

\$1,260,000,000 (Approximate)



FannieMae®

## Guaranteed REMIC Pass-Through Certificates Fannie Mae REMIC Trust 2001-W2

Carefully consider the risk factors beginning on page 8 of this prospectus. Unless you understand and are able to tolerate these risks, you should not invest in the certificates.

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

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

### The Certificates

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

### Payments to Certificateholders

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

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

### The Fannie Mae Guaranty

We will guarantee that

- required payments of interest and principal on the certificates are paid to investors on time, and
- the full principal balance of each class of certificates will be paid no later than the related final distribution date set forth in the chart below.

### The Trust and Its Assets

The trust will indirectly own three groups of fixed or adjustable rate, conventional mortgage loans that are secured primarily by first or second liens on one- to four-family residential properties as described in this prospectus. Loan groups 1 and 2 consist of mortgage loans made to borrowers with blemished credit histories.

Class	Group	Original Class Balance(1)	Principal Type	Interest Rate	Interest Type	CUSIP Number	Final Distribution Date
AF-1 .....	1	\$139,517,000	SEQ	4.435%(3)	FIX/AFC	313920XU9	December 2024
AF-2 .....	1	35,069,000	SEQ	4.777(3)	FIX/AFC	313920XV7	June 2026
AF-3 .....	1	95,129,000	SEQ	5.258(3)	FIX/AFC	313920XW5	May 2029
AF-4 .....	1	68,179,000	SEQ	5.932(3)	FIX/AFC	313920XX3	November 2030
AF-5 .....	1	58,106,000	SEQ	6.521(4)	FIX/AFC	313920XY1	November 2031
AF-6 .....	1	44,000,000	NAS/SEQ	6.089(4)	FIX/AFC	313920XZ8	October 2031
AF-IO .....	1	440,000,000(2)	NTL	(5)	WAC/IO	313920YA2	November 2031
AV-1 .....	2	510,000,000	PT	(6)	FLT/AFC	313920YB0	November 2031
AV-IO .....	2	510,000,000(2)	NTL	(5)	WAC/IO	313920YC8	November 2031
AS-1 .....	3	167,630,000	SEQ	4.490(3)	FIX/AFC	313920YD6	August 2028
AS-2 .....	3	61,290,000	SEQ	5.258(3)	FIX/AFC	313920YE4	August 2030
AS-3 .....	3	34,340,000	SEQ	5.952(3)	FIX/AFC	313920YF1	July 2031
AS-4 .....	3	15,740,000	SEQ	6.286(4)	FIX/AFC	313920YG9	November 2031
AS-5 .....	3	31,000,000	NAS/SEQ	5.973(4)	FIX/AFC	313920YH7	October 2031
AS-IO .....	3	310,000,000(2)	NTL	(5)	WAC/IO	313920YJ3	November 2031
R .....		0	NPR	0	NPR	313920YK0	November 2031
RM .....		0	NPR	0	NPR	313920YL8	November 2031
RL .....		0	NPR	0	NPR	313920YM6	November 2031

(1) May vary by plus or minus 10%. See footnote on page 15 of this prospectus.

(2) Notional balances. These classes are interest only classes.

(3) During each interest accrual period, this class will bear interest at the fixed rate specified above, subject to the limitations described in this prospectus.

(4) During each interest accrual period prior to the related optional termination date, this class will bear interest at the fixed rate specified above, subject to the limitations described in this prospectus. During each subsequent interest accrual period, this class will bear interest at the sum of the fixed rate specified above plus 50 basis points, subject to the limitations described in this prospectus.

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

(6) During each interest accrual period prior to the related optional termination date, this class will bear interest at the applicable LIBOR-based floating rate plus a specified margin, calculated and subject to the limitations as described in this prospectus. During each subsequent interest accrual period, this class will bear interest at the applicable LIBOR-based floating rate plus twice the original specified margin, calculated and subject to the limitations as described in this prospectus.

Countrywide Securities Corporation, Credit Suisse First Boston Corporation and Greenwich Capital Markets, Inc. will offer the Group 1 and Group 2 Classes in negotiated transactions at varying prices. Countrywide Securities Corporation and Greenwich Capital Markets, Inc. will offer the Group 3 Classes in negotiated transactions at varying prices. Countrywide Securities Corporation will offer the R, RM and RL Classes in negotiated transactions at varying prices. We expect the settlement date to be August 30, 2001.

