

# PROSPECTUS

**\$295,312,820 (Approximate)**

## WISCONSIN AVENUE SECURITIES REMIC PASS-THROUGH CERTIFICATES Fannie Mae REMIC Trust 1998-W7

The REMIC Pass-Through Certificates offered hereby (collectively, the "Senior and Mezzanine Certificates") will represent beneficial ownership interests in Fannie Mae REMIC Trust 1998-W7 (the "Trust"). The assets of the Trust will consist of a pool (the "Mortgage Pool") of first lien, single-family, fixed-rate, fully amortizing residential mortgage loans (the "Mortgage Loans") having the characteristics described herein.

The rights of the holders of the M Class, B-1 Class and B-2 Class (collectively, the "Mezzanine Certificates") will be subordinate to the rights of the holders of the A Class, PO Class, X Class and R Class (collectively, the "Senior Certificates") and will be senior to the rights of the holders of the Subordinate Certificates to receive distributions thereon, as described herein. The Subordinate Certificates are not offered hereby. The Mezzanine Certificates are not guaranteed by Fannie Mae and do not represent an interest in or obligation of Fannie Mae or any of its affiliates or of the United States or any agency or instrumentality thereof.

See "Index to Defined Terms" on page 62 hereof for the location of the definitions of certain capitalized terms.

Investors should not purchase the Senior and Mezzanine Certificates before reading this Prospectus and the Information Statement referred to at the bottom of page 2, and, in the case of the Senior Certificates, the supplement hereto dated the date hereof and relating to the Senior Certificates (the "Senior Supplement"). This Prospectus may not be used to consummate sales of Senior Certificates unless accompanied by the Senior Supplement.

(Cover continued on next page)

See "Risk Factors" beginning on page 6 hereof for a discussion of certain risks that should be considered in connection with an investment in the Senior and Mezzanine Certificates.

THE SENIOR AND MEZZANINE CERTIFICATES MAY NOT BE SUITABLE INVESTMENTS FOR ALL INVESTORS. NO INVESTOR SHOULD PURCHASE SENIOR AND MEZZANINE CERTIFICATES UNLESS SUCH INVESTOR UNDERSTANDS AND IS ABLE TO BEAR THE PREPAYMENT, YIELD, LIQUIDITY AND OTHER RISKS ASSOCIATED WITH SUCH CERTIFICATES.

THE MEZZANINE CERTIFICATES ARE NOT GUARANTEED BY, AND DO NOT REPRESENT AN INTEREST IN OR OBLIGATION OF, FANNIE MAE OR ANY OF ITS AFFILIATES OR OF THE UNITED STATES OR ANY AGENCY OR INSTRUMENTALITY THEREOF. THE SENIOR AND MEZZANINE CERTIFICATES ARE EXEMPT FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT OF 1933 AND ARE "EXEMPTED SECURITIES" WITHIN THE MEANING OF THE SECURITIES EXCHANGE ACT OF 1934.

| Classes of Senior Certificates | Original Principal Balance(1) | Principal Type(2) | Interest Rate | Interest Type(2) | CUSIP Number |
|--------------------------------|-------------------------------|-------------------|---------------|------------------|--------------|
| A .....                        | \$281,593,335                 | SEQ               | 7.000%        | FIX              | 31359UZV0    |
| PO .....                       | 3,226,038                     | PT                | (3)           | PO               | 31359UA47    |
| X .....                        | 206,847,104 (4)               | NTL               | (5)           | W/IO             | 31359UA54    |
| R .....                        | 100                           | SEQ               | 7.085         | FIX              | 31359UA62    |

| Classes of Mezzanine Certificates(6) | Original Principal Balance(7) | Interest Rate | CUSIP Number |
|--------------------------------------|-------------------------------|---------------|--------------|
| M .....                              | \$5,996,199                   | 7.085%        | 31359UZW8    |
| B-1 .....                            | 2,248,574                     | 7.085         | 31359UZX6    |
| B-2 .....                            | 2,248,574                     | 7.085         | 31359UZY4    |

- (1) Subject to a permitted variance of plus or minus 5% in the aggregate.
- (2) See "Description of the Senior and Mezzanine Certificates—Distributions on the Senior and Mezzanine Certificates" and "—Class Definitions and Abbreviations" herein.
- (3) The PO Class will be a Principal Only Class and will not bear interest.
- (4) The X Class will be a Notional Class, will not have a principal balance and will bear interest on its notional principal balance. The notional principal balance of the Notional Class initially will be as set forth above and thereafter will be calculated as specified herein. See "Description of the Senior and Mezzanine Certificates—Notional Class" herein.
- (5) The X Class will bear interest calculated at a rate per annum equal to the weighted average of the Net Mortgage Rate of each Non-Discount Mortgage Loan minus 7.085% for each Interest Accrual Period. The X Class will bear interest during the initial Interest Accrual Period at a per annum rate equal to approximately 0.43544%. See "Description of the Senior and Mezzanine Certificates—Distributions on the Senior and Mezzanine Certificates" herein.
- (6) As described herein, distributions of interest and principal on the Mezzanine Certificates are subordinated to the Senior Certificates and are NOT guaranteed by Fannie Mae.
- (7) Subject to a variance of plus or minus 5%, provided that the proportion that the original principal balance of each Class of Mezzanine Certificates bears to the aggregate original principal balance of all the Non-Senior Classes will remain the same.

The Senior and Mezzanine Certificates will be offered by Countrywide Securities Corporation (the "Dealer") from time to time in negotiated transactions, at varying prices to be determined at the time of sale.

The Senior and Mezzanine Certificates will be offered by the Dealer, subject to issuance by Fannie Mae and to prior sale or to withdrawal or modification of the offer without notice, when, as and if delivered to and accepted by the Dealer, subject to the right by the Dealer to reject any order in whole or in part and subject to approval of certain legal matters by counsel. It is expected that the Senior and Mezzanine Certificates, other than the R Class, will be available through the book-entry facilities of The Depository Trust Company on or about September 29, 1998 (the "Settlement Date"). It is expected that the R Class in registered, certificated form will be available for delivery at the offices of the Dealer in Calabasas, California on or about the Settlement Date.

## COUNTRYWIDE SECURITIES CORPORATION

August 27, 1998

(Cover continued from previous page)

The yields to investors in each Class of Senior and Mezzanine Certificates (other than the PO and X Classes) will be sensitive to the rate of principal payments of the Mortgage Loans and, in the case of the PO and X Classes, the yields will be very sensitive to the rates of principal payments of the Discount Mortgage Loans and Non-Discount Mortgage Loans, respectively. Such yields will also be sensitive to the actual characteristics of the related Mortgage Loans and the purchase price paid for the related Class. Accordingly, investors should consider the following risks:

- The Mortgage Loans generally may be prepaid at any time without penalty, and, accordingly, the rate of principal payments thereon is likely to vary considerably from time to time.
- Slight variations in Mortgage Loan characteristics could substantially affect the weighted average lives and yields of some or all of the Classes.
- In the case of any Senior and Mezzanine Certificates purchased at a discount to their principal amounts (including the PO Class), a slower than anticipated rate of principal payments is likely to result in a lower than anticipated yield.
- In the case of any Senior and Mezzanine Certificates purchased at a premium to their principal amounts, a faster than anticipated rate of principal payments is likely to result in a lower than anticipated yield.
- In the case of the X Class, a faster than anticipated rate of principal payments is likely to result in a lower than anticipated yield and, in certain cases, an actual loss on the investment.
- The effective yields on the interest-bearing Senior and Mezzanine Certificates will be reduced to the extent prepayments of the Mortgage Loans result in Uncovered Prepayment Interest Shortfalls, as described under “Description of the Senior and Mezzanine Certificates—Distributions on the Senior and Mezzanine Certificates—Interest Calculation.”
- The yields and weighted average lives of the Senior and Mezzanine Certificates will likely be affected by the disproportionately lower allocation of prepayments to the Mezzanine Certificates as compared to the Senior Certificates.
- Investors in the Mezzanine Certificates also should consider the impact on yield due to the timing of the return of principal, if any, with respect to defaulted Mortgage Loans, which, unless purchased by the Master Servicer pursuant to its option, will remain in the Trust until the completion of foreclosure or similar proceedings and the final disposition of the related Mortgaged Properties. Any Realized Losses thereon (other than Excess Losses) will be allocated to the Mezzanine and Subordinate Certificates (in the reverse order of their numerical Class designations) and the proceeds of such final disposition may not be sufficient to pay the applicable Mezzanine Certificates principal with respect to any such Mortgage Loan at such time. For purposes of allocating losses or payments to the Mezzanine Certificates, the Class M Certificates will be deemed to have a lower numerical designation (and to be of a higher payment priority) than the other Classes of Non-Senior Certificates. See “Risk Factors—Prepayment Considerations and Risks” herein.

See “Risk Factors—Yield Considerations” herein.

In addition, investors should purchase Senior and Mezzanine Certificates only after considering the following:

- The rate of principal distributions of the Senior and Mezzanine Certificates is uncertain and investors may be unable to reinvest the distributions thereon at yields equaling the yields on such Certificates. See “Risk Factors—Yield Considerations” and “—Reinvestment Risk” herein.
- The actual final payment of the Senior and Mezzanine Certificates may occur earlier or later, and could occur much earlier, than the maturity date of the latest maturing Mortgage Loan. See “Description of the Senior and Mezzanine Certificates—Weighted Average Lives of the Senior and Mezzanine Certificates” herein.
- Investors whose investment activities are subject to legal investment laws and regulations or to review by regulatory authorities may be subject to restrictions on investment in certain Classes of Senior and Mezzanine Certificates. Investors should consult their legal advisors to determine whether and to what extent the Senior and Mezzanine Certificates constitute legal investments or are subject to restrictions on investment. See “Legal Investment Considerations” herein.

The Dealer intends to make a market for the Senior and Mezzanine Certificates but is not obligated to do so. There can be no assurance that such a secondary market will develop or, if developed, that it will continue. Thus, investors may not be able to sell their Senior and Mezzanine Certificates readily or at prices that will enable them to realize their anticipated yield. No investor should purchase Senior and Mezzanine Certificates unless such investor understands and is able to bear the risk that the value of such Senior and Mezzanine Certificates will fluctuate over time and that such Senior and Mezzanine Certificates may not be readily saleable.

These securities have not been approved or disapproved by the Securities and Exchange Commission or any state securities commission nor has the Securities and Exchange Commission or any state securities commission passed upon the accuracy or adequacy of this Prospectus. Any representation to the contrary is a criminal offense.

An election will be made to treat the Trust as a “real estate mortgage investment conduit” (“REMIC”) pursuant to the Internal Revenue Code of 1986, as amended (the “Code”). The R Class will be subject to transfer restrictions. See “Description of the Senior and Mezzanine Certificates—Certain Characteristics of the R Class” and see “Certain Federal Income Tax Consequences” herein.

Investors should purchase the Senior and Mezzanine Certificates only if they have read and understood this Prospectus and Fannie Mae’s Information Statement dated March 31, 1998 and any supplements thereto (as so supplemented, the “Information Statement”), and in the case of the Senior Certificates, the Senior Supplement.

The Information Statement is incorporated herein by reference. This Prospectus, the Senior Supplement and the Information Statement may be obtained from Fannie Mae by writing or calling its MBS Helpline at 3900 Wisconsin Avenue, N.W., Area 2H-3S, Washington, D.C. 20016 (telephone 1-800-BEST-MBS or 202-752-6547). Such documents may also be obtained from Countrywide Securities Corporation by writing or calling its Prospectus Department, 4500 Park Granada Avenue, Calabasas, California 91302 (telephone 818-225-3288).

**PROSPECTIVE INVESTORS IN THE SENIOR AND MEZZANINE CERTIFICATES SHOULD CAREFULLY REVIEW “RISK FACTORS” HEREIN FOR A DESCRIPTION OF CERTAIN RISKS ASSOCIATED WITH OWNING SUCH CERTIFICATES.**

**PROCEEDS OF THE ASSETS IN THE TRUST ARE THE SOLE SOURCE OF PAYMENTS ON THE MEZZANINE CERTIFICATES. THE MEZZANINE CERTIFICATES, TOGETHER WITH ANY INTEREST THEREON, ARE NOT GUARANTEED BY, AND DO NOT REPRESENT AN INTEREST IN OR OBLIGATION OF, FANNIE MAE OR ANY OF ITS AFFILIATES OR OF THE UNITED STATES OR ANY AGENCY OR INSTRUMENTALITY THEREOF.**

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## REFERENCE SHEET

**This reference sheet is not a summary of the REMIC transaction and it does not contain complete information about the Senior and Mezzanine Certificates. Investors should purchase the Senior and Mezzanine Certificates only after reading this Prospectus and the Information Statement and, in the case of the Senior Certificates, the Senior Supplement referred to herein in their entirety.**

### Assumed Characteristics of the Mortgage Loans

The tables contained herein under the heading “The Mortgage Loans—General” set forth certain summary information regarding the assumed characteristics of the Mortgage Loans as of the Issue Date (as defined herein), aggregated on the basis of the characteristics specified therein, including certain information regarding principal balance, weighted average net mortgage rate, weighted average mortgage rate, weighted average age and weighted average maturity (“WAM”).

### General

The REMIC Pass-Through Certificates for Fannie Mae REMIC Trust 1998-W7 will consist of four classes of guaranteed senior certificates designated as the R Class (the “Residual Class”), the A Class, the PO Class and the X Class (collectively, the “Senior Classes”), three classes of mezzanine certificates designated as the M, B-1 and B-2 Classes (collectively, the “Mezzanine Classes” and together with the Senior Classes, the “Senior and Mezzanine Classes”), and three classes of subordinate certificates designated as the B-3, B-4 and B-5 Classes (collectively, the “Subordinate Classes”, and together with the Mezzanine Classes, the “Non-Senior Classes” or “Non-Senior Certificates”). Fannie Mae’s guaranty does not cover the Non-Senior Classes. The Senior Classes, the Mezzanine Classes and the Subordinate Classes (collectively, the “Classes” or the “Certificates”) in the aggregate represent the entire beneficial ownership interest in the Trust.

It is expected that the Trust will consist of Mortgage Loans having an initial aggregate Stated Principal Balance of approximately \$299,809,972 (subject to a variance of plus or minus 5% in the aggregate). The initial aggregate principal balance of the Senior Classes will be approximately \$284,819,473 and will initially evidence an undivided ownership interest of approximately 95% in the Mortgage Loans. The initial aggregate principal balance of the Mezzanine Classes will be approximately \$10,493,347 and will initially evidence an undivided ownership interest of approximately 3.5% in the Mortgage Loans. The initial aggregate principal balance of the Subordinate Classes will be approximately \$4,497,152 and will initially evidence an undivided ownership interest of approximately 1.50% in the Mortgage Loans. Only the Senior and Mezzanine Certificates are offered hereby. The Subordinate Classes, which are not being offered hereby, will be issued to the Dealer on the Settlement Date and may be sold at any time thereafter in limited private offerings.

Any information contained herein with respect to the Subordinate Certificates is provided only to permit a better understanding of the Senior and Mezzanine Certificates.

### Interest Distributions

The Senior and Mezzanine Certificates will bear interest at the respective per annum interest rates set forth or described on the cover hereof. On each Distribution Date, the Senior Certificates will be entitled to receive the Senior Interest Distribution Amount. On each Distribution Date, each Class of Mezzanine Certificates will be entitled to receive its Interest Distribution Amount, to the extent funds are available therefor.

For a description of the Senior Interest Distribution Amount and the Interest Distribution Amount for each Class of Mezzanine Certificates, see “Description of the Senior and Mezzanine Certificates—Distributions on the Senior and Mezzanine Certificates—*Interest Calculation*” and “—Certain Definitions relating to Distributions on the Certificates” herein.

## Notional Class

The X Class is a Notional Class and will bear interest at the per annum rate described on the cover on the notional principal balance thereof. The notional principal balance of the X Class will be equal to 100% of the aggregate Stated Principal Balance of the Non-Discount Mortgage Loans.

See “Description of the Senior and Mezzanine Certificates — Distributions on the Senior and Mezzanine Certificates — *Notional Class*” and “Yield Tables — *The X Class*.”

## Principal Distributions

### *Senior Principal Distribution Amount*

To the R and A Classes, in that order to zero.

### *PO Class Principal Distribution Amount*

To the PO Class, to zero.

### *Principal Distribution Amounts relating to Mezzanine Certificates*

On each Distribution Date, each Class of Mezzanine Certificates will be entitled to receive its Principal Distribution Amount, to the extent funds are available therefor, until the principal balance of such Class is reduced to zero.

For a description of the Senior Principal Distribution Amount, the PO Class Principal Distribution Amount and the Principal Distribution Amount for each Class of Mezzanine Certificates, see “Description of the Senior and Mezzanine Certificates—Certain Definitions Relating to Distributions on the Certificates” herein.

## Weighted Average Lives (years) \*

| <u>Senior Classes</u> | <u>% of Prepayment Assumption**</u> |            |             |             |             |
|-----------------------|-------------------------------------|------------|-------------|-------------|-------------|
|                       | <u>0%</u>                           | <u>50%</u> | <u>100%</u> | <u>200%</u> | <u>300%</u> |
| A .....               | 20.0                                | 9.2        | 5.3         | 2.6         | 1.7         |
| PO .....              | 19.7                                | 9.3        | 5.5         | 2.9         | 1.9         |
| X .....               | 20.2                                | 9.5        | 5.6         | 2.9         | 1.9         |
| R .....               | 0.1                                 | 0.1        | 0.1         | 0.1         | 0.1         |

  

| <u>Mezzanine Classes</u> | <u>% of Prepayment Assumption**</u> |            |             |             |             |
|--------------------------|-------------------------------------|------------|-------------|-------------|-------------|
|                          | <u>0%</u>                           | <u>50%</u> | <u>100%</u> | <u>200%</u> | <u>300%</u> |
| M, B-1 and B-2 .....     | 20.0                                | 13.8       | 11.0        | 8.6         | 6.3         |

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

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

## Ratings

It is a condition to the issuance of the Certificates that the Class M, Class B-1 and Class B-2 Certificates be rated at least “AA”, “A” and “BBB”, respectively, by Standard & Poor’s, a division of The McGraw-Hill Companies, Inc. (the “Rating Agency”).

## RISK FACTORS

*Suitability.* Investors in the Senior and Mezzanine Certificates should have sufficient knowledge and experience in financial and business matters to evaluate the Senior and Mezzanine Certificates, the merits and risks of investing in the Senior and Mezzanine Certificates and the information contained and incorporated by reference in this Prospectus. In addition, such investors should have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of such investors' financial situation, the Senior and Mezzanine Certificates, the merits and risks of investing in the Senior and Mezzanine Certificates and the impact the Senior and Mezzanine Certificates will have on their overall investment portfolios. No investor should purchase a Senior Certificate or Mezzanine Certificate unless such investor understands and has sufficient financial resources to bear, the prepayment, yield, structure, market, liquidity and other risks associated with such Certificate. Investors also should not purchase any Senior Certificate or Mezzanine Certificate without sufficient experience, financial resources and liquidity, relative to the potential risks, to manage their investments, including their investment in such Certificate. Before purchasing any Senior Certificate or Mezzanine Certificate, investors should understand thoroughly the terms of such Certificate, be familiar with the behavior of the mortgage-backed securities markets, and consider (if necessary, with the assistance of a financial advisor) possible scenarios for economic, interest rate and other factors that may affect their investment, and their ability to bear the associated risks under a variety of such scenarios. Investors should also consider any legal restrictions that may apply to their investments in Senior and Mezzanine Certificates. See "Legal Investment Considerations" herein.

*Yield Considerations.* The effective yields to Holders of Senior and Mezzanine Certificates will depend upon the purchase price of such Senior and Mezzanine Certificates, the rate of principal payments, including prepayments, on the Mortgage Loans and the actual characteristics of the Mortgage Loans. The yield to investors in the X Class will also be sensitive to fluctuations in the weighted average of the Net Mortgage Rates of the Non-Discount Mortgage Loans. Generally, if the actual rate of payments on the Mortgage Loans is slower than the rate anticipated by an investor who purchased a Senior Certificate or Mezzanine Certificate at a discount (including the PO Class), the actual yield to such investor will be lower than such investor's anticipated yield. Likewise, if the actual rate of payments on the Mortgage Loans is faster than the rate anticipated by an investor who purchased a Senior Certificate or Mezzanine Certificate at a premium or who purchased an Interest Only Certificate, the actual yield to such investor will be lower than such investor's anticipated yield. An investor should purchase Senior and Mezzanine Certificates only after performing an analysis of such Senior and Mezzanine Certificates based upon the investor's own assumptions as to future rates of prepayment on the Mortgage Loans.

The timing of changes in the rate of principal payments (including prepayments) or, in the case of the X Class, the weighted average of the Net Mortgage Rates of the Non-Discount Mortgage Loans, may significantly affect the yield to an investor, even if the average rate of principal prepayments or weighted average of such Net Mortgage Rates is consistent with such investor's expectations. In general, the earlier the payment of principal or change in the level of such weighted average Net Mortgage Rate, the greater the effect on an investor's yield to maturity. As a result, the effect on an investor's yield of principal payments (including prepayments) occurring at a rate, or such weighted average Net Mortgage Rate being at a level, higher (or lower) than the rate or level anticipated by the investor during the period immediately following the Settlement Date will not be offset by any subsequent equivalent reduction (or increase) in the rate of principal payments (including prepayments) or level of such weighted average Net Mortgage Rate. In addition, the effective yields on the interest-bearing Senior and Mezzanine Certificates will be reduced to the extent prepayments of the Mortgage Loans result in Uncovered Prepayment Interest Shortfalls, as described under "Description of the Senior and Mezzanine Certificates."

The effective yields on the Senior and Mezzanine Certificates will be reduced below the yields otherwise produced thereon because principal and interest payable on a Distribution Date will not be distributed until the 25th day following the end of the related Interest Accrual Period and will not bear

interest during such delay. No interest at all will be paid on any Class of Senior Certificates or Mezzanine Certificates after the principal balance of such Class has been reduced to zero. As a result of the foregoing, the market values of the Senior and Mezzanine Certificates will be lower than would be the case if there were no such delay. Investors must make their own decisions as to the appropriate assumptions, including prepayment assumptions, to be used in deciding whether to purchase the Senior and Mezzanine Certificates.

*Certain Additional Yield Considerations Relating in Particular to the Mezzanine Certificates.* In the event the aggregate principal balance of the Subordinate Classes were reduced to zero due to the allocation of Realized Losses, the yields to maturity on the Mezzanine Certificates would be extremely sensitive to the default and Realized Loss experience on the Mortgage Loans and to the timing of any such defaults or Realized Losses. The rights of the holders of the Mezzanine Certificates to receive distributions in respect of the Mortgage Loans will be subordinate to the rights of holders of the Senior Certificates to the extent described herein. In addition, the rights of the holders of the B-1 and B-2 Classes to receive such distributions will be subordinate to such rights of the holders of the M Class, and the rights of the holders of the B-2 Class to receive such distributions will be further subordinate to such rights of the holders of the B-1 Class, in each case to the extent described herein. Subject to the limitations described herein, all Realized Losses and other shortfalls in collections on the Mortgage Loans will be allocated, first, to the Subordinate Classes and, thereafter, to the Mezzanine Classes in the reverse order of their numerical class designations until the respective outstanding principal balances thereof have been reduced to zero. The Class M Certificates will be deemed to have a lower numerical designation (and to be of higher payment priority) than the other Classes of Non-Senior Certificates. If a purchaser of the Mezzanine Certificates calculates its anticipated yield based on an assumed rate of default and amount of Realized Losses that is lower than the default rate and amount of Realized Losses actually incurred, its actual yield to maturity may be lower than that so calculated and could in the event of substantial Realized Losses, be negative. The timing of Realized Losses will also affect an investor's actual yield to maturity, even if the rate of defaults and severity of Realized Losses are consistent with an investor's expectations. In general, the earlier a Realized Loss occurs, the greater is the effect on an investor's yield to maturity.

There can be no assurance as to the delinquency, foreclosure or Realized Loss experience with respect to the Mortgage Loans. **Investors in the Mezzanine Certificates should fully consider the risk that Realized Losses on the Mortgage Loans could result in the failure of such investors to fully recover their investments.** For additional considerations relating to the yields on the Mezzanine Certificates, see "*Prepayment Considerations and Risks*" below.

