlined generally to indicate Prepayment Premium and Interest-Only characteristics only (although from time to time we may use this field to disclose additional unique characteristics of a particular set of mortgage loans). These changes will simplify the subtype attributes, provide increased consistency among subtypes, and will allow for a smaller universe of subtypes assigned going forward. The specific changes are as follows:

- **Initial Fixed-Rate Period:** Fannie Mae will use nine set ranges and will reformat all existing Initial Fixed-Rate Period ranges to these new ranges. The ranges will be 0-18 Months, 19-42 Months, 43-66 Months, 67-90 Months, 91-150 Months, 0-42 Months, 0-66 Months, 0-90 Months, and 0-150 Months.
- **Interval Rate Cap:** The field descriptors for rate caps will be standardized to ensure that the following format is used across all subtypes, “+X%/-X%@1stAdj; +X%/-X%Thereafter.” The interval rate cap descriptions for all existing subtypes will be converted into this format, providing additional clarity. For example, the new description will state “+2%/-2%@1stAdj; +2%/-2% Thereafter.”
- **Convertibility:** Fannie Mae will change the convertibility field into a pure binary “yes/no” indicator for all subtypes, rather than a description of the allowable convertibility timing.
- **Other Features:** The Other Features field will identify whether the pools contain loans with Prepayment Premium and/or Interest-Only characteristics by using a binary yes/no indicator for all subtypes. Also, investors will be referred to the applicable MBS prospectus supplement for additional information about these characteristics. All other attributes currently tracked in the Other Features field will be removed. Additional features may be included in the Other Features field in the future.

ARM MBS issued before June 1, 2005 will retain their current subtype. This enhancement will not change the subtype assigned to any pool issued before the effective date. ARM MBS issued on or after June 1, 2005 will be assigned subtypes based on the new field descriptions.

For more information, please refer to the attached list of Frequently Asked Questions, or call the Fixed Income Investor Helpline on 1- 800-237-8627.

Adjustable Rate Mortgage MBS Disclosure Enhancement Frequently Asked Questions

Q: What is a Subtype?

A: Single-Family ARM MBS subtypes are alphanumeric codes that can be used to identify ARM product characteristics such as index, initial fixed-rate period, rate and payment adjustment frequency and caps, convertibility, and other features. Subtypes are often used by MBS investors to facilitate grouping ARM MBS into product “types” based on these key loan characteristics. Subtypes are only applicable to adjustable-rate mortgage securities and are unique to Fannie Mae MBS.

ARM Subtypes do not replace disclosure documents. Full descriptions of the loans in a particular ARM MBS pool can be found in that pool’s MBS Prospectus Supplement, available in the Prospectus Supplement Retrieval System on www.FannieMae.com. For other ARM disclosure documents please see [“Basics of Adjustable-Rate MBS”](#) in the [“Mortgage-Backed Securities”](#) section of www.FannieMae.com.

Q: How will this change benefit the ARM MBS market?

A: By broadening the descriptors of certain fields, we will funnel more newly created ARM MBS pools into like subtypes. Over time, this will decrease the number of outstanding subtypes. Fannie Mae will begin disclosing ARM Subtype detail in a single consolidated report effective immediately, enhancing users ability to load data to automated systems.

Q: Where can I find out what subtype is assigned to a particular pool?

A: We disclose ARM pool subtypes in that pool’s Prospectus Supplement as well as through ePoolTalk. Many MBS information services also publish the subtype assigned to a particular pool.

Q: Will Fannie Mae change the subtype previously assigned to any existing ARM MBS? In other words, will any outstanding MBS get a different subtype?

A: All existing ARM MBS will retain their current subtype. Except for the limited circumstances described in the following question, this enhancement will not change the subtype of any pool issued before June 1, 2005.

However, the descriptors for the currently assigned subtype may be changed to allow a broader range of ARMs within the Subtype. For example, an ARM MBS currently identified with Subtype “KEO” will remain “KEO” after June 1, 2005. The description of Subtype “KEO” currently lists the Initial Fixed Period as 0-24 months and will change to 0-42 months.

Q: If a new ARM MBS issued after June 1 is given a subtype that differs from that assigned to a pool issued prior to the effective date of this change and an investor holding both pools wishes to create a Mega[®] with the pools in question, will Fannie Mae consider changing the subtype assignment on one of the pools?

A: Possibly, however, any final decision is in our discretion and made on a case-by-case basis. Investors in this situation should contact the Fixed Income Investor Helpline at 1- 800-237-8627 to begin a discussion on the specific circumstances.