## COUNTRYWIDE SECURITIES CORPORATION

(LEAD DEALER, ALL CLASSES)

## CREDIT SUISSE FIRST BOSTON

(CO-DEALER, GROUP 1 AND GROUP 2 CLASSES ONLY)

## GREENWICH CAPITAL MARKETS, INC.

(CO-DEALER, ALL CLASSES)

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## AVAILABLE INFORMATION

You should purchase the certificates only if you have read and understood this prospectus and Fannie Mae's current Information Statement dated March 30, 2001 and its supplements (the "Information Statement").

The Information Statement contains important financial and other information about Fannie Mae which we are incorporating by reference in this prospectus. This means that we are disclosing important information to you by referring to the Information Statement, so you should read it together with this prospectus.

You can obtain the Information Statement by writing or calling us at:

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

In addition, this prospectus and the Information Statement, together with the class factors, are available on our website located at <http://www.fanniemae.com>.

You can also obtain copies of this prospectus by calling or writing the dealers at:

Countrywide Securities Corporation  
Prospectus Department  
4500 Park Granada  
Calabasas, California 91302  
(telephone 800-669-6094)

Credit Suisse First Boston Corporation  
Prospectus Department  
11 Madison Avenue  
New York, New York 10010  
(telephone 212-325-2580)

Greenwich Capital Markets, Inc.  
Prospectus Department  
600 Steamboat Road  
Greenwich, Connecticut 06830  
(telephone 203-622-2318)

## REFERENCE SHEET

**This reference sheet highlights information contained elsewhere in this prospectus. It is not a summary of the transaction and does not contain complete information about the certificates. You should purchase the certificates only after reading this prospectus in its entirety and the Information Statement referred to on page 4.**

### General

- The certificates will represent ownership interests in the trust assets. The trust assets will consist of three groups of conventional mortgage loans that are primarily secured by liens on one- to four-family residential properties.
- The Group 1 Loans are first lien, fully amortizing and balloon payment loans that bear fixed rates of interest, which fixed rates are subject to reduction in certain cases. The Group 1 Loans have been originated in accordance with the underwriting criteria established by Countrywide Home Loans, Inc. for borrowers with blemished credit histories.
- The Group 2 Loans are first lien, fully amortizing loans that bear adjustable rates of interest. The Group 2 Loans have been originated in accordance with the underwriting criteria established by Countrywide Home Loans, Inc. for borrowers with blemished credit histories.
- The Group 3 Loans are second lien, fully amortizing and balloon payment loans that bear fixed rates of interest. The Group 3 Loans have been originated in accordance with the underwriting criteria established by Countrywide Home Loans, Inc. for second lien fixed rate mortgage loans made to borrowers with non-blemished credit histories.
- A substantial majority of the Group 1 and Group 2 Loans, and a limited number of the Group 3 Loans, provide for the payment of prepayment premiums as described in this prospectus. However, in no event will certificateholders be entitled to receive any of these premiums.
- The certificates related to each loan group will receive payments based generally on principal and interest collected from mortgage loans in that loan group only.

### Mortgage Loans

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

### Class Factors

The class factors are numbers that, when multiplied by the initial principal balance of a certificate, can be used to calculate the current principal balance of that certificate (after taking into account distributions in the same month). We publish the class factors on or shortly after the 11th day of each month.

### Settlement Date

We expect to issue the certificates on August 30, 2001.

## **Distribution Dates**

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

## **Book-Entry Certificates**

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

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

<u>DTC Book-Entry</u>	<u>Physical</u>
All Classes other than the R, RM and RL Classes	R, RM and RL Classes

## **Interest Payments**

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

## **Notional Classes**

A notional class will not receive any principal. Its notional principal balance is the balance used to calculate accrued interest. The notional principal balances will equal the percentages of the outstanding balances of the classes specified below immediately before the related distribution date:

<u>Class</u>	
AF-IO . . . . .	100% of the AF-1, AF-2, AF-3, AF-4, AF-5 and AF-6 Classes
AV-IO . . . . .	100% of the AV-1 Class
AS-IO . . . . .	100% of the AS-1, AS-2, AS-3, AS-4 and AS-5 Classes

## **Principal Payments**

We will pay principal on the certificates each month in an amount equal to the aggregate amount of principal due on the mortgage loans during the period from and including the second day of the prior calendar month to and including the first day of the month of distribution and certain additional amounts of principal described in this prospectus.