The yield to maturity of the Mezzanine Certificates will also be affected by the application of principal payments to reduce the outstanding principal balances of the Mezzanine Certificates. As described herein under "Description of the Senior and Mezzanine Certificates—Principal Distributions on the Senior Certificates", for each Distribution Date occurring prior to the Distribution Date in October 2003, the Senior Prepayment Percentage will equal 100%. Furthermore, commencing on the Distribution Date in October 2003, unless the outstanding principal balances of the Senior Certificates have been reduced to zero, the Subordinate Prepayment Percentage may continue to be 0% or otherwise be disproportionately small relative to the Subordinate Percentage. See "Description of the Senior and Mezzanine Certificates—Distributions on the Senior and Mezzanine Certificates" herein. This disproportionate allocation of principal prepayments will have the effect of accelerating the amortization of the Senior Certificates while increasing the proportionate interest evidenced by the Mezzanine Certificates and the Subordinate Certificates in the Mortgage Loans, which is intended to preserve the availability of the subordination provided by the Mezzanine Certificates and the Subordinate Certificates to the Senior Certificates and which will cause the principal balances of the Mezzanine Certificates to decline more slowly than would be the case if the Mezzanine Certificates received their proportionate share of principal prepayments on the Mortgage Loans. As a result, in the absence of Realized Losses, the average lives of the Mezzanine Certificates will likely be longer than otherwise would be the case, and the performance characteristics of the Mezzanine Certificates

will be different from other mortgage pass-through certificates that do not disproportionately allocate principal prepayments on the Mortgage Loans by certificate class.

Delinquencies on Mortgage Loans that are not covered by a Delinquency Advance will also affect an investor's yield to maturity on the Mezzanine Certificates. As described below under "Description of the Senior and Mezzanine Certificates—Allocation of Losses", "—Subordination" and "The Agreement—Collection and Other Servicing Procedures", amounts otherwise distributable to holders of the Mezzanine Certificates will be made available to protect the holders of the Senior Certificates against interruptions in distributions due to certain mortgagor delinquencies. Such delinquencies, even if subsequently cured, will affect the timing of the receipt of distributions by holders of the Mezzanine Certificates. In addition, if the aggregate amount of Realized Losses exceed certain specified levels during certain specified periods (ranging from 30% of the Original Non-Senior Principal Balance during the 12 months beginning in October 2003 to 50% of the Original Non-Senior Principal Balance during or after October 2007), then the rate of principal payments on the Certificates would be affected because the Senior Prepayment Percentage would not decrease pursuant to the schedule that would govern in the absence of such realized losses. See the discussion under "Description of the Senior and Mezzanine Certificates—Certain Definitions Relating to Distributions on the Certificates" herein.

*Prepayment Considerations and Risks.* The rate of principal payments of the Senior and Mezzanine Certificates is directly related to the rate of payments of principal of the Mortgage Loans, which may be in the form of scheduled amortization or prepayments (for this purpose, the term "prepayment" includes prepayments and liquidations resulting from default, casualty or condemnation and payments made pursuant to any exercise of the option of the Master Servicer or Fannie Mae, as applicable, to purchase certain delinquent Mortgage Loans from the Trust). The Mortgage Loans generally may be prepaid in whole or in part at any time without penalty. The Seller is obligated to repurchase Mortgage Loans found to be in material breach of representations and warranties made by it. If such repurchase occurs, and the Seller is unable to, or elects not to, substitute for the repurchased Mortgage Loan a Mortgage Loan therefor, Holders of the Senior and Mezzanine Certificates will experience prepayments of principal with respect to the Senior and Mezzanine Certificates.

The rate of prepayments on fixed-rate mortgage loans such as the Mortgage Loans is likely to be sensitive to prevailing interest rates. In general, when the level of prevailing interest rates declines sufficiently relative to the interest rate on fixed-rate mortgage loans, the rate of prepayment is likely to increase, although the prepayment rate is influenced by a number of other factors as well, including general economic conditions and homeowner mobility. In addition, it is increasingly difficult to generalize as to the degree to which interest rates must decline before significant prepayments are likely to be experienced. Increased borrower sophistication regarding the benefits of refinancing and extensive solicitation by lenders may result in an increase in the rate at which the Mortgage Loans are prepaid due to refinancing. Additionally, certain rights of the Master Servicer and Fannie Mae, as applicable, such as the option under certain circumstances to purchase certain delinquent Mortgage Loans, may affect the rate of prepayment of the Mortgage Loans in the Trust. See "—Repurchases Due to Delinquency." Accordingly, Fannie Mae is unable to estimate what the prepayment experience for the Mortgage Loans in the Trust will be. The Information Statement contains the most recent mortgage loan prepayment experience of Fannie Mae's portfolio. However, Fannie Mae has had limited experience with loans reflecting the underwriting criteria applicable to the Mortgage Loans and is unable to predict whether the experience with respect to its portfolio will have any applicability to the Mortgage Loans. Moreover, it is possible that the Mortgage Loans will experience rates of delinquency, foreclosure and bankruptcy that are higher than those experienced by comparable Mortgage Loans underwritten in accordance with the Fannie Mae Selling Guide (which sets forth the requirements of Fannie Mae's standard mortgage loan purchase requirements).

In an environment of declining interest rates, lenders servicing mortgage loans often are asked by borrowers to refinance the mortgage loans through issuance of new loans secured by mortgages on the

same properties. The resulting prepayments, if they involve the Mortgage Loans, will result in the distribution to Certificateholders of the principal balances of the prepaid Mortgage Loans and their removal from the Trust. Lenders servicing the Mortgage Loans are not prohibited from advertising their availability to handle refinancings. Fannie Mae does not, however, permit the removal of Mortgage Loans from the Trust for the purpose of modifications thereto prior to default.

Acceleration of mortgage payments on the Mortgage Loans as a result of transfers of the Mortgaged Property is another factor affecting prepayment rates. The Mortgage Loans will generally provide by their terms that, in the event of the transfer or prospective transfer of title to the underlying Mortgaged Property, the full unpaid principal balance of the Mortgage Loan is due and payable at the option of the holder. As described herein, the Master Servicer is required to exercise its right to accelerate the maturity of Mortgage Loans containing enforceable “due-on-sale” provisions upon certain transfers of the related Mortgaged Property. However, certain state and federal laws limiting the enforcement of “due-on-sale” provisions remain in effect. See “The Agreements—Collection and Other Servicing Procedures” herein.

Provided that timely information is available, all principal prepayments (including but not limited to voluntary prepayments made by the borrowers, and liquidation proceeds) received in the one-month period ending on the 15th of each month (each, a “Prepayment Period”) and allocable to the Senior and Mezzanine Certificates will be passed through to Certificateholders on the Distribution Date following the end of such Prepayment Period. In the event that timely information is not available, such principal prepayments will be distributed on the second Distribution Date following the end of such Prepayment Period.

*Geographic Concentration.* A table under “The Mortgage Loans—Statistical Information” herein illustrates the geographic diversity of the Mortgage Loans. As of the Issue Date, the states of California and Colorado comprise the largest concentration of Mortgage Loans in the Trust, with 21.82% and 6.53% of the aggregate Stated Principal Balances, respectively. If the residential real estate markets in the states or regions with the heaviest concentrations of Mortgage Loans should experience an overall decline in property values, the rates of delinquencies, foreclosures, bankruptcies and Realized Losses on the Mortgage Loans may be expected to increase and may increase substantially.

*Reinvestment Risk.* Because the Mortgage Loans may be prepaid at any time, it is not possible to predict the rate at which distributions of principal of any Class of Senior and Mezzanine Certificates will be received. Accordingly, the Senior and Mezzanine Certificates generally would not be an appropriate investment for an investor requiring a particular distribution of principal on a specified date or any other predictable stream of principal distributions. In addition, since prevailing interest rates are subject to fluctuation, there can be no assurance that investors in any Class of Senior and Mezzanine Certificates will be able to reinvest the distributions thereon at yields equaling or exceeding the yields on such Certificates. It is possible that yields on any such reinvestments will be lower, and may be significantly lower, than the yields on the Senior and Mezzanine Certificates. Prospective investors in the Senior and Mezzanine Certificates should carefully consider the foregoing risks in light of other investments that may be available to such investors.

*Liquidity.* The Senior and Mezzanine Certificates may not have an established trading market when issued. There can be no assurance of a secondary market for any Senior and Mezzanine Certificates or the liquidity of such market if one develops. Consequently, investors may not be able to sell their Senior and Mezzanine Certificates readily or at prices that will enable them to realize an anticipated yield. This is particularly the case for Senior and Mezzanine Certificates (including any Principal Only Class or Interest Only Class) that are designed for specific investment objectives or strategies or that have been structured to meet the investment requirements of limited categories of investors, which may have a more limited secondary market and less or no liquidity and may experience more price volatility than other similar mortgage-backed securities. Illiquidity may have a severely adverse effect on the market value of the Senior and Mezzanine Certificates.

No investor should purchase Senior and Mezzanine Certificates unless such investor understands and is able to bear the risk that certain Senior and Mezzanine Certificates may not be readily saleable, that the value of Senior and Mezzanine Certificates will fluctuate over time, and that such fluctuations may be significant and could result in losses to such investor. This is particularly the case for investors whose circumstances may not permit them to hold the Senior and Mezzanine Certificates until maturity. Further, depending on the type of Senior and Mezzanine Certificates, market conditions and other factors, investors seeking to sell relatively small or relatively large amounts of Senior and Mezzanine Certificates may not be able to do so at prices comparable to those that may be available to other investors.

*Credit Enhancement.* For purposes of this Prospectus, “related junior Classes” shall mean (i) with respect to the Senior Certificates, the Mezzanine Certificates and the Subordinate Certificates and (ii) with respect to each Class of the Mezzanine Certificates, each Class of Mezzanine Certificates with a higher numerical class designation and the Subordinate Certificates. The Class M Certificates will be deemed to have a lower numerical designation (and to be of higher payment priority) than the other Classes of Non-Senior Certificates.

Credit enhancement will be provided for the Senior and Mezzanine Certificates first by the right of the Holders of the Senior and Mezzanine Certificates to receive certain payments of principal prior to the related junior Classes and, second, by the allocation of Realized Losses to the related junior Classes. None of the Seller, the Trustee, the Master Servicer or any of their respective affiliates will have any obligation to replace or supplement such credit enhancement. Such credit enhancement is provided from collections on the Mortgage Loans otherwise payable to the Holders of the related junior Classes. (In the case of the Mezzanine Certificates, such collections comprise the sole source of funds from which such credit enhancement is provided.) Accordingly, if the aggregate principal balance of the related junior Classes were to be reduced to zero, delinquencies and defaults on the Mortgage Loans would affect monthly distributions to Holders of the Mezzanine Certificates (and could, in some circumstances, affect distribution to Holders of the Senior Certificates). Furthermore, the related junior Classes will provide only limited protection against certain categories of losses. Any Excess Losses will be allocated pro rata to each Class, including the Senior and Mezzanine Classes, even if the principal balance of each related junior Class has not been reduced to zero.

*Cash Flow.* Assuming that the Mortgaged Properties provide adequate security for the Mortgage Loans, substantial delay could be encountered in connection with the liquidation of defaulted Mortgage Loans, and corresponding delays in the receipt of related net liquidation proceeds by Holders of the Senior and Mezzanine Certificates could occur. Further, liquidation expenses (such as legal fees, real estate taxes and maintenance and preservation expenses) will reduce the proceeds of the Mortgage Loans payable to Holders of the Senior and Mezzanine Certificates and thereby reduce the security of the related Mortgage Loans.

*Nature of Collateral.* The Mortgage Loans were underwritten substantially in accordance with the Seller’s Expanded Underwriting Guidelines (as described herein). The Expanded Underwriting Guidelines are generally more flexible than those for mortgage lending programs following the Fannie Mae Selling Guide, and permit, for example, higher Loan-to-Value Ratios and higher debt to income ratios. It is possible that mortgage loans originated in accordance with these standards would be more likely than mortgage loans underwritten pursuant to mortgage lending programs following the Fannie Mae Selling Guide to experience delinquencies or defaults in the event of negative economic forces affecting the related borrowers and properties. See “The Mortgage Loans—Underwriting Standards.”

*Permitted Variance Factor.* The Issue Date Pool Balance and the initial original principal balances of the Certificates are subject to a permitted variance of plus or minus 5%, provided that the proportion that the original principal balance of each Class of Mezzanine Certificates bears to the aggregate original principal balance of all the Non-Senior Classes will remain the same. Therefore, investors should be aware that the characteristics of the Mortgage Loans actually included in the

Mortgage Pool may differ from the characteristics of the Mortgage Loans set forth in the discussions and tables in this Prospectus.

*Repurchases Due to Delinquency.* Fannie Mae (after the Mezzanine Termination Date) and the Master Servicer (at any time) have the option to purchase Mortgage Loans that are more than 90 days delinquent, at a price equal to the unpaid principal balance thereof plus accrued interest thereon, as described herein. The effect of any such purchase would be the same as that of a prepayment in full of the related Mortgage Loan.

*Real Estate Market.* An overall decline in the residential real estate markets in the states in which the Mortgaged Properties are located could adversely affect the values of the Mortgaged Properties such that the outstanding balances of the related Mortgage Loans equal or exceed the value of such Mortgaged Properties. Residential real estate markets in many states have softened in recent years. Fannie Mae cannot quantify the impact of such declines in property values nor predict how long any such decline may continue or when such declines would end. During a period of such declines, the rates of delinquencies, foreclosures and losses on the Mortgage Loans may be expected to be higher than those experienced in the mortgage lending industry in general. Geographic concentration of the Mortgage Loans may increase the impact of such market changes. See “The Mortgage Loans—Statistical Information—State Distribution of Mortgaged Properties.”

A rise in interest rates over a period of time and the general conditions of the Mortgaged Properties, as well as other factors such as general employment levels, may have the effect of reducing the value of the Mortgaged Properties from the appraised value thereof from the time of origination of the related Mortgage Loans. If there is a reduction in the value of a Mortgaged Property, the ratio of the amount of the related Mortgage Loan to the value of such Mortgaged Property at such time may increase relative to such ratio over what it was at the time such Mortgage Loan was originated. Such an increase may reduce the likelihood of liquidation or other proceeds being sufficient to pay in full the outstanding balance of such Mortgage Loan.

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

Applicable state laws generally regulate interest rates and other charges, require certain disclosures, and require licensing of mortgage loan originators and servicers, among others. In addition, other state laws, public policy and general principles of equity relating to the protection of consumers, unfair and deceptive practices and debt collection practices may apply to the origination, servicing and collection of the Mortgage Loans. The Seller will be required to repurchase any Mortgage Loans that, at the time of origination, did not comply with applicable federal and state laws and regulations. Depending on the provisions of the applicable law and the specific facts and circumstances involved, violations of such laws, policies and principles may limit the ability of the Trust to collect all or part of the principal of or interest on the related Mortgage Loans, may entitle the related borrower to a refund of amounts previously paid and, in addition, could subject the Trust to damages and administrative enforcement.

The Mortgage Loans also are subject to federal laws, including:

(a) the Federal Truth in Lending Act and Regulation Z promulgated thereunder, which require certain disclosures to the borrowers regarding the terms of mortgage loans;

(b) the Equal Credit Opportunity Act and Regulation B promulgated thereunder, which prohibit discrimination on the basis of age, race, color, sex, religion, marital status, national origin, receipt of public assistance or the exercise of any right under the Consumer Credit Protection Act, in the extension of credit;

(c) the Fair Credit Reporting Act, which regulates the use and reporting of information related to the borrower's credit experience;

(d) the Americans with Disabilities Act, which, among other things, prohibits discrimination on the basis of disability in the full and equal enjoyment of the goods, services, facilities, privileges, advantages or accommodations of any place of public accommodation; and

(e) the Mortgage Loan Consumer Protection Act of 1998, which requires additional application disclosures, limits changes that may be made to the loan documents without the borrower's consent and restricts a lender's ability to declare a default or to suspend or reduce a borrower's credit line to certain enumerated events.

Violations of certain provisions of these federal laws may limit the ability of the Master Servicer to collect all or part of the principal of or interest on the Mortgage Loans, and in addition could subject the Trust to damages and administrative enforcement. The federal Soldiers' and Sailors' Civil Relief Act of 1940 may affect the ability of the Master Servicer to collect full amounts of interest on certain Mortgage Loans and could interfere with the ability of the Master Servicer to foreclose on certain properties.

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

## GENERAL

The following summaries describing certain provisions of the Senior and Mezzanine Certificates do not purport to be complete and are subject to, and are qualified in their entirety by reference to, the remaining provisions of this Prospectus, the Information Statement and the provisions of the Trust Agreement (defined below) and, in the case of the Senior Certificates, the Senior Supplement. Capitalized terms used and not otherwise defined in this Prospectus have the meanings assigned to such terms in the Information Statement or the Trust Agreement (as the context may require).

*Structure.* The Senior and Mezzanine Certificates will be issued by the Federal National Mortgage Association ("Fannie Mae"), a corporation organized and existing under the laws of the United States, under the authority contained in Section 304(d) of the Federal National Mortgage Association Charter Act (12 U.S.C. 1716 *et seq.*). The Trust will be created pursuant to a trust agreement dated as of September 1, 1998 (the "Trust Agreement"), executed by Fannie Mae in its corporate capacity and in its capacity as trustee (in such capacity, the "Trustee"), and the Senior and Mezzanine Certificates in the Classes and aggregate original principal balances set forth on the cover hereof as well as the Subordinate Classes will be issued by Fannie Mae pursuant thereto. Each of Fannie Mae and Countrywide Home Loans, Inc. ("Countrywide"), as seller and as master servicer (in such capacities, the "Seller" and "Master Servicer" respectively), will be a party to a sale and servicing agreement (the "Sale and Servicing Agreement") dated as of September 1, 1998 (the "Issue Date"). A description of Fannie Mae and its business, together with certain financial statements and other financial information, is contained in the Information Statement.

The assets of the Trust will consist of the Mortgage Loans and will in the aggregate evidence the entire beneficial ownership interest in the distributions of principal and interest thereon. The Certificates (other than the R Class) will be designated as the “regular interests,” and the R Class will be designated as the “residual interest,” in the REMIC constituted by the Trust.

*Authorized Denominations.* The Senior Certificates (other than the R Class) will be issued in minimum denominations of \$1,000 and integral multiples of \$1 in excess thereof. The R Class will be issued as single Certificate in a denomination of \$100. The Mezzanine Certificates will be issued in minimum denominations of \$100,000 and integral multiples of \$1 in excess thereof.

*Characteristics of Senior and Mezzanine Certificates.* The Senior and Mezzanine Certificates, other than the R Class, will be represented by one or more certificates (the “DTC Certificates”) to be registered at all times in the name of the nominee of the Depository (as defined herein), which Depository will maintain such Certificates through its book-entry facilities. When used herein with respect to any DTC Certificate, the terms “Holders” and “Certificateholders” refer to the nominee of the Depository. A Holder is not necessarily the beneficial owner of a book-entry Certificate. Beneficial owners will ordinarily hold book-entry Certificates through one or more financial intermediaries, such as banks, brokerage firms and securities clearing organizations. See “Description of the Senior and Mezzanine Certificates—Book-Entry Procedures” herein.

The R Certificate will not be issued in book-entry form but will be issued in fully registered certificated form. As to the R Certificate, “Holder” or “Certificateholder” refers to the registered owner thereof. The R Certificate will be transferable at the corporate trust office of the Transfer Agent, or at the agency of the Transfer Agent in New York, New York. The Transfer Agent initially will be State Street Bank and Trust Company in Boston, Massachusetts (“State Street”). A service charge may be imposed for any registration of transfer of the R Certificate and Fannie Mae may require payment of a sum sufficient to cover any tax or other governmental charge. See also “Description of the Senior and Mezzanine Certificates — Certain Characteristics of the R Class” herein.

The distribution to the Holder of the R Certificate of the proceeds of any remaining assets of the Trust will be made only upon presentation and surrender of the related Certificate at the office of the Paying Agent. The Paying Agent initially will be State Street.

*Distribution Dates.* Distributions on the Senior and Mezzanine Certificates will be made on the 25th day of each month or, if such 25th day is not a business day, on the first business day next succeeding such 25th day (each, a “Distribution Date”), commencing in the month following the Settlement Date.

*Record Date.* Each monthly distribution on the Senior and Mezzanine Certificates will be made to Holders of record on the last day of the preceding month.

*REMIC Trust Factors.* As soon as practicable following the 21st day of each month, Fannie Mae will publish or otherwise make available for each Class of Senior and Mezzanine Certificates, the factor (carried to eight decimal places) which, when multiplied by the original principal balance of a Certificate of such Class, will equal the remaining principal balance of such Senior and Mezzanine Certificate after giving effect to the distribution of principal to be made on the following Distribution Date.

*Optional Termination.* Fannie Mae or the Master Servicer, may effect an early termination of the Trust as described herein under “The Agreements—Termination.”

## **THE MORTGAGE LOANS**

The information with respect to the Mortgage Loans set forth herein has been collected and summarized by the Seller and provided to Fannie Mae. Fannie Mae has made no independent

verification of such information and, therefore, does not warrant its truth or accuracy and shall not be responsible therefor.

## General

It is expected that the Trust will consist of approximately 2,688 mortgage loans (collectively, the “Mortgage Loans”) having an aggregate Stated Principal Balance of approximately \$299,809,972 (subject to a permitted variance of plus or minus 5%) as of the Issue Date. For a description of the underwriting standards governing the origination of the Mortgage Loans, see “—Underwriting Standards” below.

The Mortgage Loans consist of first lien, single family, fixed-rate, fully amortizing mortgage loans with original terms of from 20 to 30 years. Each Mortgage Loan is evidenced by a promissory note or similar evidence of indebtedness (a “Mortgage Note”) that is secured by a first mortgage or deed of trust on a single family residential property and that provides for monthly payments of principal and interest. As used herein, the property that secures repayment of a Mortgage Loan is referred to as the “Mortgaged Property.”

Each Mortgage Loan provides for payments by the obligor on the related Mortgage Note (the “borrower”) as of a scheduled day in each month that is fixed at the time of origination. In addition, each Mortgage Loan provides that interest is charged to each related borrower at the rate of interest set forth or calculated as provided in the related Mortgage Note on the outstanding principal balance thereof calculated on the basis of a 360-day year consisting of twelve 30-day months. Scheduled monthly payments by a borrower either earlier or later than the scheduled due date therefor will not affect the amortization schedule or the relative application of such payment to principal and interest.

None of the Mortgage Loans are FHA-insured or VA-guaranteed.

Set forth in the tables immediately following the next paragraph is certain summary information regarding the assumed characteristics of the Mortgage Loans, aggregated on the basis of the specified characteristics as of the Issue Date (without giving effect to prepayments received on the Mortgage Loans on or after the Issue Date). Such summary information has been aggregated on the basis of the assumed characteristics specified below and is not intended to reflect actual or assumed individual Mortgage Loan characteristics.

The “Weighted Average Net Mortgage Rate” for any Distribution Date with respect to the Discount Mortgage Loans as a group or the Non-Discount Mortgage Loans as a group is the weighted average of the Net Mortgage Rates in effect with respect to the Mortgage Loans in such group during the preceding calendar month, weighted on the basis of the respective Stated Principal Balances of such Mortgage Loans immediately prior to such Distribution Date. The “Weighted Average Age” is the weighted average loan age of the Mortgage Loans. The “Net Mortgage Rate” for any Mortgage Loan is the applicable mortgage interest rate therefor less 0.25% (and less any related Lender PMI). The “Discount Mortgage Loans” are all Mortgage Loans having Net Mortgage Rates lower than 7.085%. The “Non-Discount Mortgage Loans” are all Mortgage Loans having Net Mortgage Rates equal to or greater than 7.085%.