Q: Will loans with substantially similar characteristics continue to be grouped by subtype?

A: Yes. ARM MBS issued on or after June 1, 2005 will be assigned subtypes based on the new field descriptions. The “current” subtype field descriptions will apply to ARM MBS issued before June 1, 2005. It is possible for a pool issued on or after this date to be assigned a different subtype from a

pool issued before June 1, 2005 even though the mortgage loans in both pools have identical characteristics.

Q: Where can I find a list of subtypes and their current & future definitions?

A: Single-Family ARM Subtypes are available on <http://www.fanniemae.com> through the [Fannie Mae MBS page](#) under Mortgage-Backed Securities/Monthly Reporting Data/MBS. Fannie Mae will begin posting a list of the subtypes and their new definitions in May 2005. This list will be found under the same MBS page on www.fanniemae.com.

Q: Will my firm need to make any operational or systems changes?

A: You should evaluate your internal systems and processes to determine whether any change is needed. This change does not affect the timing, file structure or method of our “at-issuance” or “on-going” ARM pool information delivery systems. All existing ARM MBS will retain their current subtype. However, you may have internal systems that track or otherwise monitor ARM subtypes that may require adjustments.

Q: Whom should we contact if we have any questions regarding Fannie Mae ARM MBS Subtypes?

A: For questions regarding Fannie Mae ARM MBS subtypes, please contact Fannie Mae’s Fixed Income Investor Helpline on 1- 800-237-8627 from 8:30am to 5:30pm (Eastern Time).

Example 1

	Current Description	Revised Description (Effective June 1)
Subtype:	KCL	KCL
Index:	WSJ 6-Month LIBOR	WSJ 6-Month LIBOR
Initial Fixed-Rate Period:	30-42 Months	19-42 Months
Rate Adj. Freq:	Semiannually	Semiannually
Pay Adj. Freq:	Semiannually	Semiannually
Interval Rate Cap:	+5%/-2%, +/-1% Thereafter	+5%/-2% @ 1st Adj; +1/-1% Thereafter
Interval Pay Cap:	N/A	N/A
Convertibility:	Not Convertible	No
Other Features:	N/A	(a) Prepayment Premium – No (b) Interest Only - No

Example 2

	Current Description	Revised Description (Effective June 1)
Subtype:	1BC	1BC
Index:	11 th District COFI	11 th District COFI
Initial Fixed-Rate Period:	0-18 Months	0-18 Months
Rate Adj. Freq:	Quarterly	Quarterly
Pay Adj. Freq:	Annually	Annually
Interval Rate Cap:	+/-2% Annually	+2%/-2% @1st Adj; +2%/-2% Thereafter
Interval Pay Cap:	+/-7.5%	+/-7.5%
Convertibility:	Not Convertible	No
Other Features:	N/A	(a) Prepayment Premium – No (b) Interest Only – No

Example 3

	Current Description	Revised Description (Effective June 1)
Subtype:	KF	KF
Index:	WSJ 6-Month LIBOR	WSJ 6-Month LIBOR
Initial Fixed-Rate Period:	0-18 Months	0-18 Months
Rate Adj. Freq:	Semiannually	Semiannually
Pay Adj. Freq:	Semiannually	Semiannually
Interval Rate Cap:	+/-1%	+1%/-1% @1st Adj; +1%/-1% Thereafter
Interval Pay Cap:	N/A	N/A
Convertibility:	Not Convertible	No
Other Features:	Prepay Penalty within 72 Mos. From Data of Mortgage Note	(a) Prepayment Premium – Yes, See Prospectus Supplement (b) Interest Only - No

Example 4

	Current Description	Revised Description (Effective June 1)
Subtype:	19F	19F
Index:	WSJ 1-Year LIBOR	WSJ 1-Year LIBOR
Initial Fixed-Rate Period:	43-66 Months	43-66 Months
Rate Adj. Freq:	Annually	Annually
Pay Adj. Freq:	Annually	Annually
Interval Rate Cap:	+/-2%	+2%/-2% @1st Adj; +2%/-2% Thereafter
Interval Pay Cap:	N/A	N/A
Convertibility:	1 st Through 3 rd Change Dates	Yes, See Prospectus Supplement
Other Features:	(a) Due on Sale During the Initial Fixed Rate Period (b) Prepay Penalty Within 36 Mos. From Date of Mortgage Note	(a) Prepayment Premium – Yes, See Prospectus Supplement (b) Interest Only - No