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

<b>Group 1 Classes</b>		<b>HEP Prepayment Assumption</b>				
		<b>0%</b>	<b>10%</b>	<b>23%</b>	<b>35%</b>	<b>45%</b>
AF-1	.....	11.1	1.9	1.0	0.7	0.6
AF-2	.....	19.4	4.2	2.0	1.4	1.1
AF-3	.....	23.5	7.1	3.0	2.0	1.6
AF-4	.....	27.1	12.8	5.0	3.1	2.3
AF-5	.....	29.1	21.0	10.8	5.9	3.6
AF-6	.....	14.9	8.4	6.6	5.9	5.5
AF-IO	.....	19.7	8.1	4.0	2.6	2.0
<b>Group 2 Classes</b>		<b>CPR Prepayment Assumption</b>				
		<b>0%</b>	<b>15%</b>	<b>30%</b>	<b>40%</b>	<b>50%</b>
AV-1 and AV-IO	.....	21.4	5.7	2.8	2.0	1.5
<b>Group 3 Classes</b>		<b>CPR Prepayment Assumption</b>				
		<b>0%</b>	<b>18%</b>	<b>28%</b>	<b>38%</b>	<b>48%</b>
AS-1	.....	9.2	1.6	1.0	0.7	0.5
AS-2	.....	14.8	4.9	3.0	2.1	1.6
AS-3	.....	14.8	9.3	5.0	3.3	2.4
AS-4	.....	15.8	14.0	10.2	5.4	3.2
AS-5	.....	10.5	6.9	6.2	5.8	4.8
AS-IO	.....	11.4	4.2	2.8	2.0	1.5

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

## RISK FACTORS

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

### Suitability

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

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

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

Investors whose investment activities are subject to legal investment laws and regulations, or to review by regulatory authorities, may be unable to buy certain certificates. You should get legal advice to determine whether your purchase of the certificates is a legal investment for you or is subject to any investment restrictions.

### Yield Considerations

*A variety of factors can affect your yield.* Your effective yield on the certificates will depend upon:

- the price you paid for the certificates;
- how quickly or slowly borrowers prepay the mortgage loans;

- the extent to which amounts on deposit in the prefunding account described below are paid as principal of the certificates on the December 2001 distribution date;
- if and when the mortgage loans are liquidated due to borrower defaults, casualties or condemnations affecting the properties securing those loans;
- if and when mortgage loans are repurchased;
- if and when the optional clean-up calls are exercised; and
- the actual characteristics of the mortgage loans.

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

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

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

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



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

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

*Timing of prepayments within any month may adversely affect your yield.* If in any month any loan group experiences prepayment interest shortfalls in excess of one-half of the servicer's servicing fee related to that group for that month, the interest payable on the classes related to that loan group may be reduced to the extent of the excess.

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

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

### **Additional Risk Factors Relating to Certain Classes**

*Application of net WAC cap to certain classes may adversely affect their yields.* The interest rates on the AF-1, AF-2, AF-3, AF-4, AF-5 and AF-6 Classes are subject to an interest rate cap based on the net WAC of the Group 1 Loans. Similarly, the interest rate on the AV-1 Class is subject to an interest rate cap based on the net WAC of the Group 2 Loans, and the interest rates on the AS-1, AS-2, AS-3, AS-4 and AS-5 Classes are subject to an interest rate cap based on the net WAC of the Group 3

Loans. The amount by which a certificateholder's interest payment has been reduced due to the net WAC cap will be paid to the certificateholder on future distribution dates to the extent of available cash flow on the Group 1, Group 2 or Group 3 Loans, as applicable. However, we cannot assure you that available cash flow will be adequate for this purpose. **Our guaranty does not cover the payment of any such deficiencies.**