### Discount Mortgage Loans

| <u>Principal<br/>Balance</u> | <u>Weighted Average<br/>Net Mortgage Rate</u> | <u>Weighted Average<br/>Mortgage Rate</u> | <u>Weighted Average<br/>Age (in months)</u> | <u>WAM<br/>(in months)</u> |
|------------------------------|-----------------------------------------------|-------------------------------------------|---------------------------------------------|----------------------------|
| \$92,962,868.07              | 6.839133222%                                  | 7.151114286%                              | 1                                           | 355                        |

## Non-Discount Mortgage Loans

| <u>Principal<br/>Balance</u> | <u>Weighted Average<br/>Net Mortgage Rate</u> | <u>Weighted Average<br/>Mortgage Rate</u> | <u>Weighted Average<br/>Age (in months)</u> | <u>WAM<br/>(in months)</u> |
|------------------------------|-----------------------------------------------|-------------------------------------------|---------------------------------------------|----------------------------|
| \$206,847,104.44             | 7.520435921%                                  | 7.793593617%                              | 0                                           | 357                        |

### Statistical Information

Certain information with respect to the Mortgage Loans expected to be included in the Mortgage Pool is set forth below. Until three Business Days prior to the Settlement Date, Mortgage Loans may be removed from the Mortgage Pool and other Mortgage Loans may be substituted therefor. The Seller believes that the information set forth herein with respect to the Mortgage Pool as presently constituted is representative of the characteristics of the Mortgage Pool as it will be constituted at the Settlement Date, although certain characteristics of the Mortgage Loans in the Mortgage Pool may vary. Unless otherwise indicated, information presented herein expressed as a percentage (other than rates of interest) are approximate percentages based on the Stated Principal Balances of the Mortgage Loans as of the Issue Date.

Each Mortgage Loan was originated after April 1, 1997.

The latest stated maturity date of any Mortgage Loan is October 2028. The earliest stated maturity date of any Mortgage Loan is April 2018.

As of the Issue Date, none of the Mortgage Loans were delinquent more than 30 days.

Mortgage Loans (comprising approximately 0.47% of the aggregate Stated Principal Balance of the Mortgage Loans as of the Issue Date) are subject to buydown agreements. No Mortgage Loan provides for deferred interest or negative amortization.

No Mortgage Loan had a Loan-to-Value ratio at origination of more than 97%. Generally, each Mortgage Loan with a Loan-to-Value Ratio at origination of greater than 80% is covered by a primary mortgage guaranty insurance policy issued by a mortgage insurance company acceptable to Fannie Mae or the Federal Home Loan Mortgage Corporation ("FHLMC"). Such policy provides coverage in an amount equal to a specified percentage times the sum of the remaining principal balance of the related Mortgaged Loan, the accrued interest thereon and the related foreclosure expenses. The specified percentage is either 12% for Loan-to-Value Ratios between 80.01% and 85.00%, 25% for Loan-to-Value Ratios between 85.01% and 90.00%, 30% for Loan-to-Value Ratios between 90.01% and 95.00% or 35% for Loan-to-Value Ratios between 95.01% and 97.00%. With respect to 134 Mortgage Loans (which comprise approximately 4.99% of the aggregate Stated Principal Balance as of the Issue Date), the lender (rather than the borrower) acquired the primary mortgage guaranty insurance and charged the related borrower an interest premium which is retained by the lender and will not be included in the Trust (such Mortgage Loans, the "Lender PMI Mortgage Loans" and such amount retained by the lender, "Lender PMI"). Except with respect to the Lender PMI Mortgage Loans, no such primary mortgage guaranty insurance policy will be required with respect to any such Mortgage Loan (i) after the date on which the related Loan-to-Value Ratio is 80% or less or, based on a new appraisal, the principal balance of such Mortgage Loan represents 80% or less of the new appraised value or (ii) if maintaining such policy is prohibited by applicable law. With respect to the Lender PMI Mortgage Loans, the primary mortgage guaranty insurance policy will be maintained for the life of such Mortgage Loans.

The "Loan-to-Value Ratio" of a Mortgage Loan at any given time is a fraction, expressed as a percentage, the numerator of which is the principal balance of the related Mortgage Loan at the date of determination and the denominator of which is (a) in the case of a purchase, the lesser of the selling price of the Mortgaged Property or its appraised value at the time of sale, or (b) in the case of a refinance, the appraised value of the Mortgaged Property at the time of such refinance, except in the case of a Mortgage Loan underwritten pursuant to Countrywide's Streamlined Documentation

Program as described herein under “—Underwriting Standards.” With respect to Mortgage Loans originated pursuant to the Streamlined Documentation Program (a) if the loan-to-value ratio at the time of the origination of the mortgage loan being refinanced was 75% or less (or 70% or less in the case of mortgage loans relating to properties located in California), the “Loan-to-Value Ratio” will be the ratio of the principal amount of the Mortgage Loan outstanding at the date of determination divided by the appraised value of the related Mortgaged Property at the time of the origination of the mortgage loan being refinanced or (b) if the loan-to-value ratio at the time of the origination of the mortgage loan being refinanced was greater than 75% (or greater than 70% in the case of mortgage loans relating to properties located in California), then the “Loan-to-Value Ratio” will be the ratio of the principal amount of the Mortgage Loan outstanding at the date of determination divided by the appraised value as determined by a limited appraisal report at the time of the origination of such Mortgage Loan. See “—Underwriting Standards” herein. No assurance can be given that the value of any Mortgaged Property has remained or will remain at the level that existed on the appraisal or sales date. If residential real estate values generally or in a particular geographic area decline, the Loan-to-Value Ratios might not be a reliable indicator of the rates of delinquencies, foreclosures and losses that could occur with respect to such Mortgage Loans.

The “Stated Principal Balance” of a Mortgage Loan at any time is the unpaid principal balance thereof (or the scheduled unpaid principal balance thereof, in the case of Mortgage Loans that are delinquent) as of the Issue Date reduced by all amounts representing principal received or advanced by the Master Servicer and previously distributed to Certificateholders with respect to such Mortgage Loan, and by the principal portion of any Realized Losses in respect of such Mortgage Loan; provided, however, that the Stated Principal Balance of a Liquidated Loan will be deemed to be zero after all Realized Losses, if any, relating to such Mortgage Loan have been determined.

The following information sets forth in tabular format certain information, as of the Issue Date, as to the Mortgage Loans. References to “Aggregate Principal Balance Outstanding” represent the aggregate of the Stated Principal Balances of the related Mortgage Loans as of the Issue Date. The sum of the percentage columns in the following tables may not equal 100% due to rounding.

### Current Mortgage Loan Principal Balances (1)

| <u>Current Mortgage<br/>Loan Principal Balances</u> | <u>Number of<br/>Mortgage<br/>Loans</u> | <u>Aggregate<br/>Principal<br/>Balance<br/>Outstanding</u> | <u>Percent of<br/>Mortgage<br/>Pool</u> |
|-----------------------------------------------------|-----------------------------------------|------------------------------------------------------------|-----------------------------------------|
| \$ 0-\$ 50,000 .....                                | 277                                     | \$ 11,075,224.50                                           | 3.69%                                   |
| \$ 50,001-\$100,000 .....                           | 1007                                    | 77,261,754.03                                              | 25.77                                   |
| \$100,001-\$150,000 .....                           | 808                                     | 99,550,622.45                                              | 33.20                                   |
| \$150,001-\$200,000 .....                           | 421                                     | 73,633,906.78                                              | 24.56                                   |
| \$200,001-\$250,000 .....                           | 171                                     | 37,020,446.40                                              | 12.35                                   |
| \$250,001-\$300,000 .....                           | 2                                       | 551,348.57                                                 | 0.18                                    |
| \$300,001-\$350,000 .....                           | 1                                       | 314,754.27                                                 | 0.10                                    |
| \$400,001-\$450,000 .....                           | 1                                       | 401,915.51                                                 | 0.13                                    |
| <b>Total .....</b>                                  | <b><u>2,688</u></b>                     | <b><u>\$299,809,972.51</u></b>                             | <b><u>100.00%</u></b>                   |

(1) As of the Issue Date, the average current principal balance for the Mortgage Loans is expected to be approximately \$111,536.45.

### Mortgage Rates (1)

| <u>Mortgage Rates (%)</u> | <u>Number of<br/>Mortgage<br/>Loans</u> | <u>Aggregate<br/>Principal<br/>Balance<br/>Outstanding</u> | <u>Percent of<br/>Mortgage<br/>Pool</u> |
|---------------------------|-----------------------------------------|------------------------------------------------------------|-----------------------------------------|
| 6.125 .....               | 1                                       | \$ 118,945.82                                              | 0.04%                                   |
| 6.250 .....               | 1                                       | 127,261.73                                                 | 0.04                                    |
| 6.375 .....               | 1                                       | 67,412.48                                                  | 0.02                                    |
| 6.500 .....               | 13                                      | 1,345,733.25                                               | 0.45                                    |
| 6.625 .....               | 7                                       | 1,054,111.74                                               | 0.35                                    |
| 6.750 .....               | 29                                      | 3,998,601.89                                               | 1.33                                    |
| 6.875 .....               | 70                                      | 9,414,810.25                                               | 3.14                                    |
| 7.000 .....               | 159                                     | 19,934,174.02                                              | 6.65                                    |
| 7.125 .....               | 154                                     | 19,624,458.67                                              | 6.55                                    |
| 7.250 .....               | 302                                     | 37,277,358.22                                              | 12.43                                   |
| 7.375 .....               | 274                                     | 33,282,100.54                                              | 11.10                                   |
| 7.500 .....               | 393                                     | 45,080,622.90                                              | 15.04                                   |
| 7.625 .....               | 208                                     | 23,184,756.13                                              | 7.73                                    |
| 7.750 .....               | 310                                     | 32,635,726.69                                              | 10.89                                   |
| 7.850 .....               | 1                                       | 226,365.73                                                 | 0.08                                    |
| 7.875 .....               | 207                                     | 21,429,965.13                                              | 7.15                                    |
| 8.000 .....               | 132                                     | 12,197,357.15                                              | 4.07                                    |
| 8.125 .....               | 53                                      | 5,435,310.18                                               | 1.81                                    |
| 8.250 .....               | 105                                     | 9,818,837.30                                               | 3.28                                    |
| 8.375 .....               | 78                                      | 8,100,694.78                                               | 2.70                                    |
| 8.500 .....               | 104                                     | 8,984,709.02                                               | 3.00                                    |
| 8.625 .....               | 39                                      | 3,062,502.80                                               | 1.02                                    |
| 8.750 .....               | 26                                      | 2,107,776.89                                               | 0.70                                    |
| 8.875 .....               | 5                                       | 293,114.18                                                 | 0.10                                    |
| 9.000 .....               | 16                                      | 1,007,265.02                                               | 0.34                                    |
| <b>Total .....</b>        | <b><u>2,688</u></b>                     | <b><u>\$299,809,972.51</u></b>                             | <b><u>100.00%</u></b>                   |

(1) The Lender PMI Mortgage Loans are shown at the mortgage rates net of the interest premium charged by the related lenders. As of the Issue Date, the weighted average mortgage rate of the Mortgage Loans (as so adjusted) is expected to be approximately 7.559%. Without such adjustment, the weighted average mortgage rate of the Mortgage Loans is expected to be approximately 7.594% per annum.

### Remaining Terms to Stated Maturity (1)

| Remaining Term to Stated<br>Maturity (Months) | Number of<br>Mortgage<br>Loans | Aggregate<br>Principal<br>Balance<br>Outstanding | Percent of<br>Mortgage<br>Pool |
|-----------------------------------------------|--------------------------------|--------------------------------------------------|--------------------------------|
| 360 .....                                     | 1,303                          | \$141,432,852.00                                 | 47.17%                         |
| 359 .....                                     | 1,009                          | 112,695,159.47                                   | 37.59                          |
| 358 .....                                     | 212                            | 27,241,174.10                                    | 9.09                           |
| 357 .....                                     | 43                             | 5,410,521.91                                     | 1.80                           |
| 356 .....                                     | 11                             | 1,607,610.59                                     | 0.54                           |
| 355 .....                                     | 10                             | 1,343,445.14                                     | 0.45                           |
| 354 .....                                     | 4                              | 376,100.48                                       | 0.13                           |
| 353 .....                                     | 3                              | 355,420.20                                       | 0.12                           |
| 352 .....                                     | 2                              | 205,952.39                                       | 0.07                           |
| 300 .....                                     | 5                              | 554,400.00                                       | 0.18                           |
| 299 .....                                     | 13                             | 1,370,483.79                                     | 0.46                           |
| 298 .....                                     | 5                              | 641,912.64                                       | 0.21                           |
| 240 .....                                     | 22                             | 1,893,175.00                                     | 0.63                           |
| 239 .....                                     | 30                             | 3,191,959.01                                     | 1.06                           |
| 238 .....                                     | 14                             | 1,280,978.38                                     | 0.43                           |
| 237 .....                                     | 1                              | 76,010.26                                        | 0.03                           |
| 235 .....                                     | 1                              | 132,817.15                                       | 0.04                           |
| Total .....                                   | <u>2,688</u>                   | <u>\$299,809,972.51</u>                          | <u>100.00%</u>                 |

(1) As of the Issue Date, the weighted average remaining term to stated maturity of the Mortgage Loans is expected to be approximately 356 months.

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

| Original<br>Loan-to-Value<br>Ratios (%) | Number of<br>Mortgage<br>Loans | Aggregate<br>Principal<br>Balance<br>Outstanding | Percent of<br>Mortgage<br>Pool |
|-----------------------------------------|--------------------------------|--------------------------------------------------|--------------------------------|
| 50.00 and below .....                   | 151                            | \$ 14,065,848.51                                 | 4.69%                          |
| 50.01 to 55.00 .....                    | 43                             | 4,672,709.50                                     | 1.56                           |
| 55.01 to 60.00 .....                    | 85                             | 10,170,294.88                                    | 3.39                           |
| 60.01 to 65.00 .....                    | 106                            | 12,473,976.33                                    | 4.16                           |
| 65.01 to 70.00 .....                    | 191                            | 20,950,481.08                                    | 6.99                           |
| 70.01 to 75.00 .....                    | 526                            | 56,229,482.02                                    | 18.76                          |
| 75.01 to 80.00 .....                    | 821                            | 104,453,294.89                                   | 34.84                          |
| 80.01 to 85.00 .....                    | 123                            | 11,998,734.56                                    | 4.00                           |
| 85.01 to 90.00 .....                    | 444                            | 41,660,836.18                                    | 13.90                          |
| 90.01 to 95.00 .....                    | 128                            | 15,120,137.33                                    | 5.04                           |
| 95.01 to 99.99 .....                    | 70                             | 8,014,177.23                                     | 2.67                           |
| Total .....                             | <u>2,688</u>                   | <u>\$299,809,972.51</u>                          | <u>100.00%</u>                 |

(1) The weighted average original Loan-to-Value Ratio of the Mortgage Loans is expected to be approximately 76.91%.

## Documentation Program for Mortgage Loans (1)

| <u>Type of Program</u>   | <u>Number of<br/>Mortgage<br/>Loans</u> | <u>Aggregate<br/>Principal<br/>Balance<br/>Outstanding</u> | <u>Percent of<br/>Mortgage<br/>Pool</u> |
|--------------------------|-----------------------------------------|------------------------------------------------------------|-----------------------------------------|
| Full .....               | 931                                     | \$105,925,503.78                                           | 35.33%                                  |
| Alternative .....        | 607                                     | 60,674,705.50                                              | 20.24                                   |
| Reduced .....            | 924                                     | 109,544,557.93                                             | 36.54                                   |
| No Income/No Asset ..... | 173                                     | 17,676,265.66                                              | 5.90                                    |
| Streamlined .....        | 53                                      | 5,988,939.64                                               | 2.00                                    |
| Total .....              | <u>2,688</u>                            | <u>\$299,809,972.51</u>                                    | <u>100.00%</u>                          |

(1) For a description of Countywide's documentation programs, see "—Underwriting Standards" below.

## Types of Mortgaged Properties

| <u>Property Type</u>           | <u>Number of<br/>Mortgage<br/>Loans</u> | <u>Aggregate<br/>Principal<br/>Balance<br/>Outstanding</u> | <u>Percent of<br/>Mortgage<br/>Pool</u> |
|--------------------------------|-----------------------------------------|------------------------------------------------------------|-----------------------------------------|
| Single Family .....            | 1,930                                   | \$212,827,760.06                                           | 70.99%                                  |
| Condominium .....              | 192                                     | 18,540,992.21                                              | 6.18                                    |
| High Rise Condo .....          | 8                                       | 730,031.49                                                 | 0.24                                    |
| 2-4 Family .....               | 252                                     | 27,385,851.46                                              | 9.13                                    |
| Planned Unit Development ..... | 306                                     | 40,325,337.29                                              | 13.45                                   |
| Total .....                    | <u>2,688</u>                            | <u>\$299,809,972.51</u>                                    | <u>100.00%</u>                          |

## Purpose of Mortgage Loans

| <u>Loan Purpose</u>         | <u>Number of<br/>Mortgage<br/>Loans</u> | <u>Aggregate<br/>Principal<br/>Balance<br/>Outstanding</u> | <u>Percent of<br/>Mortgage<br/>Pool</u> |
|-----------------------------|-----------------------------------------|------------------------------------------------------------|-----------------------------------------|
| Purchase .....              | 1,327                                   | \$146,032,388.00                                           | 48.71%                                  |
| Refinance (rate/term) ..... | 571                                     | 66,275,825.52                                              | 22.11                                   |
| Refinance (cash out) .....  | 790                                     | 87,501,758.99                                              | 29.19                                   |
| Total .....                 | <u>2,688</u>                            | <u>\$299,809,972.51</u>                                    | <u>100.00%</u>                          |

## Occupancy Types (1)

| <u>Occupancy Type</u>   | <u>Number of<br/>Mortgage<br/>Loans</u> | <u>Aggregate<br/>Principal<br/>Balance<br/>Outstanding</u> | <u>Percent of<br/>Mortgage<br/>Pool</u> |
|-------------------------|-----------------------------------------|------------------------------------------------------------|-----------------------------------------|
| Primary Residence ..... | 1,980                                   | \$236,990,509.86                                           | 79.05%                                  |
| Investor Property ..... | 662                                     | 57,924,410.35                                              | 19.32                                   |
| Second Residence .....  | 46                                      | 4,895,052.30                                               | 1.63                                    |
| Total .....             | <u>2,688</u>                            | <u>\$299,809,972.51</u>                                    | <u>100.00%</u>                          |

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

## State Distribution of Mortgaged Properties

| <u>State</u>               | <u>Number of<br/>Mortgage<br/>Loans</u> | <u>Aggregate<br/>Principal<br/>Balance<br/>Outstanding</u> | <u>Percent of<br/>Mortgage<br/>Pool</u> |
|----------------------------|-----------------------------------------|------------------------------------------------------------|-----------------------------------------|
| Arizona .....              | 73                                      | \$ 7,507,769.29                                            | 2.50%                                   |
| California .....           | 445                                     | 65,410,888.64                                              | 21.82                                   |
| Colorado .....             | 165                                     | 19,585,651.98                                              | 6.53                                    |
| Florida .....              | 183                                     | 15,780,541.00                                              | 5.26                                    |
| Georgia .....              | 77                                      | 8,167,476.18                                               | 2.72                                    |
| Illinois .....             | 106                                     | 11,070,108.85                                              | 3.69                                    |
| Massachusetts .....        | 86                                      | 11,192,023.94                                              | 3.73                                    |
| Michigan .....             | 127                                     | 11,813,272.54                                              | 3.94                                    |
| New Jersey .....           | 79                                      | 9,058,456.02                                               | 3.02                                    |
| North Carolina .....       | 63                                      | 6,213,391.10                                               | 2.07                                    |
| Ohio .....                 | 112                                     | 9,296,970.85                                               | 3.10                                    |
| Oregon .....               | 77                                      | 9,336,926.08                                               | 3.11                                    |
| Pennsylvania .....         | 72                                      | 6,527,771.48                                               | 2.18                                    |
| Texas .....                | 169                                     | 17,378,240.51                                              | 5.80                                    |
| Utah .....                 | 70                                      | 8,744,603.24                                               | 2.92                                    |
| Virginia .....             | 41                                      | 6,094,954.05                                               | 2.03                                    |
| Washington .....           | 97                                      | 11,877,442.14                                              | 3.96                                    |
| Other (less than 2%) ..... | 646                                     | 64,753,484.62                                              | 21.60                                   |
| Total .....                | <u>2,688</u>                            | <u>\$299,809,972.51</u>                                    | <u>100.00%</u>                          |

### The Master Servicer

The following information was provided to Fannie Mae by Countrywide.

Countrywide, a New York corporation and a subsidiary of Countrywide Credit Industries, Inc., will act as Master Servicer for the Mortgage Loans pursuant to the Sale and Servicing Agreement. Countrywide is engaged primarily in the mortgage banking business, and as such, originates, purchases, sells and services mortgage loans. Countrywide originates mortgage loans through a retail branch system and through mortgage loan brokers and correspondents nationwide. Countrywide's mortgage loans are principally first-lien, fixed or adjustable rate mortgage loans secured by single-family residences.

At May 31, 1998, Countrywide provided servicing for approximately \$191.6 billion aggregate principal amount of mortgage loans, substantially all of which are being serviced for unaffiliated persons.

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

### Foreclosure and Delinquency Experience

The following table summarizes the delinquency and foreclosure experience, respectively, on the dates indicated, of conventional mortgage loans serviced or master serviced by the Master Servicer. The delinquency and foreclosure percentages may be affected by the size and relative lack of seasoning of the servicing portfolio which increased from approximately \$113.1 billion at February 28, 1995, to approximately \$136.8 billion at February 29, 1996, to approximately \$158.6 billion at February 28, 1997, to approximately \$182.9 billion at February 25, 1998 and to approximately \$191.6 billion at May 31, 1998. Accordingly, the information should not be considered as a basis for assessing the likelihood, amount or severity of delinquency or losses on the Mortgage Loans and no assurances can

be given that the foreclosure and delinquency experience presented in the table below will be indicative of such experience on the Mortgage Loans:

|                                                                      | At February 28 (29), |              |              |              | At May 31,   |
|----------------------------------------------------------------------|----------------------|--------------|--------------|--------------|--------------|
|                                                                      | 1995                 | 1996         | 1997         | 1998         | 1998         |
| Delinquent Mortgage Loans and Pending Foreclosures at Period End(1): |                      |              |              |              |              |
| 30-59 days .....                                                     | 1.80%                | 2.13%        | 2.26%        | 2.68%        | 2.79%        |
| 60-89 days .....                                                     | 0.29                 | 0.48         | 0.52         | 0.58         | 0.22         |
| 90 days or more (excluding pending foreclosures) ...                 | 0.42                 | 0.59         | 0.66         | 0.65         | 0.37         |
| Total of delinquencies .....                                         | <u>2.51%</u>         | <u>3.20%</u> | <u>3.44%</u> | <u>3.91%</u> | <u>3.38%</u> |
| Foreclosures pending .....                                           | <u>0.29%</u>         | <u>0.49%</u> | <u>0.71%</u> | <u>0.45%</u> | <u>0.39%</u> |
| Total delinquencies and foreclosures pending .....                   | <u>2.80%</u>         | <u>3.69%</u> | <u>4.15%</u> | <u>4.36%</u> | <u>3.77%</u> |

(1) As a percentage of the total number of loans serviced (excluding loans subserviced for others).

### Underwriting Standards

The following information (other than the last sentence under “—General”) was provided to Fannie Mae by the Seller.

#### *General*

All mortgage loans must meet credit, appraisal and underwriting standards acceptable to Countrywide. Countrywide’s underwriting standards are applied in accordance with applicable federal and state laws and regulations.

In certain cases, including with respect to mortgage loans originated through a loan correspondent or mortgage broker, the data used by Countrywide to complete the underwriting analysis may be obtained by a third party. In such instances, the initial determination as to whether a mortgage loan complies with Countrywide’s underwriting guidelines may be made by an independent company hired to perform underwriting services on behalf of Countrywide, the loan correspondent or mortgage broker. In addition, under certain circumstances, Countrywide may acquire mortgage loans from approved correspondent lenders under a program pursuant to which Countrywide delegates to the correspondent the obligation to underwrite the mortgage loans to Countrywide’s standards. Under these circumstances, the underwriting of a mortgage loan may not have been reviewed by Countrywide prior to acquisition of the mortgage loan and the correspondent represents that Countrywide’s underwriting standards have been met. After purchasing mortgage loans under such circumstances, Countrywide conducts a quality control review of a sample of such mortgage loans. The number of loans reviewed in the quality control process varies based on a variety of factors, including Countrywide’s prior experience with the correspondent lender and the results of the quality control review process itself.