*Absence of correlation between one-month LIBOR and the index applicable to the Group 2 Loans may adversely affect the yield on the AV-1 Class.* The interest rate on the AV-1 Class adjusts monthly and is based on one-month LIBOR. The interest rates on the Group 2 Loans generally adjust semi-annually based on six-month LIBOR, which is referred to as the loan index. However, with respect to approximately 97.74% of the Group 2 Loans included in the statistical calculation pool, the interest rates are initially fixed for a period of either two or three years before they begin to adjust based on the loan index. Because the loan index may respond to different economic and market factors than one-month LIBOR, there is not necessarily a correlation in movement between the indices. For example, it is possible that the interest rates on certain of the Group 2 Loans may decline while the interest rate on the AV-1 Class is stable or rising. In addition, although it is possible that both the interest rates on the Group 2 Loans and the interest rate on the AV-1 Class may decline or increase during the same period, because of the difference between interest rate adjustment periods for the Group 2 Loans and the monthly adjustment period for the AV-1 Class, interest rates on the Group 2 Loans may decline or increase more slowly than the interest rate on the AV-1 Class.

### **Prepayment Considerations and Risks**

*The rate of principal payments on the certificates depends on numerous factors and thus cannot be predicted.* The rate of principal payments on the certificates generally will depend on the rate of principal payments on the mortgage loans. Principal payments on the mortgage

loans may occur as a result of scheduled amortization, balloon payments or prepayments.

It is highly unlikely that the mortgage loans will prepay:

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

Most of the Group 1 Loans and a limited number of the Group 3 Loans require that the borrower pay a prepayment premium, in most cases equal to six months' advance interest calculated on the basis of the rate in effect at the time of such prepayment on the amount prepaid in excess of 20% of the original balance of such mortgage loan, if the loan is prepaid in full or in part during the first five years after origination. Most of the Group 2 Loans require that the borrower pay a prepayment premium of the same amount if the loan is prepaid in full during the first two or three years after origination.

After the expiration of the applicable prepayment premium period, however, borrowers may prepay the mortgage loans at any time without paying a premium. In no event will certificateholders be entitled to any portion of any prepayment premiums paid by borrowers.

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

In addition, borrowers often seek to refinance their loans by obtaining new loans secured by the same properties. Refinancing of loans also affects the rate of prepayment. When the level of prevailing interest rates declines relative to the interest rates on fixed-rate mortgage loans, the rate of prepayment of those loans is likely to increase. Because the Group 1 and Group 3 Loans bear fixed interest rates (subject to reduction in the case of the "credit comeback loans"), they can be expected to be sensitive to prevailing interest rates.

Because a substantial portion of the loans in each loan group are secured by mortgaged properties located in California, general eco-

nomic conditions there may affect the ability of borrowers to repay their loans on time, whether or not those conditions affect property values. In addition, declines in the California residential real estate market may reduce the values of California properties and increase loan-to-value ratios. In this case, prepayments could decrease because borrowers might find it harder to refinance their loans. Conversely, improvements in the California residential real estate market may increase the values of California properties and reduce loan-to-value ratios. In this case, borrowers could gain access to alternative financing sources at lower rates with the result that prepayments could increase.

Moreover, second lien loans are generally not viewed by borrowers as permanent financing because in most instances their terms are shorter and interest rates higher than on first lien loans originated under similar circumstances. As a result, the Group 3 Loans may prepay at a higher rate than first lien loans with similar coupons.

In general, prepayment rates may be influenced by:

- the level of current interest rates relative to the rates borne by the mortgage loans,
- homeowner mobility,
- existence of any prepayment premiums,
- the existence of any "balloon payment" feature,
- the general creditworthiness of borrowers, including changes in borrowers' credit status,
- borrower sophistication regarding the benefits of refinancing,
- solicitation by competing lenders,
- repurchases of mortgage loans, and
- general economic conditions.

Because so many factors affect the prepayment rate of a pool of mortgage loans, we cannot estimate the prepayment experience of the mortgage loans. Our Information Statement contains the most recent mortgage loan prepayment experience of our portfolio. You should understand that this prepayment experience is not indicative of any one pool of mortgage loans, including this pool of mortgage loans.