Countrywide’s underwriting standards are applied by or on behalf of Countrywide to evaluate the prospective borrower’s credit standing and repayment ability and the value and adequacy of the mortgaged property as collateral. Under such standards, a prospective borrower must generally demonstrate that the ratio of the borrower’s monthly housing expenses (including principal and interest on the proposed mortgage loan and, as applicable, the related monthly portion of property taxes, hazard insurance and mortgage insurance) to the borrower’s monthly gross income and the ratio of total monthly debt to the monthly gross income (the “debt-to-income” ratios) are within certain limits. If the prospective borrower has applied for an adjustable rate loan and the Loan-to-Value Ratio is less than or equal to 75%, the interest component of the monthly housing expense is calculated based on the initial loan interest rate; if the Loan-to-Value Ratio exceeds 75%, the interest component of the monthly housing expense calculation is based on the maximum possible interest rate payable in the second year of the mortgage loan. The maximum acceptable debt-to-income ratio,

which is determined on a loan-by-loan basis, varies depending on a number of underwriting criteria, including the Loan-to-Value Ratio, loan purpose, loan amount and credit history of the borrower. In addition to meeting the debt-to-income ratio guidelines, each prospective borrower is required to have sufficient cash resources to pay the down payment and closing costs. Certain exceptions to Countrywide's underwriting guidelines are made in the event that compensating factors are demonstrated by a prospective borrower.

The nature of the information which a borrower is required to disclose and whether such information is verified depends, in part, on the documentation program used in the origination process. In general under the Full Documentation Loan Program (the "Full Documentation Program"), each prospective borrower is required to complete an application which includes information with respect to the applicant's assets, liabilities, income, credit history, employment history and other personal information. Self-employed individuals are generally required to submit their two most recent federal income tax returns. Under the Full Documentation Program, the underwriter verifies the information contained in the application relating to employment, income, assets or mortgages.

Under certain circumstances, a prospective borrower may be eligible for a loan approval process which limits or eliminates Countrywide's standard disclosure and/or verification requirements. Countrywide offers the following documentation programs as alternatives to its Full Documentation Program: an Alternative Documentation Loan Program (the "Alternative Documentation Program"), a Reduced Documentation Loan Program (the "Reduced Documentation Program"), a No Income/No Asset Documentation Loan Program (the "No Income/No Asset Documentation Program") and a Streamlined Documentation Loan Program (the "Streamlined Documentation Program").

Countrywide obtains a credit report relating to the applicant from a credit reporting company. The credit report typically contains information relating to such matters as credit history with local and national merchants and lenders, installment debt payments and any record of defaults, bankruptcy, dispossession, suits or judgments. All adverse information in the credit report is required to be explained by the prospective borrower to the satisfaction of the lending officer.

Except with respect to its Streamlined Documentation Program (as further described below), Countrywide obtains appraisals from independent appraisers or appraisal services for properties that are to secure mortgage loans. Such appraisers inspect and appraise the proposed mortgaged property and verify that such property is in acceptable condition. Following each appraisal, the appraiser prepares a report which includes a market data analysis based on recent sales of comparable homes in the area and, when deemed appropriate, a replacement cost analysis based on the current cost of constructing a similar home. All appraisals are required to conform to Fannie Mae or FHLMC appraisal standards then in effect. Every independent appraisal is reviewed by a Countrywide underwriter before the loan is approved.

Countrywide requires title insurance on all of its mortgage loans secured by first liens on real property. Countrywide also requires that fire and extended coverage casualty insurance be maintained on the mortgaged property in an amount at least equal to the principal balance of the related single-family mortgage loan or the replacement cost of the mortgaged property, whichever is less.

In addition to Countrywide's standard underwriting guidelines (the "Standard Underwriting Guidelines"), which are consistent in many respects with the guidelines applied to mortgage loans purchased by Fannie Mae and FHLMC, Countrywide uses underwriting guidelines featuring expanded criteria (the "Expanded Underwriting Guidelines"). The Standard Underwriting Guidelines and the Expanded Underwriting Guidelines are described further below. All of the Mortgage Loans were underwritten pursuant to the Expanded Underwriting Guidelines; none of the Mortgage Loans were underwritten pursuant to the Standard Underwriting Guidelines. Any information contained herein with respect to the Standard Underwriting Guidelines is provided only to permit a better understanding of the Expanded Underwriting Guidelines. Notwithstanding anything in the descriptions of the

Standard Underwriting Guidelines and the Expanded Underwriting Guidelines, the principal balances of the Mortgage Loans do not exceed those permitted under Fannie Mae's charter.

### ***Standard Underwriting Guidelines***

Countrywide's Standard Underwriting Guidelines generally allows Loan-to-Value Ratios at origination of up to 95% for purchase money or rate and term refinance mortgage loans with original principal balances of up to \$300,000, up to 90% for mortgage loans with original principal balances of up to \$400,000, up to 85% for mortgage loans with original principal balances of up to \$500,000, up to 80% for mortgage loans with original principal balances of up to \$650,000, up to 75% for mortgage loans with original principal balances of up to \$750,000 and up to 70% for mortgage loans with original principal balances of up to \$1,000,000.

For cash-out refinance mortgage loans with original principal balances of up to \$650,000, Countrywide's Standard Underwriting Guidelines generally allow Loan-to-Value Ratios at origination of up to 75%. The maximum "cash-out" amount permitted is \$150,000 and is based in part on the original Loan-to-Value Ratio of the related mortgage loan. As used herein, a refinance mortgage loan is classified as a cash-out refinance mortgage loan by Countrywide if the borrower retains greater than 1.0% of the entire amount of the proceeds from the refinancing of the existing loan.

Under its Standard Underwriting Guidelines, Countrywide generally permits a debt-to-income ratio based on the borrower's monthly housing expenses of up to 33% and a debt-to-income ratio based on the borrower's total monthly debt of up to 38%.

In connection with the Standard Underwriting Guidelines, Countrywide originates or acquires mortgage loans under the Full Documentation Program, the Alternative Documentation Program, the Reduced Documentation Program or the Streamlined Documentation Program.

The Alternative Documentation Program permits a borrower to provide W-2 forms instead of tax returns covering the most recent two years, permits bank statements in lieu of verification of deposits and permits alternative methods of employment verification. Mortgage loans which have been originated under the Alternative Documentation Program may be eligible for sale to Fannie Mae or FHLMC.

Under the Reduced Documentation Program, certain underwriting documentation concerning income and employment verification is waived. Countrywide obtains from a prospective borrower either a verification of deposit or bank statements for the two-month period immediately prior to the date of the mortgage loan application. Since information relating to a prospective borrower's income and employment is not verified, such borrower's debt-to-income ratios are calculated based on the information provided by the borrower in the mortgage loan application. The maximum Loan-to-Value Ratio (including secondary financing) ranges up to 70% maximum.

The Streamlined Documentation Program is available for borrowers who are refinancing an existing Countrywide mortgage loan provided that, among other things, such mortgage loan has not been more than 30 days delinquent in payment during the previous twelve-month period. Under the Streamlined Documentation Program, appraisals are obtained only if the loan being refinanced had a Loan-to-Value Ratio at the time of origination in excess of 75% (or 70% in the case of mortgaged properties located in California). In addition, under the Streamlined Documentation Program, a credit report is obtained but only a limited credit review is conducted, no income or asset verification is required, and telephone verification of employment is permitted. The maximum Loan-to-Value Ratio under the Streamlined Documentation Program ranges up to 90%.

### ***Expanded Underwriting Guidelines***

Mortgage loans which are underwritten pursuant to the Expanded Underwriting Guidelines may have higher Loan-to-Value Ratios, higher loan amounts and different documentation requirements than those associated with the Standard Underwriting Guidelines. The Expanded Underwriting

Guidelines also permit higher debt-to-income ratios than mortgage loans underwritten pursuant to the Standard Underwriting Guidelines.

Countrywide's Expanded Underwriting Guidelines generally allow Loan-to-Value Ratios at origination of up to 95% for purchase money or rate and term refinance mortgage loans with original principal balances of up to \$300,000, up to 90% for mortgage loans with original principal balances of up to \$400,000, up to 85% for mortgage loans with original principal balances of up to \$500,000, up to 80% for mortgage loans with original principal balances of up to \$650,000, up to 70% for mortgage loans with original principal balances of up to \$750,000, up to 65% for mortgage loans with original principal balances of up to \$1,000,000 and up to 70% for mortgage loans with original principal balances of up to \$3,000,000.

For cash-out refinance mortgage loans with original principal balances of up to \$3,000,000, Countrywide's Expanded Underwriting Guidelines generally allow Loan-to-Value Ratios at origination of up to 90%. The maximum "cash-out" amount permitted is \$600,000 and is based in part on the original Loan-to-Value Ratio of the related mortgage loan.

Under its Expanded Underwriting Guidelines, Countrywide generally permits a debt-to-income ratio based on the borrower's monthly housing expenses of up to 36% and a debt-to-income ratio based on the borrower's total monthly debt of up to 40%; provided, however, that if the Loan-to-Value Ratio exceeds 80%, such maximum permitted debt-to-income ratios are 33% and 38%, respectively.

In connection with the Expanded Underwriting Guidelines, Countrywide originates or acquires mortgage loans under the Full Documentation Program, the Alternative Documentation Program, the Reduced Documentation Program and the No Income/No Asset Documentation Program. The No Income/No Asset Documentation Program is not available under the Standard Underwriting Guidelines.

The same documentation and verification requirements apply to mortgage loans documented under the Alternative Documentation Program regardless of whether the loan has been underwritten under the Expanded Underwriting Guidelines or the Standard Underwriting Guidelines. However, under the Alternative Documentation Program, mortgage loans that have been underwritten pursuant to the Expanded Underwriting Guidelines may have higher loan balances and Loan-to-Value Ratios than those permitted under the Standard Underwriting Guidelines.

Similarly, the same documentation and verification requirements apply to mortgage loans documented under the Reduced Documentation Program regardless of whether the loan has been underwritten under the Expanded Underwriting Guidelines or the Standard Underwriting Guidelines. However, under the Reduced Documentation Program, higher loan balances and Loan-to-Value Ratios are permitted for mortgage loans underwritten pursuant to the Expanded Underwriting Guidelines than those permitted under the Standard Underwriting Guidelines. The maximum Loan-to-Value Ratio (including secondary financing) ranges up to 90%. With respect to certain mortgage loans originated under the Reduced Documentation Program, the borrower is not required to disclose any income information, and accordingly debt-to-income ratios are not calculated or included in the underwriting analysis. With respect to such mortgage loans, the maximum Loan-to-Value Ratio (including secondary financing) ranges up to 80%.

Under the No Income/No Asset Documentation Program, no documentation relating to a prospective borrower's income, employment or assets is required and therefore debt-to-income ratios are not calculated or included in the underwriting analysis (or if such documentation or calculations are included in a mortgage loan file, they are not taken into account for purposes of the underwriting analysis). This program is limited to borrowers with excellent credit histories. Under the No Income/No Asset Documentation Program, the maximum Loan-to-Value Ratio (including secondary financing) ranges up to 75%.

Mortgage Loans originated under either the No Income/No Asset Documentation Program or the Reduced Documentation Program pursuant to which debt-to-income ratios are not calculated as described above are expected to comprise approximately 18.77% of the Mortgage Pool.

Under the Expanded Underwriting Guidelines, Countrywide may also provide mortgage loans to borrowers who are not U.S. citizens, including permanent and non-permanent residents. The borrower is required to have a valid U.S. social security number or a certificate of foreign status (IRS form W-8). The borrower's income and assets must be verified under the Full Documentation Program or the Alternative Documentation Program. The maximum Loan-to-Value Ratio (including secondary financing) is 80%.

## **DESCRIPTION OF THE SENIOR AND MEZZANINE CERTIFICATES**

### **General**

The REMIC Pass-Through Certificates for Fannie Mae REMIC Trust 1998-W7 will consist of four classes of guaranteed senior certificates designated as the R Class (the "Residual Class"), the A Class, the PO Class and the X Class (collectively, the "Senior Classes"), three classes of mezzanine certificates designated as the M, B-1 and B-2 Classes (collectively, the "Mezzanine Classes" and together with the Senior Classes, the "Senior and Mezzanine Classes") and three classes of subordinate certificates designated as the B-3, B-4 and B-5 Classes (collectively, the "Subordinate Certificates" or "Subordinate Classes", and together with the Mezzanine Classes, the "Non-Senior Classes"). Fannie Mae will not guarantee the Mezzanine Classes or the Subordinate Certificates. The Senior Classes, the Mezzanine Classes and the Subordinate Classes (collectively, the "Classes" or the "Certificates") in the aggregate represent the entire beneficial ownership interest in the Trust.

The initial aggregate principal balance of the Senior Classes will be approximately \$284,819,473 and will initially evidence an undivided ownership interest of approximately 95% in the Mortgage Loans. The initial aggregate principal balance of the Mezzanine Classes will be approximately \$10,493,347 and will initially evidence an undivided ownership interest of approximately 3.50% in the Mortgage Loans. The initial aggregate principal balance of the Subordinate Classes will be approximately \$4,497,152 and will initially evidence an undivided ownership interest of approximately 1.50% in the Mortgage Loans. Only the Senior and Mezzanine Certificates are offered hereby. The Subordinate Classes, which are not being offered hereby, will be issued to the Dealer on the Settlement Date and may be sold at any time thereafter in limited private offerings.

### **Book-Entry Procedures**

*General.* The DTC Certificates will be registered at all times in the name of the nominee of The Depository Trust Company, a New York-chartered limited purpose trust company, or any successor depository selected or approved by Fannie Mae (the "Depository"). In accordance with its normal procedures, the Depository will record the positions held by each Depository participating firm (each, a "Depository Participant") in the DTC Certificates, whether held for its own account or as a nominee for another person. State Street Bank and Trust Company ("State Street") will act as Paying Agent for, and perform certain administrative functions with respect to, the DTC Certificates.

No person acquiring a beneficial ownership interest in the DTC Certificates (a "beneficial owner" or an "investor") will be entitled to receive a physical certificate representing such ownership interest. An investor's interest in the DTC Certificates will be recorded on the records of the brokerage firm, bank, thrift institution or other financial intermediary (a "financial intermediary") that maintains such investor's account for such purpose. In turn, the financial intermediary's record ownership of such interest will be recorded on the records of the Depository (or of a Depository Participant that acts as an agent for the financial intermediary if such intermediary is not a Depository Participant). Accordingly, an investor will not be recognized by the Trustee or the Depository as a Certificateholder and must rely on the foregoing arrangements to evidence its interest in the DTC Certificates.

Beneficial ownership of an investor's interest in the DTC Certificates may be transferred only by compliance with the procedures of an investor's financial intermediary and of Depository Participants. In general, beneficial ownership of an investor's interest in the DTC Certificates will be subject to the rules, regulations and procedures governing the Depository and Depository Participants as in effect from time to time.

*Method of Distribution.* Each distribution on the DTC Certificates will be distributed by the Paying Agent to the Depository in immediately available funds. The Depository will be responsible for crediting the amount of such distributions to the accounts of the Depository Participants entitled thereto, in accordance with the Depository's normal procedures, which currently provide for distributions in same-day funds settled through the New York clearing house. Each Depository Participant and each financial intermediary will be responsible for disbursing such distributions to the beneficial owners of the DTC Certificates that it represents. Accordingly, the beneficial owners may experience some delay in their receipt of distributions.

## **Certificated Class**

The R Class will not be issued in book-entry form but will be issued in fully registered, certificated form. As to the R Certificate, "Holder" or "Certificateholder" refers to the registered owner thereof. The R Certificate will be transferable at the corporate trust office of the Transfer Agent. A service charge may be imposed for any registration of transfer of an R Certificate, and Fannie Mae may require payment of a sum sufficient to cover any tax or other governmental charge.

## **Distributions on the Senior and Mezzanine Certificates**

This section describes distributions of interest and principal that will be made on the Certificates. Certain capitalized terms used in this section will have the respective meanings set forth in "Description of the Senior and Mezzanine Certificates—Certain Definitions Relating to Distributions on the Certificates" herein. See also "Index to Defined Terms" herein.

*Categories of Classes—Interest.* For the purpose of payment of interest, the Senior Certificates will be categorized as follows:

| <u>Interest Type*</u>                 | <u>Classes</u> |
|---------------------------------------|----------------|
| Fixed Rate                            | A and R        |
| Principal Only                        | PO             |
| Weighted Average Coupon/Interest Only | X              |

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

*Interest Calculation.* The Senior and Mezzanine Certificates will bear interest at the respective per annum interest rates set forth or described on the cover. Interest on the Senior and Mezzanine Certificates is calculated on the basis of a 360-day year consisting of twelve 30-day months and is distributable monthly on each Distribution Date, commencing in the month after the Settlement Date. Interest to be distributed on the Classes of Senior Certificates on each Distribution Date will consist of the Senior Interest Distribution Amount. Interest to be distributed on the Classes of Non-Senior Certificates on each Distribution Date will consist of the Non-Senior Interest Distribution Amount. Uncovered Prepayment Interest Shortfalls will be allocated pro rata among all interest-bearing Classes of Certificates, based on the amount of interest accrued on such Classes. For a description of the Senior Interest Distribution Amount and the Non-Senior Interest Distribution Amount, see "—Certain Definitions Relating to Distributions on the Certificates" herein.

*Interest Accrual Period.* Interest to be distributed on a Distribution Date will accrue on all interest bearing Classes (the "Delay Classes") during the calendar month preceding the month in which the Distribution Date occurs (the "Interest Accrual Period"). See "Risk Factors—Yield Considerations" herein.

Solely for the purpose of facilitating the trading of the PO Class, such Class will be treated as a Delay Class.

*Notional Class.* The X Class will be a Notional Class. The Notional Class will have no principal balance and Holders of the X Class will be entitled to receive interest on each Distribution Date at a per annum rate equal to the weighted average (weighted by the related Stated Principal Balances) of the Net Mortgage Rate of each Non-Discount Mortgage Loan minus 7.085% for each Interest Accrual Period. The notional principal balance of the Notional Class will be equal to 100% of the aggregate Stated Principal Balance of the Non-Discount Mortgage Loans.

The notional principal balance of the Notional Class is used for purposes of the determination of interest distributions thereon and does not represent an interest in the principal distributions on the Mortgage Loans. Although the Notional Class will not have a principal balance, a REMIC Trust Factor (as described herein) will be published with respect to such Class that will be applicable to the notional principal balance thereof, and references herein to the principal balances of the Senior Certificates generally shall be deemed to refer also to the notional principal balance of the Notional Class.

*Categories of Classes—Principal.* For the purpose of payment of principal, the Senior Certificates will be categorized as follows:

| <u>Principal Type *</u> | <u>Classes</u> |
|-------------------------|----------------|
| Sequential Pay          | A and R        |
| Pass-Through            | PO             |
| Notional                | X              |

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

*Principal Calculation.* The outstanding principal balance of any Certificate outstanding at any time represents the then maximum amount that the Holder thereof is thereafter entitled to receive as distributions allocable to principal from the cash flow on the Mortgage Loans. Principal to be distributed on the Classes of Non-Senior Certificates on each Distribution Date will consist of the Non-Senior Principal Distribution Amount. The outstanding principal balance of any Certificate as of any date of determination is equal to the initial outstanding principal balance thereof, reduced by the aggregate of (a) all amounts allocable to principal previously distributed with respect to such Certificate and (b) in the case of the Non-Senior Certificates, any reductions in the outstanding principal balance thereof deemed to have occurred in connection with allocations thereto of Realized Losses on the Mortgage Loans, as described below. See “—Certain Definitions Relating to Distributions on the Certificates” herein.

*Distribution Priorities.* Available Funds shall be used first to make interest and principal distributions on the Senior Certificates. Then, Remaining Available Funds will be used to make distributions of interest and principal on the Non-Senior Certificates. Distributions in respect of interest and principal will be made on each Distribution Date to the Holders of the Certificates in the following order of priority:

- (i) to the Senior Classes (other than the PO Class), the Senior Interest Distribution Amount for such Distribution Date;
- (ii) sequentially, to the R and A Classes, in that order, the Senior Principal Distribution Amount for such Distribution Date, to be applied as principal until the respective Class balances thereof are reduced to zero;
- (iii) to the PO Class, the PO Class Principal Distribution Amount for such Distribution Date, to be applied as principal until the Class balance thereof has been reduced to zero;

- (iv) to pay certain expenses and taxes imposed on the Trust or its assets and certain other tax-related expenses of the Trust, and to reimburse Fannie Mae for any guaranty payments previously made by it in respect of the Senior Certificates;
- (v) to the M Class, the Interest Distribution Amount with respect to such Class for such Distribution Date;
- (vi) to the M Class, the Principal Distribution Amount with respect to such Class for such Distribution Date, as principal of such Class until the Class balance thereof has been reduced to zero;
- (vii) to the B-1 Class, the Interest Distribution Amount with respect to such Class for such Distribution Date;
- (viii) to the B-1 Class, the Principal Distribution Amount with respect to such Class for such Distribution Date, as principal of such Class until the Class balance thereof has been reduced to zero;
- (ix) to the B-2 Class, the Interest Distribution Amount with respect to such Class for such Distribution Date;
- (x) to the B-2 Class, the Principal Distribution Amount with respect to such Class for such Distribution Date, as principal of such Class until the Class balance thereof has been reduced to zero;
- (xi) to the B-3 Class, the Interest Distribution Amount with respect to such Class for such Distribution Date;
- (xii) to the B-3 Class, the Principal Distribution Amount with respect to such Class for such Distribution Date, as principal of such Class until the Class balance thereof has been reduced to zero;
- (xiii) to the B-4 Class, the Interest Distribution Amount with respect to such Class for such Distribution Date;
- (xiv) to the B-4 Class, the Principal Distribution Amount with respect to such Class for such Distribution Date, as principal of such Class until the Class balance thereof has been reduced to zero;
- (xv) to the B-5 Class, the Interest Distribution Amount with respect to such Class for such Distribution Date; and
- (xvi) to the B-5 Class, the Principal Distribution Amount with respect to such Class for such Distribution Date, as principal of such Class until the Class balance thereof has been reduced to zero.

The timing for the distributions of principal prepayments (including net liquidation proceeds) is subject to the receipt of information about such principal prepayments from the Master Servicer in sufficient time to allow the published monthly factors to reflect such payments. See “General—*REMIC Trust Factors*” herein. In the event that timely information is not available, Fannie Mae will distribute such prepayments on the next succeeding Distribution Date. For purposes of distributions, a Mortgage Loan will be considered to be a “Liquidated Loan” if, in the judgment of the Master Servicer, the full amount finally recoverable on account of such Mortgage Loan has been received, whether or not such full amount is equal to the principal balance of such Mortgage Loan.

## Certain Definitions Relating to Distributions on the Certificates

*Available Funds*—The aggregate amount available for distribution on any Distribution Date to the Holders of the Certificates, which shall be equal to the following:

- (i) all scheduled payments on the Mortgage Loans due during the related Due Period and received by the last day of the related Prepayment Period, **plus**
- (ii) prepayments, net liquidation proceeds and other unscheduled collections received on the Mortgage Loans during the immediately preceding Prepayment Period, **plus**
- (iii) to the extent scheduled payments are not received from the related Mortgagors and the Master Servicer deems such payments recoverable, any Delinquency Advances made by Master Servicer for such Distribution Date, **plus**
- (iv) guaranty payments made by Fannie Mae in respect of Excess Losses allocated to the Senior Classes, **minus**
- (v) certain amounts, including Servicing Advances and Delinquency Advances, reimbursable to the Master Servicer.

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

*Debt Service Reduction*—For any Mortgage Loan, a reduction in the scheduled monthly payment for such Mortgage Loan by a court of competent jurisdiction in a proceeding under the Bankruptcy Code. Following such court's final non-appealable decision, each Realized Loss associated with a Debt Service Reduction shall be deemed to be incurred on each Distribution Date based upon the reduced payments on the related Mortgage Loan resulting therefrom received during the related Due Period.

*Deficient Valuation*—For any Mortgage Loan, a valuation of the related Mortgaged Property by a court of competent jurisdiction in an amount less than the then outstanding principal balance of such Mortgage Loan, which valuation results from a proceeding initiated under the Bankruptcy Code. The determination of the Deficient Valuation and the application thereof as a Realized Loss shall not be made until a final non-appealable decision is rendered with respect thereto under the Bankruptcy Code by such court.