*Distribution of unspent funds in the prefunding account will have the same effect on the related certificates as borrower prepayments of loans in the related loan groups.* As described in this prospectus, funds on deposit in the prefunding account held in the trust will be used to purchase additional Group 1, Group 2 and Group 3 Loans on or before November 28, 2001. Any funds remaining in the account after that date will be paid on the following distribution date:

- in the case of the Group 1 Loans, as principal of the Group 1 Classes in the order of their sequential payment allocation;
- in the case of the Group 2 Loans, as principal of the AV-1 Class; and
- in the case of the Group 3 Loans, as principal of the Group 3 Classes in the order of their sequential payment allocation.

*Exercise of any optional clean-up call will have the same effect on the related certificates as borrower prepayments of loans in the related loan groups.* The servicer, subject to certain conditions, has the option to purchase from the trust all of the mortgage loans in any loan group on or after the first distribution date when the aggregate principal balance of the loans in that loan group has been reduced to 10% or less of the related balance on the applicable cut-off date. If the servicer exercises this option for any loan group, it will have the same effect on holders of the classes related to that loan group as borrower prepayments of the related loans.

*Loans to borrowers with blemished credit histories may be more likely to default and be subject to repurchase.* The Group 1 and Group 2 Loans entail a greater degree of prepayment risk associated with repurchases by the servicer or Fannie Mae due to delinquencies than mortgage loans made to borrowers without blemished credit histories, and such mortgage loans generally bear higher rates of interest than mortgage loans made to borrowers without blemished credit histories. The combination of these factors is likely to result in rates of delinquency, foreclosure and bankruptcy that are higher, and may be substantially higher, than those experienced by mortgage loans made to

borrowers without blemished credit histories. As a result, repurchases by the servicer or Fannie Mae due to delinquency may occur at a higher rate than would otherwise be the case, which will have the same effect on investors as prepayments in full of the related mortgage loans.

*Limited availability of reliable prepayment statistics for mortgage loans made to borrowers with blemished credit histories.* The availability of reliable studies or statistics on the rate of prepayment of mortgage loans made to borrowers with blemished credit histories is limited. These mortgage loans may prepay significantly faster or slower than loans underwritten principally for borrowers without blemished credit histories in changing interest rate environments. In addition, prepayment of mortgage loans made to borrowers with blemished credit histories also may be affected by other factors including improvement in borrowers' credit status. Moreover, because the Group 1 and Group 2 Loans were made to borrowers with blemished credit histories, these loans may be expected to experience a relatively higher rate of delinquency and default than mortgage loans underwritten to more stringent guidelines.

*Repurchases due to breaches of representations will have the same effect as borrower prepayments.* When we purchased the mortgage loans from Countrywide Home Loans, Inc., it made certain representations and warranties concerning the mortgage loans. If there is a material breach of these representations and warranties, we may choose to repurchase the affected loans. If we do, we will purchase the mortgage loans at a price equal to their principal balance plus accrued interest at the applicable net mortgage interest rates. Our repurchase of mortgage loans will have the same effect on the related certificateholders as borrower prepayments.

*Purchases due to delinquency will have the same effect as borrower prepayments.* Either Fannie Mae or, subject to certain conditions, the servicer may purchase any mortgage loans that are delinquent by more than 90 days. In such event, the mortgage loans will be purchased at a price equal to their principal balance (plus accrued interest at the applicable net mortgage interest rates). Purchase of mortgage loans will have the same effect on the related certificate-

holders as borrower prepayments. Because in the case of the Group 1 and Group 2 Loans the underwriting standards applied to the borrowers were less stringent than those typically applied by Countrywide to non-blemished credit borrowers, those mortgage loans may be expected to experience a relatively higher rate of delinquency and default.

### **Reinvestment Risk**

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

### **Market and Liquidity Considerations**

*It may be difficult to resell your certificates and any resale may occur on adverse terms.* We cannot be sure that a market for resale of the certificates will develop. Further, if a market develops, it may not continue or be sufficiently liquid to allow you to sell your certificates. Even if you are able to sell your certificates, the sale price may not be comparable to similar investments that have a developed market. Moreover,

you may not be able to sell small or large amounts of certificates at prices comparable to those available to other investors.