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

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

*Interest Distribution Amount*—For any Distribution Date, the interest to be distributed on each Non-Senior Class, which will equal the sum of:

- (i) one month's interest at the applicable rate on the outstanding principal balance of such Class less the Uncovered Prepayment Interest Shortfalls allocated to such Class; **plus**
- (ii) any amount of interest remaining unpaid with respect to such Class from previous Distribution Dates (excluding any additional interest on such unpaid amount, and excluding any Realized Losses allocated as described under “—Allocation of Losses”).

*Mezzanine Termination Date*—The Distribution Date on which the aggregate principal balance of the Mezzanine and Subordinate Classes is reduced to zero.

*Non-PO Percentage*—For any Discount Mortgage Loan, the related Net Mortgage Rate  $\div$  7.085%. For example,  $(6.3765\% / 7.085\%) = 90\%$ . The Non-PO Percentage with respect to any Non-Discount Mortgage Loan will be 100%.

*Non-Senior Interest Distribution Amount*—For any Distribution Date, the interest to be distributed on the Classes of Non-Senior Certificates, which will equal the sum of:

- (i) one month's interest at the applicable rate on the outstanding principal balances of such Classes less the Uncovered Prepayment Interest Shortfalls allocated to such Classes, **plus**
- (ii) any amount of interest remaining unpaid with respect to such Classes from previous Distribution Dates (excluding any additional interest on such unpaid amount, and excluding any Realized Losses allocated as described under “—Allocation of Losses”).

*Non-Senior Principal Distribution Amount*—For any Distribution Date, the sum of the following amounts for all Mortgage Loans:

- (i) the Subordinate Percentage of the applicable Non-PO Percentage of:
  - (a) all monthly payments of principal due on each Mortgage Loan during the related Due Period, **plus**
  - (b) the principal portion of the purchase price of each Mortgage Loan repurchased by Fannie Mae or the Seller with respect to such Distribution Date, **plus**
  - (c) the Substitution Adjustment Amount in connection with any Mortgage Loan received with respect to such Distribution Date, **plus**
  - (d) any insurance proceeds or net liquidation proceeds allocable to recoveries of principal of Mortgage Loans that are not yet Liquidated Loans received during the related Prepayment Period; **plus**
- (ii) for each Mortgage Loan that became a Liquidated Loan during the related Prepayment Period, the applicable Non-PO Percentage of the net liquidation proceeds allocable to principal received with respect to such Mortgage Loan, after application of such amounts pursuant to clause (ii) of the definition of Senior Principal Distribution Amount up to the Subordinate Percentage of the applicable Non-PO Percentage of the Stated Principal Balance of such Mortgage Loan; **plus**
- (iii) the Subordinate Prepayment Percentage of the applicable Non-PO Percentage of all partial and full principal prepayments by borrowers on all such Mortgage Loans received during the related Prepayment Period.

*Original Non-Senior Principal Balance*—The aggregate outstanding principal balance of the Non-Senior Classes as of the Issue Date.

*PO Class Principal Distribution Amount*—For any Distribution Date, the sum of the following amounts:

- (i) the applicable PO Percentage of the sum of the following:
  - (a) all monthly payments of principal due on each Discount Mortgage Loan during the related Due Period, **plus**
  - (b) the principal portion of the purchase price of each Discount Mortgage Loan that was repurchased by Fannie Mae or the Seller with respect to such Distribution Date, **plus**
  - (c) the Substitution Adjustment Amount in connection with any Discount Mortgage Loan received with respect to such Distribution Date, **plus**
  - (d) any insurance proceeds or net liquidation proceeds allocable to recoveries of principal of Discount Mortgage Loans that are not yet Liquidated Loans received during the related Prepayment Period, **plus**

- (e) for each Discount Mortgage Loan that became a Liquidated Loan during the related Prepayment Period, the amount of net liquidation proceeds allocable to principal received with respect to such Mortgage Loan, **plus**
- (f) all partial and full principal prepayments by borrowers on Discount Mortgage Loans received during the related Prepayment Period, **plus**
- (g) all Excess Losses in respect of Discount Mortgage Loans; **plus**
- (ii) on the Mezzanine Termination Date, all PO Deferred Amounts not distributed to Holders of the PO Class on or prior to the Mezzanine Termination Date; **plus**
- (iii) on each Distribution Date following the Mezzanine Termination Date, all Realized Losses (other than Excess Losses) allocated to the PO Class on such Distribution Date.

*PO Percentage*—For any Discount Mortgage Loan,  $(7.085\% - \text{the related Net Mortgage Rate}) \div 7.085\%$ . For example,  $(7.085\% - 6.3765\%) / 7.085\% = 10\%$ . The PO Percentage with respect to any Non-Discount Mortgage Loan will be 0%.

*Prepayment Interest Shortfall*—For any Mortgage Loan and any principal prepayment received by the Master Servicer during a calendar month, an amount equal to the difference between:

- (i) one full month's interest on the principal balance of such Mortgage Loan (prior to application of such prepayment), **minus**
- (ii) the interest paid by the related borrower in connection with such Mortgage Loan in respect of such calendar month.

*Prepayment Period*—For any Distribution Date, the period from and including the 16th day of the month immediately preceding the month in which such Distribution Date occurs to and including the 15th day of the month in which such Distribution Date occurs.

*Principal Distribution Amount*—For any Class of Non-Senior Certificates and each Distribution Date, **the lesser** of the following amounts:

- (a) such Class's pro rata portion (calculated on the basis of the principal balance of such Class relative to the aggregate principal balance of all the Non-Senior Classes immediately before such Distribution Date) of the Non-Senior Principal Distribution Amount for such Distribution Date, **or**
- (b) the portion of Remaining Available Funds available for distribution utilizing the distribution priority described under "Distributions on the Senior and Mezzanine Certificates—Distribution Priorities" above, **less** the portion, if any, of the PO Deferred Amounts allocated to such Class, to the Non-Senior Certificates, in the reverse order of their numerical Class designations (beginning with the Class of Non-Senior Certificates then outstanding with the highest numerical Class designation), in each case until the principal balance of the respective Class of Certificates has been reduced to zero, and as further adjusted with respect to any Prepayment Reallocation Amount.

*Realized Loss*—In general shall mean the following:

- (i) as to any Liquidated Loan, the Stated Principal Balance thereof as of the date of liquidation **minus** the principal portion of net liquidation proceeds realized thereon,
- (ii) for each Mortgage Loan which has become the subject of a Deficient Valuation, the difference between the Stated Principal Balance of the Mortgage Loan outstanding immediately prior to such Deficient Valuation and the outstanding principal balance of the Mortgage Loan as reduced by the Deficient Valuation, and

- (iii) for each Mortgage Loan which has become the subject of a Debt Service Reduction, the aggregate of the portions, if any, of the reduction in all monthly payments attributable to a reduction in the mortgage payment imposed by a court of competent jurisdiction.

*Remaining Available Funds*—The aggregate amount of Available Funds remaining for distribution on any Distribution Date to the Holders of the Non-Senior Certificates after:

- (i) interest and principal distributions have been made on the Senior Certificates, **and**
- (ii) Fannie Mae has been reimbursed for certain unreimbursed guaranty payments on the Senior Certificates, and expenses incurred by Fannie Mae in connection with any legal action or proceeding relating to the Trust Agreement.

*Senior Interest Distribution Amount*—Interest to be distributed on the Senior Classes on each Distribution Date, which will consist of one month's interest at the applicable rate on the outstanding principal balances of such Classes less the Uncovered Prepayment Interest Shortfalls allocated to such Classes.

*Senior Percentage*—For any Distribution Date, **the lesser of**

- (i) 100%, **or**
- (ii) the percentage equivalent of a fraction the numerator of which is the aggregate principal balance of the Senior Classes (other than the PO Class) and immediately prior to such Distribution Date and the denominator of which is the sum, for all Mortgage Loans, of the applicable Non-PO Percentage of the Stated Principal Balance of each Mortgage Loan as of the Due Date in the month of such Distribution Date.

*Senior Prepayment Percentage*—For any Distribution Date will be determined as follows (**except as described below**):

| <u>Distribution Date</u>                      | <u>Senior Prepayment Percentage</u>                          |
|-----------------------------------------------|--------------------------------------------------------------|
| October 1998 through September 2003 . . . . . | 100%                                                         |
| October 2003 through September 2004 . . . . . | the Senior Percentage plus 70% of the Subordinate Percentage |
| October 2004 through September 2005 . . . . . | the Senior Percentage plus 60% of the Subordinate Percentage |
| October 2005 through September 2006 . . . . . | the Senior Percentage plus 40% of the Subordinate Percentage |
| October 2006 through September 2007 . . . . . | the Senior Percentage plus 20% of the Subordinate Percentage |
| October 2007 and thereafter . . . . .         | the Senior Percentage                                        |

**Exceptions** to the foregoing are as follows:

- (A) If on any Distribution Date the Senior Percentage exceeds the initial Senior Percentage, the Senior Prepayment Percentage for such Distribution Date will equal 100%.
- (B) In addition, no decrease in the Senior Prepayment Percentage will occur unless **both** of the following conditions are satisfied:
  - (i) the outstanding principal balance of all Mortgage Loans delinquent 60 days or more (averaged over the preceding six-month period), as a percentage of the aggregate outstanding principal balance of the Non-Senior Classes, does not equal or exceed 50%, **and**
  - (ii) cumulative Realized Losses with respect to the Mortgage Loans do not exceed:
    - (a) with respect to the Distribution Date falling on or after the fifth anniversary of the first Distribution Date, 30% of the Original Non-Senior Principal Balance,

- (b) with respect to the Distribution Date falling on or after the sixth anniversary of the first Distribution Date, 35% of the Original Non-Senior Principal Balance,
- (c) with respect to the Distribution Date falling on or after the seventh anniversary of the first Distribution Date, 40% of the Original Non-Senior Principal Balance,
- (d) with respect to the Distribution Date falling on or after the eighth anniversary of the first Distribution Date, 45% of the Original Non-Senior Principal Balance, and
- (e) with respect to the Distribution Date falling on or after the ninth anniversary of the first Distribution Date, 50% of the Original Non-Senior Principal Balance.

*Senior Principal Distribution Amount*—For any Distribution Date, the sum of the following amounts:

- (i) the Senior Percentage of the sum of the Non-PO Percentage for each such Distribution Date of the following:
  - (a) all monthly payments of principal due on each Mortgage Loan during the related Due Period, **plus**
  - (b) the principal portion of the purchase price of each Mortgage Loan repurchased by Fannie Mae or the Seller with respect to such Distribution Date, **plus**
  - (c) the Substitution Adjustment Amount in connection with any Mortgage Loan received with respect to such Distribution Date, **plus**
  - (d) any insurance proceeds or net liquidation proceeds allocable to recoveries of principal of Mortgage Loans that are not yet Liquidated Loans received during the related Prepayment Period, **plus**
- (ii) for each Mortgage Loan that became a Liquidated Loan during the related Prepayment Period, **the lesser of**:
  - (x) the related Senior Percentage of the Non-PO Percentage of the Stated Principal Balance of such Mortgage Loan, **and**
  - (y) either:
    - (A) the related Senior Prepayment Percentage or
    - (B) if an Excess Loss was sustained with respect to such Liquidated Loan during such Prepayment Period, the related Senior Percentage,
 of the applicable Non-PO Percentage of the amount of the net liquidation proceeds allocable to principal received with respect to such Mortgage Loan, **plus**
- (iii) the related Senior Prepayment Percentage of the applicable Non-PO Percentage of all partial and full principal prepayments by borrowers on all such Mortgage Loans received during the related Prepayment Period, **plus**
- (iv) the amount of Realized Losses allocated to the Senior Classes for such Distribution Date.

*Subordinate Percentage*—For any Distribution Date, 100% **minus** the Senior Percentage on such Distribution Date.

*Subordinate Prepayment Percentage*—For any Distribution Date, 100% **minus** the Senior Prepayment Percentage.

*Uncovered Prepayment Interest Shortfall*—For any Distribution Date, an amount equal to:

- (i) the aggregate Prepayment Interest Shortfalls on the Mortgage Loans that prepaid during the portion of the related Prepayment Period occurring in the month before the month in which such Distribution Date falls, **minus**

- (ii) the aggregate servicing fee (calculated at the Servicing Fee Rate) for such Distribution Date.

### **Allocation of Losses**

On each Distribution Date, the applicable Non-PO Percentage of any Realized Loss, other than any Excess Loss, will be allocated first to the Non-Senior Certificates, in the reverse order of their numerical Class designations (beginning with the Class of Non-Senior Certificates then outstanding with the highest numerical Class designation), in each case until the principal balance of the respective Class of Certificates has been reduced to zero, and then allocated to the Senior Classes. The Class M Certificates will be deemed to have a lower numerical designation (and to be of higher payment priority) than the other Classes of Non-Senior Certificates.

On each Distribution Date, the applicable PO Percentage of any Realized Loss, including any Excess Loss, on a Discount Mortgage Loan will be allocated to the PO Class until the principal balance thereof is reduced to zero. The PO Percentage of any Realized Loss on a Discount Mortgage Loan (other than an Excess Loss) allocated to the PO Class on or prior to the Mezzanine Termination Date will be treated as a PO Deferred Amount.

To the extent funds are available on any Distribution Date, PO Deferred Amounts will be paid on the PO Class from amounts that would otherwise be distributable as principal of the Non-Senior Certificates. The principal balance of the Class of Non-Senior Certificates then outstanding with the highest numerical Class designation will be reduced by the amount of any payments in respect of PO Deferred Amounts. Distributions in respect of unpaid PO Deferred Amounts will not further reduce the principal balance of the PO Class. The PO Deferred Amounts will not bear interest. After the Mezzanine Termination Date, no new PO Deferred Amounts will be created.

On each Distribution Date, the applicable Non-PO Percentage of Excess Losses will be allocated pro rata among the Senior Classes and the Non-Senior Classes based upon their respective principal balances.

The Non-Senior Certificates will be subject to limited allocations of certain specified losses: (i) Special Hazard Losses up to the Special Hazard Loss Coverage Amount, (ii) Bankruptcy Losses up to the Bankruptcy Loss Coverage Amount and (iii) Fraud Losses up to the Fraud Loss Coverage Amount.

The Special Hazard Loss Coverage Amount will be reduced, from time to time, to an amount equal on any Distribution Date to **the lesser of:**

(a) **the greatest of**

- (i) 1% of the aggregate of the principal balances of the Mortgage Loans,
- (ii) twice the principal balance of the largest Mortgage Loan at the time of calculation, and
- (iii) the aggregate principal balance of the Mortgage Loans secured by Mortgaged Properties located in the single California postal zip code area having the highest aggregate principal balance of any such zip code areas, **or**

- (b) the Special Hazard Loss Amount as of the Settlement Date less the amount, if any, of losses attributable to Special Hazard Mortgage Loans incurred since the Settlement Date.

All principal balances for the purpose of determining the Special Hazard Loss Coverage Amount will be calculated as of the first day of the month in which the related Distribution Date occurs after giving effect to scheduled installments of principal and interest on the Mortgage Loans then due, whether or not paid.

The Bankruptcy Loss Coverage Amount will be reduced, from time to time, by the amount of Bankruptcy Losses allocated to the Certificates.

The Fraud Loss Coverage Amount will be reduced, from time to time, by the amount of Fraud Losses allocated to the Certificates. In addition, on each anniversary of the Issue Date, the Fraud Loss Coverage Amount will be reduced as follows:

- (a) on the first, second, third and fourth anniversaries of the Issue Date, to an amount equal to **the lesser of:**
  - (i) 1% of the then current aggregate Stated Principal Balances of the Mortgage Loans, **or**
  - (ii) the excess of the Fraud Loss Coverage Amount as of the preceding anniversary of the Issue Date over the cumulative amount of Fraud Losses allocated to the Certificates since such preceding anniversary, **and then**
- (b) on the fifth anniversary of the Issue Date, to zero.

Realized Losses has the meaning described under “—Certain Definitions Relating to Distributions on the Certificates”.

*Bankruptcy Loss Coverage Amount*—An amount initially equal to \$108,748, which may be reduced from time to time as described above in this section.

*Bankruptcy Losses*—Losses that are incurred as a result of Debt Service Reductions and Deficient Valuations.

*Excess Losses*—The following:

- (i) Special Hazard Losses in excess of the Special Hazard Loss Coverage Amount,
- (ii) Bankruptcy Losses in excess of the Bankruptcy Loss Coverage Amount, and
- (iii) Fraud Losses in excess of the Fraud Loss Coverage Amount.

*Fraud Loss Coverage Amount*—An amount initially equal to \$5,996,199, which may be reduced from time to time as described above in this section.

*Fraud Losses*—Losses sustained on a Liquidated Loan by reason of a default arising from fraud, dishonesty or misrepresentation.

*PO Deferred Amount*—For any Distribution Date on or before the Mezzanine Termination Date, the PO Percentage of Realized Losses (other than Excess Losses) for each Discount Mortgage Loan that became a Liquidated Loan in the related Prepayment Period.

*Special Hazard Loss Coverage Amount*—An amount initially equal to \$2,998,099, which may be reduced from time to time as described above in this section.

*Special Hazard Losses*—Realized Losses in respect of Special Hazard Mortgage Loans.

*Special Hazard Mortgage Loan*—A Liquidated Loan as to which the ability to recover the full amount due thereunder was substantially impaired by a hazard not insured against under a standard hazard insurance policy.

## **Subordination**

*General.* The subordination of the Non-Senior Certificates is effected by the right of Holders of the Senior Certificates to receive, prior to any distribution being made in respect of the Non-Senior Certificates on a Distribution Date, the amounts to which they are then entitled out of funds available for distribution in respect of the Mortgage Loans on such Distribution Date. In addition, the rights of the holders of the B-1 and B-2 Classes to receive such distributions will be subordinate to such rights of the holders of the M Class, and the rights of the holders of the B-2 Class to receive such distributions will be further subordinate to such rights of the holders of the B-1 Class, in each case to the extent described herein. See “Description of the Senior and Mezzanine Certificates—Distributions on the Senior and Mezzanine Certificates—Distribution Priorities” herein.

For each Class of Non-Senior Certificates, if on any Distribution Date the Applicable Credit Support Percentage is less than the Original Applicable Credit Support Percentage, no distribution of

partial principal prepayments and principal prepayments in full will be made to the Restricted Classes, and the related Prepayment Reallocation Amount will be distributed in the sequential order described under “Distributions on the Senior and Mezzanine Certificates—Distribution Priorities” above.

*Credit Support Percentages.* The approximate Original Applicable Credit Support Percentages for the Non-Senior Certificates on the date of issuance of the Certificates are expected to be as follows:

|                 |       |
|-----------------|-------|
| Class M.....    | 5.00% |
| Class B-1 ..... | 3.00% |
| Class B-2 ..... | 2.25% |
| Class B-3 ..... | 1.50% |
| Class B-4 ..... | 0.80% |
| Class B-5 ..... | 0.40% |

For purposes of all principal distributions described above and for calculating the Subordinate Percentage, the applicable aggregate outstanding principal balance of the Non-Senior Certificates for any Distribution Date shall be determined before the allocation of Realized Losses on the Mortgage Loans to be made on such Distribution Date as described under “—Allocation of Losses” above.

*Applicable Credit Support Percentage*—For each Class of Non-Senior Certificates on any Distribution Date, the sum of the related Class Subordination Percentages of such Class and all Classes of Non-Senior Certificates which have higher numerical Class designations than such Class.

*Class Subordination Percentage*—For any Distribution Date and each Class of Non-Senior Certificates, the fraction (expressed as a percentage) the numerator of which is the principal balance of such Class of Non-Senior Certificates immediately prior to such Distribution Date, and the denominator of which is the aggregate of the outstanding principal balances of all Classes of Certificates immediately prior to such Distribution Date.

*Original Applicable Credit Support Percentage*—For each Class of Mezzanine and Subordinate Certificates, the Applicable Credit Support Percentage for such Class on the Issue Date.

*Prepayment Reallocation Amount*—The amount of partial principal prepayments and principal prepayments in full otherwise distributable to the Restricted Classes that are reallocated among the remaining Classes of Non-Senior Certificates, pro rata, based upon their respective outstanding principal balances.

*Restricted Classes*—For any Distribution Date, those Non-Senior Classes whose Applicable Credit Support Percentage is less than the respective Original Applicable Credit Support Percentage.

## Class Definitions and Abbreviations

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

| <u>Abbreviation</u>    | <u>Category of Class</u> | <u>Definition</u>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         |
|------------------------|--------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>PRINCIPAL TYPES</b> |                          |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           |
| NTL                    | Notional                 | A Class having no principal balance and bearing interest on the related notional principal balance. The notional principal balance is used for purposes of the determination of interest distributions on an Interest Only Class that is not entitled to principal.                                                                                                                                                                                                                                                                       |
| PT                     | Pass-Through             | A Class that is designed to receive principal payments in direct relation to actual or scheduled payments on some or all of the Mortgage Loans.                                                                                                                                                                                                                                                                                                                                                                                           |
| SEQ                    | Sequential Pay           | Classes that receive principal payments in a prescribed sequence, that do not have predetermined schedules and that generally receive payments of principal continuously from the first Distribution Date on which they receive principal until they are retired. A single Class that receives principal payments before or after all other Classes in the same Series of Certificates may be identified as a Sequential Pay Class.                                                                                                       |
| <b>INTEREST TYPES</b>  |                          |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           |
| FIX                    | Fixed Rate               | A Class with an interest rate that is fixed throughout the life of the Class.                                                                                                                                                                                                                                                                                                                                                                                                                                                             |
| IO                     | Interest Only            | A Class that receives some or all of the interest payments made on the Mortgage Loans or other assets of the Trust and little or no principal. Interest Only Classes have either a notional or a nominal principal balance. A notional principal balance is the amount used as a reference to calculate the amount of interest due on an Interest Only Class. A nominal principal balance represents actual principal that will be paid on the Class. It is referred to as nominal since it is extremely small compared to other Classes. |
| PO                     | Principal Only           | A Class that does not bear interest and is entitled to receive only payments of principal.                                                                                                                                                                                                                                                                                                                                                                                                                                                |
| W                      | Weighted Average Coupon  | A Class with an interest rate that represents an effective weighted average interest rate that may change from period to period.                                                                                                                                                                                                                                                                                                                                                                                                          |

## Certain Characteristics of the R Class

In addition to distributions of principal and interest, the Holder of the R Class will be entitled to receive the proceeds of the remaining assets of the Trust, if any, after the principal balances of all Classes have been reduced to zero. It is not anticipated that there will be any material assets remaining in such circumstance.

The R Class will be subject to certain transfer restrictions. No transfer of record or beneficial ownership of an R Certificate will be permitted to a “disqualified organization” or any person who would hold an R Certificate on behalf of a disqualified organization. For purposes of the preceding sentence, a transfer includes any transfer of record or beneficial ownership, whether pursuant to a purchase, a default under a secured lending agreement or otherwise. The term “disqualified organization” includes the United States, any State or political subdivision thereof, any foreign

government, any international organization, or any agency or instrumentality of the foregoing (other than certain taxable instrumentalities), any cooperative organization furnishing electric energy or providing telephone service to persons in rural areas, or any organization (other than a farmers' cooperative) that is exempt from federal income tax, unless such organization is subject to the tax on unrelated business income. Each transferee of an R Certificate will be required to execute an affidavit, in a form acceptable to Fannie Mae, that: (i) it is not a disqualified organization, (ii) it is not acquiring the R Certificate for the account of a disqualified organization, (iii) it consents to any amendment of the Trust Agreement that shall be deemed necessary by Fannie Mae (upon advice of counsel) to constitute a reasonable arrangement to ensure that the R Certificate will not be owned directly or indirectly by a disqualified organization, (iv) no purpose of the acquisition of the R Certificate is to avoid or impede the assessment or collection of tax, (v) it understands that it may incur tax liabilities in excess of any cash flows generated by the R Certificate, (vi) it intends to pay taxes associated with holding the R Certificate as they become due, and (vii) it will not transfer such R Certificate unless (a) it has received from the transferee an affidavit containing these same seven representations and (b) as of the time of the transfer, it does not have actual knowledge that such affidavit is false. See "Certain Federal Income Tax Consequences — Sales and Other Dispositions of Certificates — *Residual Certificates Transferred to or Held by Disqualified Organizations*" below. Such transferee also must deliver a properly executed Internal Revenue Service ("IRS") Form W-9 on which such transferee provides its taxpayer identification number. In addition, a pass-through entity (including a nominee) that holds the R Certificate may be subject to additional taxes if a disqualified organization is a record holder therein.