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

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

### **Fannie Mae Guaranty Considerations**

*Any failure of Fannie Mae to perform its guaranty obligations will adversely affect certificateholders.* If we were unable to perform our guaranty obligations, certificateholders would receive only borrower payments and other recoveries on the mortgage loans. If that happened, delinquencies and defaults on the mortgage loans could directly affect the amounts that certificateholders would receive each month.



## GENERAL

The material under this heading summarizes certain features of the Certificates and is not complete. You will find additional information about the Certificates in the other sections of this prospectus as well as in the Trust Agreement. If we use a capitalized term in this prospectus without defining it, you will find the definition of that term in the Information Statement or in the Trust Agreement.

*Structure.* We, the Federal National Mortgage Association (“Fannie Mae”), a corporation organized and existing under the laws of the United States under the authority contained in Section 304(d) of the Federal National Mortgage Association Charter Act (12 U.S.C. § 1716 *et seq.*), will create the Fannie Mae REMIC Trust specified on the cover of this prospectus (the “Trust”) and two separate trusts (the “Middle Tier Trust” and “Lower Tier Trust”) pursuant to a trust agreement (the “Trust Agreement”) dated as of August 1, 2001. We will execute the Trust Agreement in our corporate capacity and as trustee (the “Trustee”). We will issue the Guaranteed REMIC Pass-Through Certificates (the “Certificates” or “Classes”) pursuant to the Trust Agreement.

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

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

The assets of the Upper Tier REMIC will consist of the Middle Tier Regular Interests, and the assets of the Middle Tier REMIC will consist of the Lower Tier Regular Interests. The assets of the Lower Tier REMIC will consist of the Mortgage Loans. The Lower Tier Trust will also include funds held on deposit in an account (the “Prefunding Account”). Prefunding Account funds in an aggregate amount of up to \$315,000,000 will be used through November 28, 2001 to purchase up to \$110,000,000 of additional Group 1 Loans, up to \$127,500,000 of additional Group 2 Loans and up to \$77,500,000 of additional Group 3 Loans, with any remaining funds being paid as principal of the Group 1, Group 2 or Group 3 Certificates, as applicable, then entitled to payments of principal on the Distribution Date in December 2001.

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

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

Our guaranty will *not* cover your receipt of interest carryover amounts. Investors will be entitled to receive interest carryover amounts only to the extent available from the sources specified under the heading “Description of the Certificates—Interest Payments” in this prospectus. Moreover, our guaranty will *not* cover any excess prepayment interest shortfall amounts as described under the heading “Description of the Certificates—Interest Payments—*Excess Prepayment Interest Shortfalls*” in this prospectus.

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

*Characteristics of Certificates.* The Group 1, Group 2 and Group 3 Classes will be represented by one or more certificates (the “DTC Certificates”) registered in the name of the nominee of The Depository Trust Company (“DTC”) or any successor depository that we select or approve. We refer to the nominee of DTC as the “Holder” or “Certificateholder” of the DTC Certificates. DTC will maintain the DTC Certificates through its book-entry facilities. A Holder is not necessarily the beneficial owner of a Certificate. Beneficial owners ordinarily will hold Certificates through one or more financial intermediaries, such as banks, brokerage firms, and securities clearing organizations.

We will issue the R, RM and RL Certificates in fully registered, certificated form. The “Holder” or “Certificateholder” of the R, RM or RL Certificate is its registered owner. The R, RM or RL Certificate can be transferred at the corporate trust office of the transfer agent, or at the office of the transfer agent in New York, New York. State Street Bank and Trust Company in Boston, Massachusetts (“State Street”) will be the initial transfer agent. We may impose a service charge for any registration of transfer of the R, RM or RL Certificate and may require payment to cover any tax or other governmental charge.

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

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

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

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

*Record Date.* On each Distribution Date, we will make each monthly payment on the Certificates to Holders of record on the last day of the preceding month or, in the case of the initial Distribution Date, to Holders of record on the date we issue the Certificates (expected to be August 30, 2001).