In addition, no transfer of record or beneficial ownership of an R Certificate (whether pursuant to a purchase, a default under a secured lending agreement or otherwise) will be allowed to any person that is not a "U.S. Person" without the written consent of Fannie Mae. The term "U.S. Person" means a citizen or resident of the United States, a corporation, partnership or other entity created or organized in or under the laws of the United States or any political subdivision thereof, an estate the income of which is subject to U.S. federal income tax regardless of the source of its income or a trust if a court within the United States can exercise primary supervision over its administration and one or more U.S. Persons have the authority to control all substantial decisions of the trust.

Under regulations issued by the Treasury Department (the "Regulations"), a transfer of a "noneconomic residual interest" to a U.S. Person 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 Class will constitute a noneconomic residual interest under the Regulations. See "Certain Federal Income Tax Consequences — Taxation of Beneficial Owners of Regular Certificates — *Original Issue Discount*" and "—Taxation of Beneficial Owners of the Residual Certificates — *Excess Inclusions*."

The Regulations provide that a significant purpose to impede the assessment or collection of tax exists if, at the time of the transfer, a transferor of an R Certificate has "improper knowledge" (i.e., either 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 Trust). A transferor is presumed not to have improper knowledge if (i) the transferor conducts, at the time of a transfer, a reasonable investigation of the financial condition of the transferee and, as a result of the investigation, the transferor finds that the transferee has historically paid its debts as they come due and finds no significant evidence to indicate that the transferee will not continue to pay its debts as they come due in the future; and (ii) the transferee makes certain representations to the transferor in the affidavit relating to disqualified organization discussed above. A transferor of the R Certificate should consult with its own tax advisors for further information regarding such transfers.

The Holder of the R Class will be considered to be the Holder of the "residual interest" in the Trust. See "Certain Federal Income Tax Consequences — REMIC Election." Fannie Mae will provide to such Holder (i) such information as is necessary to enable it to prepare its federal income tax returns and (ii) any reports regarding the R Class that may be required under the Code.

## Structuring Assumptions

*Pricing Assumptions.* Unless otherwise specified, the information in the tables in this Prospectus has been prepared on the basis of (i) the assumed characteristics of the Mortgage Loans set forth herein under “The Mortgage Loans—General” and (ii) the following assumptions (the “Pricing Assumptions”):

- payments on all Mortgage Loans are due and received on the first day of each month;
- each year consists of twelve 30-day months;
- the Mortgage Loans prepay at the constant percentages of the Prepayment Assumption specified in the related table;
- there are no Uncovered Prepayment Interest Shortfalls;
- the Settlement Date for the sale of the Certificates is September 29, 1998; and
- there are no defaults, losses or delinquencies on the Mortgage Loans.

*Prepayment Assumption.* Prepayments of mortgage loans commonly are measured relative to a prepayment standard or model. The model used in this Prospectus (the “Prepayment Assumption”) represents an assumed rate of prepayment each month relative to the then outstanding principal balance of a pool of mortgage loans. A 100% Prepayment Assumption assumes a Constant Prepayment Rate (“CPR”) of 4.0% per annum of the then outstanding principal balance of such mortgage loans in the first month of the life of the mortgage loans and an additional 1.09090909% (precisely  $\frac{12}{11}$ ) per annum in each month thereafter until the eleventh month. Beginning in the twelfth month and in each month thereafter during the life of the mortgage loans, a 100% Prepayment Assumption assumes a CPR of 16% per annum each month. As used herein, a 50% Prepayment Assumption assumes prepayment rates equal to 50% of the Prepayment Assumption. Correspondingly, a 200% Prepayment Assumption assumes prepayment rates equal to 200% of the Prepayment Assumption, and so forth. *The Prepayment Assumption does not purport to be a historical description of prepayment experience or a prediction of the anticipated rate of prepayment of any pool of mortgage loans, including the Mortgage Loans.*

## Yield Tables

*General.* The tables below indicate the sensitivity of the pre-tax corporate bond equivalent yields to maturity of applicable Classes to various constant percentages of the Prepayment Assumption. The yields set forth in the tables were calculated by determining the monthly discount rates that, when applied to the assumed streams of cash flows to be paid on the applicable Classes, would cause the discounted present value of such assumed streams of cash flows to equal the assumed aggregate purchase prices of such Classes and converting such monthly rates to corporate bond equivalent rates. Such calculations do not take into account variations that may occur in the interest rates at which investors may be able to reinvest funds received by them as distributions on the Certificates and consequently do not purport to reflect the return on any investment in the Certificates when such reinvestment rates are considered. *There can be no assurance that the pre-tax yields on the Certificates will correspond to any of the pre-tax yields shown herein or that the aggregate purchase prices of the Certificates will be as assumed. Furthermore, because some of the Mortgage Loans will likely have remaining terms to maturity shorter or longer than those assumed and interest rates higher or lower than assumed, the principal distributions on the Certificates are likely to differ from those assumed, even if all Mortgage Loans prepay at the indicated constant percentages of the Prepayment Assumption. Moreover, it is not likely that the Mortgage Loans will prepay at a constant rate of the Prepayment Assumption until maturity, or that all of such Mortgage Loans will prepay at the same rate.*

*The PO Class.* **The PO Class will not bear interest. As indicated in the table below, a low rate of principal payments (including prepayments) on the Discount Mortgage Loans will have a negative effect on the yield to investors in the PO Class.**

The information set forth in the following table was prepared on the basis of the Pricing Assumptions and the assumption that the aggregate purchase price of the PO Class (expressed as a percentage of the original principal balance) is as follows:

| <u>Class</u> | <u>Price</u> |
|--------------|--------------|
| PO .....     | 53.90032%    |

**Sensitivity of the PO Class to Prepayments\***  
(Pre-Tax Yields to Maturity)

| <u>Class</u> | <u>Prepayment Assumption</u> |            |             |             |             |
|--------------|------------------------------|------------|-------------|-------------|-------------|
|              | <u>0%</u>                    | <u>50%</u> | <u>100%</u> | <u>200%</u> | <u>300%</u> |
| PO .....     | 3.3%                         | 8.4%       | 15.0%       | 29.4%       | 45.0%       |

\* Applies only to Discount Mortgage Loans.

**The X Class.** As indicated in the table below, the yield to investors in the X Class will be sensitive to the rate of principal payments (including prepayments) of the Non-Discount Mortgage Loans. The Non-Discount Mortgage Loans may be prepaid by the borrower without the payment of a prepayment penalty. On the basis of the assumptions described below, the yield to maturity on the X Class would be 0% if prepayments were to occur at a constant rate of approximately 182% of the Prepayment Assumption. If the actual prepayment rate of the Non-Discount Mortgage Loans were to exceed the foregoing level for as little as one month while equaling such level for the remaining months, the investors in the X Class would not fully recoup their initial investments. There can be no assurance that the Non-Discount Mortgage Loans will prepay at any of the rates assumed herein or at any other particular rate, that the pre-tax yields on the X Class will correspond to any of the pre-tax yields shown herein or that the aggregate purchase price of the X Class will be as assumed below. Finally, reductions in the amount of interest distributable on the interest-bearing Classes (including the X Class) as a result of Uncovered Prepayment Interest Shortfalls will reduce the yield to investors in the X Class and, in certain cases, such reductions in yield could be substantial.

The information set forth in the following table was prepared on the basis of the Pricing Assumptions and the assumption that the aggregate purchase price of the X Class (expressed as a percentage of original notional principal balance) is as follows:

| <u>Class</u> | <u>Price*</u> |
|--------------|---------------|
| X .....      | 1.37056%      |

\* The price does not include accrued interest. Accrued interest has been added to such price in calculating the yields set forth in the table below.

**Sensitivity of the X Class to Prepayments\***  
(Pre-Tax Yields to Maturity)

| <u>Class</u> | <u>% of Prepayment Assumption</u> |            |             |             |             |
|--------------|-----------------------------------|------------|-------------|-------------|-------------|
|              | <u>0%</u>                         | <u>50%</u> | <u>100%</u> | <u>200%</u> | <u>300%</u> |
| X .....      | 31.8%                             | 23.6%      | 15.0%       | (3.4)%      | (23.8)%     |

\* Applies only to Non-Discount Mortgage Loans.

**Weighted Average Lives of the Senior and Mezzanine Certificates**

The weighted average life of a security refers to the average length of time, weighted by principal, that will elapse from the date of issuance to the date each dollar of principal is repaid to the investor.

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

The weighted average life of each Class of Senior and Mezzanine Certificates will be influenced by, among other factors, the rate at which principal payments (including scheduled payments, principal prepayments, liquidations due to default, casualty and condemnation and payments made pursuant to any option to repurchase of the Master Servicer or Fannie Mae) are made on the Mortgage Loans. Prepayments on the Mortgage Loans will be applied to principal distributions on the Certificates, as described herein. The interaction of the foregoing factors may have different effects on various Classes of Senior and Mezzanine Certificates and the effects on any such Class may vary at different times during the life of such Class. Accordingly, no assurance can be given as to the weighted average life of any Class.

### **Maturity Considerations and Last Scheduled Distribution Date**

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

The last scheduled Distribution Date for each Class of Mezzanine Certificates is the Distribution Date in November 2028, which is the Distribution Date in the month following the month of the latest scheduled maturity date for any of the Mortgage Loans.

### **Decrement Tables**

The following tables indicate the percentages of original principal balances or notional principal balance of the specified Classes of Certificates that would be outstanding after each of the dates shown at various *constant* percentages of the Prepayment Assumption and the corresponding weighted average lives of such Classes. The tables have been prepared on the basis of the Pricing Assumptions. However, it is not the case that all the Mortgage Loans will have the interest rates or remaining terms to maturity assumed or that the Mortgage Loans will prepay at a *constant* percentage of the related Prepayment Assumption. Moreover, the diverse remaining terms to maturity of the Mortgage Loans could produce slower or faster principal distributions than indicated in the tables at the specified *constant* percentages of the Prepayment Assumption, even if the distributions of the weighted average maturities of such Mortgage Loans are identical to the distributions of the weighted average maturities specified in the Pricing Assumptions.

## Percent of Original Principal Balances Outstanding

| Date                  | A Class                    |     |      |      |      | PO† Class                  |     |      |      |      |
|-----------------------|----------------------------|-----|------|------|------|----------------------------|-----|------|------|------|
|                       | % of Prepayment Assumption |     |      |      |      | % of Prepayment Assumption |     |      |      |      |
|                       | 0%                         | 50% | 100% | 200% | 300% | 0%                         | 50% | 100% | 200% | 300% |
| Initial Percent ..... | 100                        | 100 | 100  | 100  | 100  | 100                        | 100 | 100  | 100  | 100  |
| September 1999 .....  | 99                         | 94  | 88   | 77   | 66   | 99                         | 94  | 88   | 77   | 65   |
| September 2000 .....  | 98                         | 85  | 73   | 50   | 31   | 98                         | 85  | 73   | 52   | 34   |
| September 2001 .....  | 97                         | 77  | 59   | 32   | 14   | 97                         | 77  | 61   | 35   | 17   |
| September 2002 .....  | 96                         | 69  | 49   | 20   | 5    | 95                         | 70  | 50   | 23   | 9    |
| September 2003 .....  | 95                         | 63  | 39   | 12   | 0    | 94                         | 64  | 42   | 16   | 5    |
| September 2004 .....  | 93                         | 57  | 32   | 7    | 0    | 93                         | 58  | 34   | 10   | 2    |
| September 2005 .....  | 92                         | 51  | 26   | 4    | 0    | 91                         | 52  | 28   | 7    | 1    |
| September 2006 .....  | 90                         | 46  | 21   | 2    | 0    | 89                         | 47  | 23   | 5    | 1    |
| September 2007 .....  | 88                         | 41  | 17   | 1    | 0    | 88                         | 42  | 19   | 3    | *    |
| September 2008 .....  | 87                         | 37  | 14   | 1    | 0    | 86                         | 38  | 16   | 2    | *    |
| September 2009 .....  | 85                         | 34  | 12   | 1    | 0    | 84                         | 34  | 13   | 1    | *    |
| September 2010 .....  | 83                         | 30  | 10   | *    | 0    | 81                         | 31  | 11   | 1    | *    |
| September 2011 .....  | 80                         | 27  | 8    | *    | 0    | 79                         | 27  | 9    | 1    | *    |
| September 2012 .....  | 78                         | 24  | 6    | *    | 0    | 76                         | 24  | 7    | *    | *    |
| September 2013 .....  | 75                         | 21  | 5    | *    | 0    | 74                         | 22  | 6    | *    | *    |
| September 2014 .....  | 72                         | 19  | 4    | *    | 0    | 71                         | 19  | 5    | *    | *    |
| September 2015 .....  | 69                         | 17  | 3    | *    | 0    | 67                         | 17  | 4    | *    | *    |
| September 2016 .....  | 66                         | 15  | 3    | *    | 0    | 64                         | 15  | 3    | *    | *    |
| September 2017 .....  | 62                         | 13  | 2    | *    | 0    | 60                         | 13  | 2    | *    | *    |
| September 2018 .....  | 58                         | 11  | 2    | *    | 0    | 56                         | 11  | 2    | *    | *    |
| September 2019 .....  | 54                         | 9   | 1    | *    | 0    | 52                         | 9   | 1    | *    | *    |
| September 2020 .....  | 49                         | 8   | 1    | *    | 0    | 48                         | 8   | 1    | *    | *    |
| September 2021 .....  | 44                         | 6   | 1    | *    | 0    | 43                         | 6   | 1    | *    | *    |
| September 2022 .....  | 39                         | 5   | 1    | *    | 0    | 37                         | 5   | 1    | *    | *    |
| September 2023 .....  | 33                         | 4   | *    | *    | 0    | 32                         | 4   | *    | *    | *    |
| September 2024 .....  | 27                         | 3   | *    | *    | 0    | 26                         | 3   | *    | *    | *    |
| September 2025 .....  | 21                         | 2   | *    | *    | 0    | 19                         | 2   | *    | *    | *    |
| September 2026 .....  | 14                         | 1   | *    | *    | 0    | 12                         | 1   | *    | *    | *    |
| September 2027 .....  | 6                          | 1   | *    | *    | 0    | 5                          | *   | *    | *    | *    |
| September 2028 .....  | 0                          | 0   | 0    | 0    | 0    | 0                          | 0   | 0    | 0    | 0    |
| Weighted Average      |                            |     |      |      |      |                            |     |      |      |      |
| Life (years)** .....  | 20.0                       | 9.2 | 5.3  | 2.6  | 1.7  | 19.7                       | 9.3 | 5.5  | 2.9  | 1.9  |

  

| Date                  | X***†† Class               |     |      |      |      | R Class                    |     |      |      |      | M, B-1 and B-2 Classes     |      |      |      |      |
|-----------------------|----------------------------|-----|------|------|------|----------------------------|-----|------|------|------|----------------------------|------|------|------|------|
|                       | % of Prepayment Assumption |     |      |      |      | % of Prepayment Assumption |     |      |      |      | % of Prepayment Assumption |      |      |      |      |
|                       | 0%                         | 50% | 100% | 200% | 300% | 0%                         | 50% | 100% | 200% | 300% | 0%                         | 50%  | 100% | 200% | 300% |
| Initial Percent ..... | 100                        | 100 | 100  | 100  | 100  | 100                        | 100 | 100  | 100  | 100  | 100                        | 100  | 100  | 100  | 100  |
| September 1999 .....  | 99                         | 94  | 89   | 79   | 68   | 0                          | 0   | 0    | 0    | 0    | 99                         | 99   | 99   | 99   | 99   |
| September 2000 .....  | 98                         | 86  | 74   | 53   | 35   | 0                          | 0   | 0    | 0    | 0    | 98                         | 98   | 98   | 98   | 98   |
| September 2001 .....  | 97                         | 78  | 62   | 36   | 18   | 0                          | 0   | 0    | 0    | 0    | 97                         | 97   | 97   | 97   | 97   |
| September 2002 .....  | 96                         | 71  | 51   | 24   | 9    | 0                          | 0   | 0    | 0    | 0    | 96                         | 96   | 96   | 96   | 96   |
| September 2003 .....  | 95                         | 64  | 42   | 16   | 5    | 0                          | 0   | 0    | 0    | 0    | 95                         | 95   | 95   | 95   | 93   |
| September 2004 .....  | 93                         | 59  | 35   | 11   | 2    | 0                          | 0   | 0    | 0    | 0    | 93                         | 91   | 88   | 83   | 48   |
| September 2005 .....  | 92                         | 53  | 29   | 7    | 1    | 0                          | 0   | 0    | 0    | 0    | 92                         | 87   | 81   | 70   | 24   |
| September 2006 .....  | 91                         | 48  | 24   | 5    | 1    | 0                          | 0   | 0    | 0    | 0    | 90                         | 81   | 72   | 55   | 13   |
| September 2007 .....  | 89                         | 43  | 20   | 3    | *    | 0                          | 0   | 0    | 0    | 0    | 88                         | 74   | 61   | 40   | 6    |
| September 2008 .....  | 87                         | 39  | 16   | 2    | *    | 0                          | 0   | 0    | 0    | 0    | 87                         | 67   | 51   | 26   | 3    |
| September 2009 .....  | 85                         | 35  | 13   | 1    | *    | 0                          | 0   | 0    | 0    | 0    | 85                         | 60   | 41   | 18   | 2    |
| September 2010 .....  | 83                         | 32  | 11   | 1    | *    | 0                          | 0   | 0    | 0    | 0    | 83                         | 54   | 34   | 12   | 1    |
| September 2011 .....  | 81                         | 28  | 9    | 1    | *    | 0                          | 0   | 0    | 0    | 0    | 80                         | 48   | 28   | 8    | *    |
| September 2012 .....  | 78                         | 25  | 7    | *    | *    | 0                          | 0   | 0    | 0    | 0    | 78                         | 43   | 23   | 5    | *    |
| September 2013 .....  | 76                         | 22  | 6    | *    | *    | 0                          | 0   | 0    | 0    | 0    | 75                         | 38   | 18   | 3    | *    |
| September 2014 .....  | 73                         | 20  | 5    | *    | *    | 0                          | 0   | 0    | 0    | 0    | 72                         | 34   | 15   | 2    | *    |
| September 2015 .....  | 70                         | 17  | 4    | *    | *    | 0                          | 0   | 0    | 0    | 0    | 69                         | 30   | 12   | 1    | *    |
| September 2016 .....  | 66                         | 15  | 3    | *    | *    | 0                          | 0   | 0    | 0    | 0    | 66                         | 26   | 9    | 1    | *    |
| September 2017 .....  | 63                         | 13  | 2    | *    | *    | 0                          | 0   | 0    | 0    | 0    | 62                         | 23   | 8    | 1    | *    |
| September 2018 .....  | 59                         | 11  | 2    | *    | *    | 0                          | 0   | 0    | 0    | 0    | 58                         | 20   | 6    | *    | *    |
| September 2019 .....  | 55                         | 10  | 2    | *    | *    | 0                          | 0   | 0    | 0    | 0    | 54                         | 17   | 5    | *    | *    |
| September 2020 .....  | 50                         | 8   | 1    | *    | *    | 0                          | 0   | 0    | 0    | 0    | 49                         | 14   | 4    | *    | *    |
| September 2021 .....  | 45                         | 7   | 1    | *    | *    | 0                          | 0   | 0    | 0    | 0    | 44                         | 12   | 3    | *    | *    |
| September 2022 .....  | 40                         | 6   | 1    | *    | *    | 0                          | 0   | 0    | 0    | 0    | 39                         | 9    | 2    | *    | *    |
| September 2023 .....  | 34                         | 4   | *    | *    | *    | 0                          | 0   | 0    | 0    | 0    | 33                         | 7    | 1    | *    | *    |
| September 2024 .....  | 28                         | 3   | *    | *    | *    | 0                          | 0   | 0    | 0    | 0    | 27                         | 6    | 1    | *    | *    |
| September 2025 .....  | 21                         | 2   | *    | *    | *    | 0                          | 0   | 0    | 0    | 0    | 21                         | 4    | 1    | *    | *    |
| September 2026 .....  | 14                         | 1   | *    | *    | *    | 0                          | 0   | 0    | 0    | 0    | 14                         | 2    | *    | *    | *    |
| September 2027 .....  | 6                          | 1   | *    | *    | *    | 0                          | 0   | 0    | 0    | 0    | 6                          | 1    | *    | *    | *    |
| September 2028 .....  | 0                          | 0   | 0    | 0    | 0    | 0                          | 0   | 0    | 0    | 0    | 0                          | 0    | 0    | 0    | 0    |
| Weighted Average      |                            |     |      |      |      |                            |     |      |      |      |                            |      |      |      |      |
| Life (years)** .....  | 20.2                       | 9.5 | 5.6  | 2.9  | 1.9  | 0.1                        | 0.1 | 0.1  | 0.1  | 0.1  | 20.0                       | 13.8 | 11.0 | 8.6  | 6.3  |

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

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

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

† Applies only to Discount Mortgage Loans.

†† Applies only to Non-Discount Mortgage Loans.

## **THE AGREEMENTS**

The following summaries describe certain provisions of the Sale and Servicing Agreement and the Trust Agreement (together, the “Agreements”) not otherwise summarized in this Prospectus. Certain capitalized terms in these summaries are used as defined in the Agreements. These summaries do not purport to be complete and are subject to, and qualified in their entirety by reference to, the more complete provisions of the Agreements.

### **Transfer of Mortgage Loans to the Trust**

The Mortgage Loans transferred to the Trust will be identified in a Mortgage Loan Schedule appearing as an exhibit to the Trust Agreement. In addition, Fannie Mae, in its capacity as Trustee of the Trust, will hold on behalf of Certificateholders the original Mortgage Notes, endorsed in blank, and assignments to Fannie Mae of the mortgage instruments in recordable form. The document custody requirements described above are subject to change at any time; provided that any such change will not, in Fannie Mae’s determination, have a materially adverse affect on the interests of Certificateholders.

At its option, Fannie Mae may choose to maintain the documents described above with one or more custodian institutions supervised and regulated by the Comptroller of the Currency, the Board of Governors of the Federal Reserve System, the Office of Thrift Supervision, the FDIC or the NCUA. Fannie Mae will review the Mortgage Loan Schedule prior to the issuance of the Certificates and will conduct random spot checks to confirm the sufficiency of the documents after issuance of the Certificates.

Although the above procedures are intended to protect the interests of the Holders of Certificates in the Mortgage Loans, the law applicable to a liquidation, reorganization, or similar proceeding involving the assets of the Seller or of Fannie Mae is unclear and as a result no opinion has been rendered as to the status of Certificateholders’ interests in the event of any such proceeding.

### **Servicing of Mortgage Loans**

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

Except as otherwise specified herein, the Master Servicer will be obligated to perform diligently all services and duties customary to the servicing of mortgages, as well as those specifically prescribed in the Sale and Servicing Agreement. Fannie Mae will monitor the Master Servicer’s performance and has the right to remove the Master Servicer for cause, pursuant to the terms of the Sale and Servicing Agreement, at any time it considers such removal to be in the best interest of Certificateholders. The duties performed by the Master Servicer include general loan servicing responsibilities, collection and remittance of principal and interest payments, administration of mortgage escrow accounts, collection of insurance claims, and, if necessary, foreclosure and administration and disposition of foreclosed properties.

An amount will be retained by the Master Servicer on a monthly basis as compensation for its servicing activities, which amount will be calculated at the rate of 0.25% per annum (the “Servicing Fee Rate”) of the Stated Principal Balance of each Mortgage Loan. The Master Servicer is also entitled to retain prepayment fees, late charges, assumption fees, and similar charges to the extent they are collected from borrowers. In addition, the Master Servicer is entitled to retain any amounts by which the proceeds of the liquidation of a Mortgage Loan exceed (i) the Stated Principal Balance of that Mortgage Loan and (ii) interest thereon at the mortgage interest rate from the month in which the Master Servicer determined that any amount advanced by it would no longer be recoverable through the end of the month of such liquidation, but only to the extent such amounts are not otherwise distributable to the holders of the Mezzanine Certificates and the Subordinate Certificates to offset previously allocated Realized Losses. The Master Servicer will pay all expenses incurred by it

in connection with its servicing activities and is not entitled to reimbursement therefor (other than Delinquency Advances and Servicing Advances) out of the assets of the Trust.

In addition, Fannie Mae will be entitled to receive from amounts collected on the Mortgage Loans, a fee in consideration of its guaranty obligations relating to the Senior Certificates.

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

On each Remittance Date, the Master Servicer will remit to one or more accounts (collectively, the “Certificate Account”) an amount equal to the sum of (i) scheduled principal and interest on the Mortgage Loans received during the related Due Period, (ii) unscheduled principal and interest on the Mortgage Loans (*i.e.*, voluntary prepayments, as well as principal and interest on the Mortgage Loans in the form of net liquidation proceeds or similar proceeds) received during the related Prepayment Period, and (iii) the amount of any advance required to be made by the Master Servicer with respect to the related Distribution Date in respect of delinquent payments of principal and interest on the Mortgage Loans.

Amounts credited to the Certificate Account as of a Distribution Date will be available to be distributed to Holders on such date to the extent of interest accrued and distributable on the related Certificates (*i.e.*, excluding any Uncovered Prepayment Interest Shortfalls) and principal distributions reflected in the REMIC Trust Factors. Any reinvestment earnings on amounts so deposited will not be included in the calculation of amounts distributable to Certificateholders.

The Trust Agreement permits Fannie Mae as Trustee to maintain the Certificate Account either (i) as a trust account with an eligible depository institution (which account may contain other funds held by Fannie Mae in a trust capacity) or (ii) as part of Fannie Mae’s general assets, with appropriate entries being made on its books and records designating the funds and investments credited to the Trust.

As noted above, Fannie Mae, as Trustee, has the option to maintain the Certificate Account as part of its general assets by making appropriate entries on its books and records designating the funds and investments credited to the Trust. Although Fannie Mae is required to hold all such funds (and, upon deposit in the Certificate Account, the investment of such funds) for the account of Certificateholders, the law applicable to a liquidation, reorganization or similar proceeding involving the assets of Fannie Mae is unclear and as a result no opinion can be rendered as to the status of Certificateholders’ interest in such funds and investments in the event of any such proceeding.

### **Reports to Certificateholders**

As soon as practicable following the 21st calendar day of each month, Fannie Mae will publish or otherwise make available the REMIC Trust Factor (carried to eight decimal places) for each Class of Certificates after giving effect to the distribution of principal to be made on the following Distribution Date. The principal balance of a Certificate of any Class after giving effect to such principal distribution will be the product of the applicable REMIC Trust Factor and the applicable denomination or initial principal balance of such Certificate. With respect to each distribution on Certificates of each Class, Fannie Mae will cause to be forwarded to each Holder thereof a statement setting forth the total principal and interest distributions on such Distribution Date with respect to the Certificates in each Class held by such Holder. Fannie Mae also will furnish to each person who was a Certificateholder at any time during a calendar year such statements and information as shall be required to be furnished pursuant to the Code.

Calculations with respect to amounts due to Certificateholders will be made by Fannie Mae or on its behalf by another entity retained specifically for that purpose.

## Collection and Other Servicing Procedures

The Master Servicer is responsible for servicing the Mortgage Loans and, in connection with its servicing activities, has full power and authority to do or cause to be done any and all things as it may deem necessary or appropriate in its discretion, including the foreclosure or comparable conversion of a defaulted Mortgage Loan. Either Fannie Mae (after the Mezzanine Termination Date) or the Master Servicer (at any time) may in its discretion and without obligation, purchase from the Trust any Mortgage Loan that has become more than 90 days delinquent. If Fannie Mae or the Master Servicer exercises such option, the purchase price will be equal to the Stated Principal Balance of the delinquent Mortgage Loan together with accrued interest at the Net Mortgage Rate and will be distributed to Certificateholders in the manner described herein. See “Description of the Senior and Mezzanine Certificates—Distributions on the Senior and Mezzanine Certificates.”

The Master Servicer is required to make advances to the Trust in respect of delinquent payments of principal of and interest on the Mortgage Loans until it determines that any such advances would no longer be recoverable from late collections, insurance proceeds or liquidation proceeds on the related Mortgage Loans. All such advances will be reimbursable to the Master Servicer from late collections, insurance proceeds and liquidation proceeds from the related Mortgage Loans prior to any distributions being made with respect to the Senior and Mezzanine Certificates. Such advances will constitute “Delinquency Advances.” In addition, any such advances previously made in respect of any Mortgage Loan that are deemed by the Master Servicer to be nonrecoverable from the related late collections, insurance proceeds or liquidation proceeds may be reimbursed to the Master Servicer out of funds allocable to any of the Mortgage Loans.

The Master Servicer will be required to pay all “out of pocket” costs and expenses incurred in the performance of its servicing obligations, to the extent deemed by it to be recoverable, including, but not limited to, (i) expenditures in connection with a foreclosed Mortgage Loan prior to the liquidation thereof, including, without limitation, expenditures for real estate property taxes, hazard insurance premiums, property restoration or preservation, (ii) the cost of enforcement or judicial proceedings, including foreclosures and (iii) the cost of the management and liquidation of a Mortgaged Property acquired in satisfaction of the related Mortgage Loan. Such costs will constitute “Servicing Advances.” The Master Servicer may recover a Servicing Advance to the extent permitted by the related Mortgage Loans or, if not theretofore recovered from the borrower on whose behalf such Servicing Advance was made, from net liquidation proceeds realized upon the liquidation of the related Mortgage Loan or from funds otherwise distributable on the Mezzanine and Subordinate Certificates.

With respect to each Mortgage Loan, the Seller will make certain warranties to Fannie Mae concerning such matters as the recordation of the original Mortgage, the validity of the Mortgage Loan as a first lien on the Mortgaged Property, and compliance by such Mortgage Loans with applicable state and federal laws. In the event of a material breach of any such warranty or a material defect in the Mortgage Loan documentation, Fannie Mae may cause the Seller to repurchase such Mortgage Loan from the Trust at a price equal to its outstanding principal balance together with interest thereon at the net mortgage rate. Alternatively, the Seller may, at its option, substitute a new Mortgage Loan for a defective Mortgage Loan; provided, however, that no such substitution may take place more than two years subsequent to the date of the original issue of the Certificates, and any such substitute Mortgage Loan must satisfy certain eligibility criteria designed to assure that the nature of the Mortgage Loans generally will not be altered by any such substitution. Any “Substitution Adjustment Amount” (*i.e.*, the amount by which the Stated Principal Balance of the defective Mortgage Loan exceeds the principal balance of the substitute Mortgage Loan) will be passed through to Certificateholders.

Subject to the following paragraphs, the Master Servicer in its discretion may enforce or waive enforcement of any of the terms of any Mortgage Loan or enter into an agreement for the modification of any of the terms of any Mortgage Loan, or take any action or refrain from taking any action in

servicing any Mortgage Loan. However, any modification that would (i) cause the Trust to fail to qualify as a REMIC under the Code, (ii) cause any Mortgage Loan to cease to be a “qualified mortgage” within the meaning of section 860G(a) (3) of the Code, or (iii) result in the imposition of any tax on “prohibited transactions” or “contributions” as discussed under “Certain Federal Income Tax Consequences—Taxes on the Trust” herein is prohibited by the Trust Agreement. Certain other modifications, such as reducing the mortgage interest rate or principal amount or extending the term of a Mortgage Loan are prohibited by the Sale and Servicing Agreement. In such connection, the Master Servicer may waive any prepayment charge, assumption fee, or late payment charge or may exercise or refrain from exercising any “call option rider.” Notwithstanding the foregoing, the decision by the Master Servicer to take or refrain from taking any such action must be consistent with then-current policies or practices employed by the Master Servicer respecting comparable mortgage loans held in its own portfolio and must be without consideration of the ownership status of the related Mortgage Loan.

In connection with the transfer or prospective transfer of title to a Mortgaged Property securing any Mortgage Loan, the Master Servicer is obligated to accelerate the maturity of the related Mortgage Loan where that Mortgage Loan contains a “due-on sale” clause permitting acceleration under those conditions unless the Master Servicer is restricted by law from enforcing the “due-on-sale” clause.

In the event that, for any reason, the Master Servicer is not obligated to accelerate the maturity of a Mortgage Loan upon the transfer, or prospective transfer, of title to the underlying Mortgaged Property, the Master Servicer may enter into a transaction by which the obligor is released from liability on the related Mortgage Loan and the transferee assumes such liability; provided, however, that, as required by the Fannie Mae Servicing Guide, no such transaction shall provide for reduction of the mortgage interest rate.

#### **Certain Matters Regarding Fannie Mae**

The Trust Agreement provides that Fannie Mae may not resign from its obligations and duties thereunder, except upon determination that those duties are no longer permissible under applicable law. No such resignation will become effective until a successor has assumed Fannie Mae’s obligations and duties under the Trust Agreement; provided, however, that no successor will succeed to Fannie Mae’s guaranty obligations with respect to the Senior Certificates. Fannie Mae will continue to be responsible under such guaranty notwithstanding any termination of its other duties and responsibilities under the Trust Agreement. See “Rights Upon Event of Default” below.

The Trust Agreement also provides that neither Fannie Mae nor any director, officer, employee or agent of Fannie Mae will be under any liability to the Trust or to Certificateholders for any action taken, or for refraining from the taking of any action, in good faith pursuant to the Trust Agreement or for errors in judgment; provided, however, that neither Fannie Mae nor any such person will be protected against any liability that would otherwise be imposed by reason of willful misfeasance, bad faith or gross negligence or by reason of willful disregard of obligations and duties.

In addition, the Trust Agreement provides that Fannie Mae is not under any obligation to appear in, prosecute, or defend any legal action that is not incidental to its responsibilities under the Trust Agreement and that in its opinion may involve it in any expense or liability. Fannie Mae may, however, in its discretion undertake any such legal action that it may deem necessary or desirable in the interests of the Certificateholders. In such event, the legal expenses and costs of such action will be expenses and costs of Fannie Mae.

Any corporation into which Fannie Mae may be merged or consolidated, or any corporation resulting from any merger, conversion or consolidation to which Fannie Mae is a party, or any corporation succeeding to the business of Fannie Mae, will be the successor of Fannie Mae under the terms of the Trust Agreement.

## **Events of Default**

Events of Default under the Trust Agreement will consist of (i) any failure by Fannie Mae to distribute to Holders of Certificates of any Class any required distribution that continues unremedied for 15 days after the giving of written notice of such failure to Fannie Mae by the Holders of Certificates representing principal balances aggregating not less than five percent of the aggregate principal balances of all Certificates of such Class; (ii) any failure by Fannie Mae duly to observe or perform in any material respect any other of its covenants or agreements in the Trust Agreement, which failure continues unremedied for 60 days after the giving of written notice of such failure to Fannie Mae by the Holders of Certificates of any Class representing principal balances aggregating not less than 25 percent of the aggregate principal balances of all of the Certificates of such Class; and (iii) certain events of insolvency, readjustment of debt, marshalling of assets and liabilities or similar proceedings and certain actions by or against Fannie Mae indicating its insolvency, reorganization or inability to pay its obligations.

## **Rights Upon Event of Default**

As long as an Event of Default under the Trust Agreement remains unremedied, the Holders of Certificates of any Class representing principal balances aggregating not less than 25 percent of the aggregate of the principal balances of all Certificates of such Class may, in writing, terminate all the obligations and duties of Fannie Mae as Trustee and in its corporate capacity under the Trust Agreement in respect of such Trust (other than its guaranty obligations described above, which continue notwithstanding any such termination) and name and appoint, in writing, a successor to succeed to all such responsibilities, duties and obligations of Fannie Mae thereunder (other than Fannie Mae's guaranty obligations with respect to the Senior Certificates) and to the legal title of the Mortgage Loans and other assets held in the Trust. The holders of the Mezzanine Certificates and the Subordinate Certificates will have no rights to terminate the obligations and duties of Fannie Mae unless and until the Senior Certificates have been paid in full.

## **Amendment**

The Trust Agreement may be amended by Fannie Mae and the Trustee without the consent of or notice to any of the Certificateholders, for one or more of the following purposes: (i) to add to the covenants of Fannie Mae; (ii) to evidence the succession of another party or parties to Fannie Mae and the assumption by such successor or successors of the obligations of Fannie Mae thereunder in its corporate capacity or in its capacity as Trustee or in both such capacities; (iii) to eliminate any right reserved to or conferred upon Fannie Mae in its corporate capacity; (iv) to make provisions for the purpose of curing any ambiguity or correcting or supplementing any provision in the Trust Agreement, provided, in the case of any such supplementation, that such provisions do not adversely affect the interest of any Certificateholder; or (v) to modify the Trust Agreement to maintain the qualification of the Trust as a REMIC.

The Trust Agreement also may be amended by Fannie Mae with the consent of the Holders of Certificates of each Class representing principal balances aggregating not less than 66 percent of the aggregate principal balances of all Certificates of such Class so as to waive compliance by Fannie Mae with any terms of the Trust Agreement, or to allow Fannie Mae to eliminate, change, add to or modify the terms of the Trust Agreement. However, no such waiver or amendment may, without the consent of all Holders of the Senior Certificates, terminate or modify the guaranty obligations of Fannie Mae with respect to the Senior Certificates or, without the consent of all Certificateholders, reduce the percentages of the Certificates the Holders of which are required to consent to any waiver or amendments. In addition, no waiver or amendment shall, without the consent of each Certificateholder affected thereby, reduce in any manner the amount of, or delay the timing of, payments received on Mortgage Loans or other assets in the Trust that are required to be distributed on any Certificate, or without the consent of all Holders of any residual interest in the Trust, adversely affect the rights of the Holders of such residual interest.

## **Termination**

The Trust Agreement terminates upon the final payment or liquidation of the last Mortgage Loan remaining in the Trust and distribution of all proceeds thereof. The Trust Agreement will terminate also upon repurchase by Fannie Mae or the Master Servicer, at its respective option, of all remaining Mortgage Loans (other than Mortgage Loans that have been converted to REO Property (as defined below)) and REO Property in the Trust at a price equal to the outstanding principal balance of each such Mortgage Loan together with one month's interest thereon at the Net Mortgage Rate plus the fair market value of REO Property; provided, however, that (i) Fannie Mae will not exercise its option unless the aggregate Stated Principal Balance of the remaining Mortgage Loans at the time of repurchase is less than one percent of the aggregate Stated Principal Balance of all the Mortgage Loans as of the Issue Date, and (ii) the Master Servicer will not exercise its option unless the aggregate Stated Principal Balance of the remaining Mortgage Loans at the time of repurchase is less than ten percent of the aggregate Stated Principal Balance of all the Mortgage Loans as of the Issue Date; and provided further that in the event the Master Servicer wishes to exercise its option and such exercise would result in any payment in respect of the Senior Certificates pursuant to Fannie Mae's guaranty, the Master Servicer will not exercise its option without obtaining the prior written consent of Fannie Mae. An "REO Property" is a Mortgaged Property acquired by the Master Servicer through foreclosure or deed-in-lieu-of-foreclosure in connection with a defaulted Mortgage Loan. The exercise of either such option will effect retirement of all Certificates. In no event, however, will the Trust continue beyond the expiration of 21 years from the death of the last survivor of the persons named in the Trust Agreement. Fannie Mae will give written notice of termination of the Trust Agreement as it relates to each affected Certificateholder, and the final distribution will be made to the person entitled thereto.

## **CERTAIN FEDERAL INCOME TAX CONSEQUENCES**

### **General**

The following is a discussion of the material anticipated federal income tax consequences to beneficial owners of the purchase, ownership and disposition of the Certificates. The discussion is based upon laws, regulations, rulings and decisions now in effect, all of which are subject to change. The discussion below does not purport to deal with all federal tax consequences applicable to all categories of investors, some of which may be subject to special rules. Investors should consult their own tax advisors in determining the federal, state, local and any other tax consequences to them of the purchase, ownership and disposition of the Certificates.

### **REMIC Election**

An election will be made to treat the Trust as a REMIC under the Code. Qualification as a REMIC requires ongoing compliance with certain conditions. Arnold & Porter, special tax counsel to Fannie Mae, will deliver its opinion to Fannie Mae that, assuming compliance with the Trust Agreement, the Trust will be treated as a REMIC for federal income tax purposes. The Senior, Mezzanine, and Subordinate Certificates (other than the R Class) will be designated as "regular interests" in the Trust (each a "Regular Certificate" and, together, the "Regular Certificates") and the R Class will be designated as the "residual interest" in the Trust (the "Residual Certificate").

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

The Regular Certificates will be treated for federal income tax purposes as debt instruments issued by a REMIC on the date such Certificates are first sold to the public and not as ownership interests in a REMIC or its assets. Beneficial owners of Regular Certificates ("Regular Owners") that otherwise report income under a cash method of accounting will be required to report interest and other income with respect to such Certificates under an accrual method.

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

#### *Original Issue Discount*

The PO, X and Subordinate Classes will be, and the A Class and Mezzanine Classes may be, issued with “original issue discount” within the meaning of section 1273(a) of the Code. A Regular Owner must include in gross income the sum of the “daily portions” of original issue discount on its Regular Certificate for each day during its taxable year on which it held such Certificate, generally in advance of receipt of the cash attributable to such income. Fannie Mae will supply, at the time and in the manner required by the IRS, to Holders of Regular Certificates, brokers and middlemen information with respect to the original issue discount accruing on the Regular Certificates.

In general, a Regular Certificate will be considered to be issued with original issue discount equal to the excess, if any, of its “stated redemption price at maturity” over its “issue price.” The issue price of a Regular Certificate is the initial offering price to the public (excluding bond houses and brokers) at which a substantial amount of the Regular Certificate was sold. The issue price also includes any accrued interest attributable to the period between the beginning of the first Interest Accrual Period and the Settlement Date. The stated redemption price at maturity of a Regular Certificate from a Notional Class is equal to the sum of all distributions to be made under such Regular Certificate. The stated redemption price at maturity of any other Regular Certificate is its stated principal amount, plus an amount equal to the excess (if any) of the interest payable on the first Distribution Date over the interest that accrues for the period from the Settlement Date to the first Distribution Date.

Notwithstanding the general definition, original issue discount will be treated as zero in the case of a Regular Certificate if such discount is less than 0.25 percent of the stated redemption price at maturity of such Certificate multiplied by its weighted average life. The weighted average life of a Regular Certificate is apparently computed for this purpose as the sum, for all distributions included in the stated redemption price at maturity of the Certificate, of the amounts determined by multiplying (i) the number of complete years (rounding down for partial years) from the Settlement Date until the date on which each such distribution is expected to be made under the assumption that the Mortgage Loans prepay at a specified rate, by (ii) a fraction, the numerator of which is the amount of such distribution and the denominator of which is the Regular Certificate’s stated redemption price at maturity. If original issue discount is treated as zero under this rule, the actual amount of original issue discount must be allocated to the principal distributions on the Regular Certificate and, when each such distribution is received, gain equal to the discount allocated to such distribution will be recognized. The prepayment assumption applicable to the Mortgage Loans is 100% of the Prepayment Assumption. See “Description of the Senior and Mezzanine Certificates—Structuring Assumptions—*Prepayment Assumption*” herein.

For Regular Certificates considered to be issued with original issue discount, the daily portions of original issue discount will be determined as follows. A calculation will first be made of the portion of the original issue discount that accrued during each “accrual period.” Final regulations issued by the Treasury Department relating to the tax treatment of debt instruments with original issue discount (the “OID Regulations”) provide that for purposes of measuring the accrual of original issue discount on a debt instrument, each Regular Owner may use an accrual period of any length, up to one year, as

long as each Distribution Date falls on either the final day or the first day of an accrual period. Fannie Mae will report original issue discount based on accrual periods of one month, beginning on a Distribution Date and ending on the day before the next Distribution Date.

The portion of original issue discount treated as accruing for any accrual period will equal the excess, if any, of (i) the sum of (A) the present values of all the distributions remaining to be made on the Regular Certificate, if any, as of the end of the accrual period and (B) the distribution made on such Certificate during the accrual period of amounts included in the stated redemption price at maturity, over (ii) the adjusted issue price of such Certificate at the beginning of the accrual period. The present value of the remaining distributions referred to in the preceding sentence will be calculated based on (i) the yield to maturity of the Regular Certificate, calculated as of the Settlement Date, giving effect to the Prepayment Assumption, (ii) events (including actual prepayments) that have occurred prior to the end of the accrual period and (iii) the Prepayment Assumption. The adjusted issue price of a Regular Certificate at any time will equal the issue price of such Certificate, increased by the aggregate amount of previously accrued original issue discount with respect to such Certificate, and reduced by the amount of any distributions made on such Certificate as of that time of amounts included in the stated redemption price at maturity. The original issue discount accruing during any accrual period will then be allocated ratably to each day during the period to determine the daily portion of original issue discount.

The Code requires that the prepayment assumption used to calculate original issue discount be determined in the manner prescribed in Treasury regulations. To date, no such regulations have been promulgated. The legislative history of this Code provision indicates that the regulations will provide that the assumed prepayment rate must be the rate used by the parties in pricing the particular transaction. Fannie Mae believes that the Prepayment Assumption is consistent with this standard. Fannie Mae makes no representation, however, that the Mortgage Loans will prepay at the rate reflected in the Prepayment Assumption or at any other rate. Each investor must make its own decision as to the appropriate prepayment assumption to be used in deciding whether or not to purchase any of the Certificates. See “Description of the Senior and Mezzanine Certificates—Maturity Considerations and Last Scheduled Distribution Date” and “—Decrement Tables” herein.

A subsequent purchaser of a Regular Certificate that purchases such Certificate at a cost less than its remaining stated redemption price at maturity also will be required to include in gross income for each day on which it holds such Certificate, the daily portion of original issue discount with respect to such Certificate (but reduced, if the cost of such Certificate to such purchaser exceeds its adjusted issue price, by an amount equal to the product of (i) such daily portion and (ii) a constant fraction, the numerator of which is such excess and the denominator of which is the sum of the daily portions of original issue discount on such Certificate for all days on or after the day of purchase).

#### *Certificates Purchased at a Premium*

A purchaser of a Regular Certificate that purchases such Certificate at a cost (net of accrued interest) greater than its remaining stated redemption price at maturity will be considered to have purchased such Certificate (a “Premium Certificate”) at a premium. Such a purchaser need not include in income any remaining original issue discount and may elect, under section 171(c)(2) of the Code, to treat such premium as “amortizable bond premium.” If a Regular Owner makes such an election, the amount of any interest payment that must be included in such Regular Owner’s income for each period ending on a Distribution Date will be reduced by the portion of the premium allocable to such period based on the Premium Certificate’s yield to maturity. In addition, the legislative history of the Tax Reform Act of 1986 states that such premium amortization should be made under principles analogous to those governing the accrual of market discount (as discussed below under “Market Discount”). If such election is made by the Regular Owner, the election will also apply to all bonds (as well as all REMIC regular interests) the interest on which is not excludible from gross income (“Fully Taxable Bonds”) held by the Regular Owner at the beginning of the first taxable year

to which the election applies and to all such Fully Taxable Bonds thereafter acquired by it, and is irrevocable without the consent of the IRS. If such an election is not made, (i) such a Regular Owner must include the full amount of each interest payment in income as it accrues, and (ii) the premium must be allocated to the principal distributions on the Premium Certificate and, when each such distribution is received, a loss equal to the premium allocated to such distribution will be recognized. Any tax benefit from the premium not previously recognized will be taken into account in computing gain or loss upon the sale or disposition of the Premium Certificate.

#### *Market Discount*

A Regular Owner that purchases a Regular Certificate at a price less than the remaining stated redemption price at maturity of such Certificate, or in the case of a Regular Certificate issued with original issue discount, less than the adjusted issue price of such Certificate, has market discount with respect to such Certificate in the amount of such difference. An owner that purchases a Regular Certificate at a market discount is required to treat any principal payments on such certificate as ordinary income to the extent of the market discount that accrued while such owner held such certificate, unless the owner elects to include such market discount in income on a current basis. An owner may also be required to treat gain on the disposition or retirement of such a Certificate as ordinary income under the circumstances discussed below under “Sales and Other Dispositions of Certificates—*In General*.”

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

A Regular Owner that incurs or continues indebtedness to acquire a Regular Certificate at a market discount may be required to defer the deduction of all or a portion of the interest on such indebtedness until the corresponding amount of market discount is included in income.

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

#### *Special Election*

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

## Taxation of Beneficial Owners of Residual Certificates

### *Daily Portions*

Except as indicated below, a beneficial owner of a Residual Certificate (“Residual Owner”) generally will be required to report its daily portion of the taxable income or net loss of the Trust for each day during a calendar quarter that the Residual Owner owned such Residual Certificate. For this purpose, the daily portion shall be determined by allocating to each day in the calendar quarter its ratable portion of the taxable income or net loss of the Trust for such quarter and by allocating the amount so allocated among the Residual Owners (on such day) in accordance with their percentage interests on such day. Any amount included in the gross income or allowed as a loss of the Residual Owner by virtue of this paragraph will be treated as ordinary income or loss.

The requirement that each Residual Owner report its daily portion of the taxable income or net loss of the Trust will continue until there are no Certificates of any Class outstanding, even though the Residual Owner is not entitled to receive any distributions of principal or interest on its Residual Certificate.

### *Taxable Income or Net Loss of the Trust*

The taxable income or net loss of the Trust will be the income from the “qualified mortgages” it holds and any reinvestment earnings less deductions allowed to the Trust. Such taxable income or net loss for a given calendar quarter will be determined in the same manner as for an individual having the calendar year as the taxable year and using the accrual method of accounting, with certain modifications. The first modification is that a deduction will be allowed for accruals of interest (including any original issue discount, but without regard to the investment interest limitation in section 163(d) of the Code) on the Regular Certificates (but not the Residual Certificate), even though Regular Certificates are, for non-tax purposes, certificates of beneficial ownership rather than indebtedness of the Trust. Second, market discount or premium equal to the difference between the aggregate principal balances of the qualified mortgages and the basis to the Trust therein generally will be included in income (in the case of discount) or deductible (in the case of premium) by the Trust as it accrues under a constant yield method, taking into account the Prepayment Assumption. The basis to the Trust in qualified mortgages is the aggregate of the issue prices of all the Regular and Residual Certificates in the Trust on the Settlement Date. If, however, a substantial amount of a Class of Regular or Residual Certificates has not been sold to the public, then the fair market value of all the Regular or Residual Certificates in that Class as of the date of this Prospectus should be substituted for the issue price. Third, no item of income, gain, loss or deduction allocable to a prohibited transaction (see “Taxes on the Trust—*Prohibited Transactions*” below) will be taken into account. Fourth, the Trust generally may not deduct any item that would not be allowed in calculating the taxable income of a partnership by virtue of section 703(a)(2) of the Code. Finally, the limitation on miscellaneous itemized deductions imposed on individuals by section 67 of the Code will not be applied at the Trust level to any administrative fees, such as servicing and guaranty fees. (See, however, “*Pass-Through of Servicing and Guaranty Fees to Individuals*” below.) In addition, under the Regulations, any expenses that are incurred in connection with the formation of the Trust and the issuance of the Regular and Residual Certificates will not be treated as expenses of the Trust for which a deduction is allowed. If the deductions allowed to the Trust exceed its gross income for a calendar quarter, such excess will be a net loss for the Trust for that calendar quarter. The Regulations also provide that any gain or loss to the Trust from the disposition of any asset, including a qualified mortgage or “permitted investment” (as defined in section 860G(a)(5) of the Code) will be treated as ordinary gain or loss.

A Residual Owner may be required to recognize taxable income without being entitled to receive a corresponding amount of cash. This could occur, for example, if the qualified mortgages are considered to be purchased by the Trust at a discount, some or all of the Regular Certificates are issued at a discount, and the discount included as a result of a prepayment on a Mortgage Loan that is used to pay principal on the Regular Certificates exceeds the Trust’s deduction for unaccrued original

issue discount relating to such Regular Certificates. Taxable income may also be greater in earlier years because interest expense deductions, expressed as a percentage of the outstanding principal amount of the Regular Certificates, may increase over time as the earlier Classes of Regular Certificates are paid, whereas interest income with respect to any given Mortgage Loan expressed as a percentage of the outstanding principal amount of that Mortgage Loan, will remain constant over time.

#### *Basis Rules and Distributions*

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

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

#### *Excess Inclusions*

Any excess inclusions with respect to a Residual Certificate are subject to certain special tax rules. With respect to a Residual Owner, the excess inclusion for any calendar quarter is defined as the excess (if any) of the daily portions of taxable income over the sum of the "daily accruals" for each day during such quarter that such Residual Certificate was held by such Residual Owner. The daily accruals are determined by allocating to each day during a calendar quarter its ratable portion of the product of the "adjusted issue price" of the Residual Certificate at the beginning of the calendar quarter and 120 percent of the "Federal long-term rate" in effect on the Settlement Date, based on quarterly compounding, and properly adjusted for the length of such quarter. For this purpose, the adjusted issue price of a Residual Certificate as of the beginning of any calendar quarter is equal to the issue price of the Residual Certificate, increased by the amount of daily accruals for all prior quarters and decreased by any distributions made with respect to such Residual Certificate before the beginning of such quarter. The issue price of a Residual Certificate is the initial offering price to the public (excluding bond houses and brokers) at which a substantial amount of the Residual Certificates was sold. The Federal long term rate is a blend of current yields on Treasury securities having a maturity of more than nine years, computed and published monthly by the IRS. One hundred twenty percent of the Federal long-term rate in effect on the Settlement Date is 6.73%.

The Treasury Department has the authority to issue regulations that would treat all taxable income of the Trust as excess inclusions if the Residual Certificate does not have "significant value." Although the Treasury Department has not exercised this authority in the Regulations, future regulations may contain such a rule.

Any excess inclusions cannot be offset by losses from other activities. For a Residual Owner that is subject to tax only on unrelated business taxable income (as defined in section 511 of the Code), any excess inclusion of such Residual Owner is treated as unrelated business taxable income. With respect to variable contracts (within the meaning of section 817 of the Code), a life insurance company cannot adjust its reserve to the extent of any excess inclusion, except as provided in regulations. If a Residual Owner is a member of an affiliated group filing a consolidated income tax return, the taxable income of the affiliated group cannot be less than the sum of the excess inclusions attributable to all residual interests in REMICs held by members of the affiliated group. For purposes of the alternative minimum tax, taxable income does not include excess inclusions, the alternative

minimum taxable income cannot be less than excess inclusions, and excess inclusions are disregarded in computing the alternative tax net operating loss deduction. For a discussion of the effect of excess inclusions on certain foreign investors that own Residual Certificates, see “Foreign Investors—*Residual Certificates*” below.

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

#### *Pass-Through of Servicing and Guaranty Fees to Individuals*

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

#### *Amounts Paid to a Transferee of a Residual Certificate*

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

### **Special Tax Attributes**

As a consequence of the qualification of the Trust as a REMIC, the Regular Certificates generally will be treated as “regular or residual interests in a REMIC” (within the meaning of section 7701(a)(19)(C)(xi) of the Code) for domestic building and loan associations and “real estate assets” (within the meaning of section 856(c)(5)(B) of the Code) for real estate investment trusts. If at any time during a calendar year less than 95 percent of the assets of the Trust consist of qualified mortgages, then the portion of the Regular and Residual Certificates that are qualifying assets under these Code sections during such calendar year may be limited to the portion of the assets of the Trust that are qualified mortgages.

Similarly, income on the Regular and Residual Certificates will be treated as “interest on obligations secured by mortgages on real property” within the meaning of section 856(c)(3)(B) of the Code, subject to the same limitation as set forth in the preceding sentence. For purposes of applying this limitation, the Trust should be treated as owning the assets represented by the qualified mortgages. The assets of the Trust will include, in addition to the Mortgage Loans, payments on the Mortgage Loans held pending distribution on the Regular and Residual Certificates and any reinvestment income thereon.

Regular Certificates held by a financial institution (as referred to in section 582(c)(2) of the Code) will be treated as evidences of indebtedness for purposes of section 582(c)(1) of the Code.

Regular Certificates will also be “qualified mortgages” within the meaning of section 860G(a)(3) of the Code with respect to other REMICs and “permitted assets” within the meaning of section 860L(c)(1) of the Code with respect to financial asset securitization investment trusts.

## **Taxes on the Trust**

A REMIC is not subject to federal income tax except with respect to income from prohibited transactions and in certain other instances described below.

### *Prohibited Transactions*

The Code imposes a tax on a REMIC equal to 100 percent of the net income derived from “prohibited transactions.” In general, a prohibited transaction means the disposition of a qualified mortgage other than pursuant to certain specified exceptions, the receipt of investment income from a source other than a Mortgage Loan or certain other permitted investments, the receipt of compensation for services, or the disposition of an asset purchased with the payments on the qualified mortgages for temporary investment pending distribution on the regular and residual interests.

### *Contributions to a REMIC after the Startup Day*

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

### *Net Income from Foreclosure Property*

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

### *Application to the Trust*

It is not anticipated that the Trust will engage in any transactions that will give rise to a tax on the Trust. If in certain circumstances a tax is imposed on the Trust, distributions on the Non-Senior Certificates may be reduced by the amount of such tax. Pursuant to its guaranty obligations with respect to the Senior Certificates, however, Fannie Mae will make distributions on the Senior Certificates without offset or deduction for any tax imposed on the Trust.

## **Sales and Other Dispositions of Certificates**

### *In General*

Upon the sale, exchange, retirement or other disposition of a Regular Certificate or upon the sale, exchange or other disposition of a Residual Certificate, an owner generally will recognize gain or loss equal to the difference between the amount realized upon the disposition and the owner’s adjusted basis in the Certificate. In addition, the Code requires the recognition of gain upon the “constructive sale of an appreciated financial position.” In general, a constructive sale of an appreciated financial

position occurs if a taxpayer enters into certain transactions or series of such transactions with respect to a financial instrument that have the effect of substantially eliminating the taxpayer's risk of loss and opportunity for gain with respect to the financial instrument. These provisions do not apply to Certificates other than the Notional Class.

The adjusted basis of a Regular Certificate generally will equal the cost of such Certificate to the owner, increased by any original issue discount or market discount included in the owner's gross income with respect to such Certificate and reduced by distributions on such Certificate previously received by the owner of amounts included in the stated redemption price at maturity and by any premium that has reduced the owner's interest income with respect to such Certificate. The adjusted basis of a Residual Certificate is determined as described above under "Taxation of Beneficial Owners of Residual Certificates—*Basis Rules and Distributions*." Except as provided in the following paragraph or under section 582(c) of the Code, any such gain or loss will be capital gain or loss, provided such Certificate is held as a "capital asset" (generally, property held for investment) within the meaning of section 1221 of the Code.

Gain from the sale or other disposition of a Regular Certificate that might otherwise be capital gain will be treated as ordinary income to the extent that such gain does not exceed the excess, if any, of (i) the amount that would have been includible in the income of the Regular Owner had income accrued at a rate equal to 110 percent of the "applicable Federal rate" (generally, an average of current yields on Treasury securities) as of the date of purchase over (ii) the amount actually includible in such Regular Owner's income. In addition, gain recognized on such a sale or other disposition by a Regular Owner who purchased a Regular Certificate at a market discount would also be taxable as ordinary income in an amount not exceeding the portion of such discount that accrued during the period such Certificate was held by such Regular Owner, reduced by any market discount includible in income under the rules described above under "Taxation of Beneficial Owners of Regular Certificates—*Market Discount*."

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

#### *Residual Certificates Transferred to or Held by Disqualified Organizations*

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

In addition, a tax may be imposed upon a pass-through entity (including regulated investment companies, real estate investment trusts, common trust funds, partnership, trusts, estates, certain cooperatives, and nominees) that owns a Residual Certificate if such pass-through entity has a disqualified organization as a record holder. For this purpose, all interests in an electing large

partnership are treated as held by disqualified organizations. No such tax will be imposed on a pass-through entity for a period with respect to an interest therein owned by a disqualified organization if (i) the record holder of such interest furnishes to the pass-through entity an affidavit that is not a disqualified organization, (ii) during such period, the pass-through entity has no actual knowledge that the affidavit is false and (iii) the entity is not an electing large partnership.

#### *Other Transfers of Residual Certificates*

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

#### **Termination**

In general, no special tax consequences will apply to a Regular Owner upon the termination of the Trust by virtue of the final payment or liquidation of the last Mortgage Loan remaining in the Trust. If a Residual Owner’s adjusted basis in its Residual Certificate at the time such termination occurs exceeds the amount of cash distributed to such Residual Owner in liquidation of its interest, then, although the matter is not entirely free from doubt, it would appear that the Residual Owner is entitled to a loss equal to the amount of such excess.

#### **Reporting and Other Administrative Matters**

For purposes of the administrative provisions of the Code, the Trust will be treated as a partnership and the Residual Owner will be treated as a partner. Fannie Mae will prepare, sign and file federal income tax returns for the Trust, which returns are subject to audit by the IRS. Moreover, within a reasonable time after the end of each calendar year, Fannie Mae will furnish to each Holder that received a distribution during such year a statement setting forth the portions of any such distributions that constitute interest distributions, original issue discount, and such other information as is required by Treasury regulations and, with respect to the Holder of the Residual Certificate in the Trust, information necessary to compute the daily portions of the taxable income (or net loss) of the Trust for each day during such year. Fannie Mae will also act as the tax matters partner for the Trust, either in its capacity as an Owner of the Residual Certificate or in a fiduciary capacity. Each Residual Owner, by acceptance of its Residual Certificate, agrees that Fannie Mae will act as its fiduciary in the performance of any duties required of it in the event that it is the tax matters partner.

#### **Backup Withholding**

Distributions of interest and principal, as well as distributions of proceeds from the sale of Regular Certificates, may be subject to the “backup withholding tax” under section 3406 of the Code at a rate of 31 percent if recipients of such distributions fail to furnish to the payor certain information, including their taxpayer identification numbers, or otherwise fail to establish an exemption from such tax. Any amounts deducted and withheld from a distribution to a recipient would be allowed as a credit against such recipient’s federal income tax. Furthermore, certain penalties may be imposed by the IRS on a recipient of distributions that is required to supply information but that does not do so in the proper manner.

## **Foreign Investors**

### *Regular Certificates*

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

### *Residual Certificates*

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

## **LEGAL INVESTMENT CONSIDERATIONS**

### **General**

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

### **Senior Certificates**

Institutions whose investment activities are subject to legal investment laws and regulations or to review by certain regulatory authorities may be subject to restrictions on investment in certain Classes of the Senior Certificates. Any financial institution that is subject to the jurisdiction of the Comptroller of the Currency, the Board of Governors of the Federal Reserve System, the Federal Deposit Insurance Corporation, the Office of Thrift Supervision, the National Credit Union Administration or other federal or state agencies with similar authority should review any applicable rules, guidelines and regulations prior to purchasing any Senior Certificates. In addition, financial institutions should consult their regulators concerning the risk-based capital treatment of any Senior Certificate. Investors should consult their own legal advisors in determining whether and to what extent the Senior Certificates constitute legal investments or are subject to restrictions on investment and whether and to what extent the Senior Certificates can be used as collateral for various types of borrowings.

## **Mezzanine Certificates**

The appropriate characterization of the Mezzanine Certificates under various legal investment restrictions, and thus the ability of investors subject to these restrictions to purchase Mezzanine Certificates, is subject to significant interpretive uncertainties.

Fannie Mae makes no representations as to the proper characterization of the Mezzanine Certificates for legal investment or other purposes, as to the ability of particular investors to purchase the Mezzanine Certificates under any applicable legal investment restrictions or as to the regulatory capital requirements applicable to such Certificates. These uncertainties may adversely affect the liquidity of the Mezzanine Certificates. Accordingly, all institutions whose investment activities are subject to legal investment laws and regulations, regulatory capital requirements or review by regulatory authorities should consult with their own legal advisors in determining whether and to what extent the Mezzanine Certificates constitute legal investments or are subject to investment, capital or other restrictions. See “Ratings” below.

## **LEGAL OPINION**

Any purchaser of Senior and Mezzanine Certificates will be furnished upon request an opinion by the General Counsel or Deputy General Counsel of Fannie Mae as to the validity of such Certificates and the Trust Agreement.

## **ERISA CONSIDERATIONS**

### **General**

The Employee Retirement Income Security Act of 1974, as amended (“ERISA”), and the Code impose certain requirements on employee benefit plans and on certain other retirement plans and arrangements, including individual retirement accounts and annuities, KEOGH plans and collective investment funds and separate accounts in which such plans, accounts or arrangements are invested (each of which is hereinafter referred to as a “Plan”) and on persons who are fiduciaries with respect to such Plans. Any Plan fiduciary which proposed to cause a Plan to acquire any Mezzanine Certificates would be required to determine whether such an investment is permitted under the governing Plan instruments and is prudent and appropriate for the Plan in view of its overall investment policy and the composition and diversification of its portfolio.

In addition, ERISA and the Code prohibit certain transactions involving the assets of a Plan and “disqualified persons” (within the meaning of the Code) and “parties in interest” (within the meaning of ERISA) who have certain specified relationships to the Plan. Therefore, a Plan fiduciary considering an investment in the Mezzanine Certificates should also consider whether such an investment might constitute or give rise to a prohibited transaction under ERISA or the Code.

The United States Department of Labor issued a final regulation on November 13, 1986, which provides that in the case where a Plan acquires a “guaranteed governmental mortgage pool certificate” then, for purposes of the fiduciary responsibility provisions of ERISA and the prohibited transaction provisions of the Code, the Plan’s assets include the certificate and all its rights with respect to such certificate under applicable law, but do not, solely by reason of the Plan’s holding of such certificate, include any of the mortgages underlying such certificate. Under the Regulation, the term “guaranteed governmental mortgage pool certificate” is specifically defined to include a certificate “backed by, or evidencing an interest in, specified mortgages or participation interests therein” and with respect to which interest and principal payable pursuant to the certificate are guaranteed by Fannie Mae. The effect of the Regulation is to make clear that the sponsor (that is, the entity that organizes and services the trust, in this case Fannie Mae), the trustee, and other persons, in providing services with respect to the assets in the trust, would not be subject to the fiduciary responsibility provisions of Title I of ERISA, nor be subject to the prohibited transaction provisions of section 4975 of the Code,

merely by reason of the Plan's investment in a certificate. At the time the Regulation was originally issued, certificates similar to the Senior Certificates were not in existence. However, Fannie Mae has been advised by its counsel, Brown & Wood LLP, that the Senior Certificates qualify as "guaranteed governmental mortgage pool certificates," and thus the acquisition and holding of the Senior Certificates by Plans should not be considered to be the acquisition and holding of the Mortgages underlying the Senior Certificates.

## **Mezzanine Certificates**

Under current law the purchase and holding of the Mezzanine Certificates by or on behalf of any Plan subject to the fiduciary responsibility provisions of ERISA or the prohibited transaction provisions of the Code may result in a prohibited transaction under ERISA and the Code and, further, may cause the assets of the Trust to be treated as assets of such Plan, so that transactions involving Trust assets are also subject to the fiduciary responsibility provisions of ERISA and the prohibited transaction provisions of the Code. Prohibited Transaction Class Exemption 83-1 ("PTCE 83-1") provides an exemption for certain transactions involving the creation, maintenance and termination of certain residential mortgage pools and the acquisition and holding of certain residential mortgage pool pass-through certificates by Plans, whether or not such transactions would otherwise be prohibited under ERISA and the Code. However, because the Mezzanine Certificates evidence interests to which Realized Losses are allocated prior to any such allocation to the Senior Certificates, the Mezzanine Certificates would be considered subordinated certificates for purposes of PTCE 83-1, and would not be entitled to exemption under PTCE 83-1. Because the acquisition and disposition of the Mezzanine Certificates do not qualify for the foregoing exemption (or any similar exemption that might be available), the Trust Agreement provides that no transfer of a Mezzanine Certificate or any interest therein shall be made to (i) any Plan, or (ii) any Person who is directly or indirectly purchasing the Mezzanine Certificate or an interest therein on behalf of, as named fiduciary of, as trustee of, or with assets of, a Plan (including any insurance company using funds in its general or separate account that may constitute "plan assets"), unless the Trustee and the Transfer Agent are provided with a certification of facts or an opinion of counsel which establishes to the satisfaction of each that such transfer will not result in a violation of Section 406 of ERISA or Section 4975 of the Code or cause any of the Trustee, the Transfer Agent or the Master Servicer to be deemed a fiduciary of such Plan or result in the imposition of an excise tax under Section 4975 of the Code. In the absence of its having received the certification of facts or opinion of counsel contemplated by the preceding sentence, the Trustee and the Transfer Agent shall require the prospective transferee of any Mezzanine Certificate to certify either that (a) (i) it is not a Plan, and (ii) it is not a Person who is directly or indirectly purchasing the Mezzanine Certificate on behalf of, as named fiduciary of, as trustee of, or with assets of a Plan (including any insurance company using funds in its general or separate account that may constitute "plan assets"), or (b) (i) it is an insurance company, and (ii) either (x) all of the funds to be used by it to purchase the Mezzanine Certificates to be purchased by it are held in its general account and all of the policies held by Plans and supported by assets in such general account are "guaranteed benefit policies," within the meaning of section 401(b)(2) of ERISA and its purchase of such Mezzanine Certificates will not result in a violation of Section 406 of ERISA or Section 4975 of the Code, or (y) it is purchasing such Mezzanine Certificates with funds contained in an "insurance company general account" (as such term is defined in Section V(e) of the Prohibited Transaction Class Exemption 95-60 ("PTE 95-60")) and the purchase and holding of such Mezzanine Certificates are covered under Sections I and III of PTE 95-60. Such representation as described above shall be deemed to have been made to the Trustee by the transferee's acceptance of an interest in a Mezzanine Class. In the event that such representation is violated, or any attempt to transfer to a Plan or person acting on behalf of a Plan or using such Plan's assets is attempted without such opinion of counsel, such attempted transfer or acquisition shall be void and of no effect.

Any Plan fiduciary that proposes to cause a Plan to purchase a Mezzanine Certificate should consult with its counsel with respect to the potential applicability to such investment of the fiduciary

responsibility and prohibited transaction provisions (with respect to the Subordinate Certificates) of ERISA and the Code.

### **PLAN OF DISTRIBUTION**

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

### **RATINGS**

It is a condition to the issuance of the Class M, Class B-1 and Class B-2 Certificates that they be rated at least AA, A and BBB, respectively, by Standard & Poor's, a division of The McGraw-Hill Companies, Inc. (the "Rating Agency").

The ratings assigned by the Rating Agency to mortgage pass-through certificates address the likelihood of the receipt by certificateholders of all distributions to which they are entitled under the transaction structure. The Rating Agency's ratings reflect its analysis of the riskiness of the mortgage loans and its analysis of the structure of the transaction as set forth in the operative documents. The Rating Agency's ratings do not address the effect on the certificates' yield attributable to prepayments or recoveries on the underlying mortgage loans.

The ratings of the Rating Agency do not address the possibility that, as a result of principal prepayments, Certificateholders may receive a lower than anticipated yield.

The security ratings assigned to the Mezzanine Classes should be evaluated independently from similar ratings on other types of securities. A security rating is not a recommendation to buy, sell or hold securities and may be subject to revision or withdrawal at any time by the Rating Agency.

Fannie Mae has not requested ratings of the Mezzanine Classes by any rating agency other than the Rating Agency; there can be no assurance, however, as to whether any other rating agency will rate the Mezzanine Classes or, if it does, what ratings would be assigned by such other rating agency. The ratings assigned by such other rating agency to the Mezzanine Classes could be lower than the ratings assigned by the Rating Agency.

### **AVAILABLE INFORMATION**

Certain information may be available to Senior and Mezzanine Certificateholders on an ongoing basis on State Street's Web Site located at <http://corporatetrust.statestreet.com>.

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**\$284,819,473**  
(Approximate)



**FannieMae**

**Guaranteed REMIC  
Pass-Through Certificates  
Fannie Mae REMIC Trust 1998-W7**

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## **SENIOR SUPPLEMENT**

**Countrywide Securities  
Corporation**

**August 27, 1998**