*Class Factors.* As soon as practicable following the eleventh calendar day of each month, class factors (carried to eight decimal places) will be available for each Class of Certificates upon request. When the factor is multiplied by the original principal balance (or notional principal balance) of a Certificate of that Class, the product will equal the remaining principal balance (or notional principal balance) of that Certificate after giving effect to the distribution of principal to be made on the Distribution Date in the same month.

*Optional Clean-up Calls; Fannie Mae Repurchase Option.* Subject to certain conditions and limitations described in the Sale and Servicing Agreement, Countrywide Home Loans Servicing LP (the “Servicer”), in its capacity as servicer of the Mortgage Loans, may elect to purchase from the Lower Tier REMIC all of the Group 1, Group 2 or Group 3 Loans on or after the first Distribution Date when the aggregate principal balance of the Group 1, Group 2 or Group 3 Loans, as applicable,

has been reduced to 10% or less of its aggregate principal balance, as of the applicable Cut-off Date (defined below) (such first date with respect to a loan group, the related “Optional Termination Date”). If the Group 1, Group 2 or Group 3 Loans are purchased in this way, it will have the same effect on the related Certificates as a prepayment in full of the related Mortgage Loans.

In addition, we have the right to repurchase from the Certificateholders all of the Certificates when the aggregate principal balance of all remaining Mortgage Loans is less than 1% of their aggregate principal balance as of the applicable Cut-off Date.

The “Cut-off Date” for each Mortgage Loan originated on or before August 1, 2001 and included in the Lower Tier REMIC at the Settlement Date means August 1, 2001; for each Mortgage Loan originated after August 1, 2001 and included in the Lower Tier REMIC at the Settlement Date means the origination date of that Mortgage Loan; and for each Mortgage Loan transferred to the Lower Tier REMIC subsequent to the Settlement Date means the first day of the month in which that Mortgage Loan is transferred to the Lower Tier REMIC, or if originated after that first day, the date of origination.

*Fannie Mae Charter Considerations.* The Mortgage Loans having loan-to-value ratios greater than 80% are covered by a primary mortgage insurance policy for the amount in excess of 80%. The Certificateholders are not entitled to any benefit under the mortgage insurance policy.

In addition, in order to mitigate our risks in issuing our guaranty of the Certificates, we have obtained a mortgage pool insurance policy insuring against losses to us in an amount equal to that amount needed to bring our loss exposure to a level acceptable to us. The Certificateholders are not entitled to any benefit under this insurance policy.

Neither of the above policies will be an asset of any of the REMIC Trusts and the Certificateholders are not entitled to any benefits related to these policies.

## **THE LOAN GROUPS\***

### **General**

The mortgage loans to be included in the Lower Tier REMIC will be divided into three loan groups (the “Group 1 Loans,” “Group 2 Loans” and “Group 3 Loans” and, collectively, the “Mortgage Loans”). On the Settlement Date, it is expected that the Lower Tier REMIC will consist of at least \$330,000,000 of Group 1 Loans, \$382,500,000 of Group 2 Loans and \$232,500,000 of Group 3 Loans, together with the Prefunding Account consisting of up to \$110,000,000 to purchase additional Group 1 Loans, up to \$127,500,000 to purchase additional Group 2 Loans and up to \$77,500,000 to purchase additional Group 3 Loans. Purchases of additional Mortgage Loans using funds in the Prefunding Account must be completed by November 28, 2001. The additional Group 1, Group 2 and Group 3 Loans will be substantially similar in all material respects to those Group 1, Group 2 and Group 3 Loans, respectively, included in the Statistical Calculation Pool described below.

We, the Servicer and Countrywide Home Loans, Inc. (“Countrywide”), in its capacity as seller of the Mortgage Loans, will enter into a sale and servicing agreement, dated as of August 1, 2001 (the “Sale and Servicing Agreement”).

Each Mortgage Loan is evidenced by a promissory note or similar evidence of indebtedness (a “Mortgage Note”) that is secured by a first or second mortgage or deed of trust on a one- to four-family residential property. Each Mortgage Note requires the borrower to make monthly payments of

\* Statistical information provided in this prospectus with respect to the Classes is based upon the assumed Original Class Balances set forth in the table on the cover of this prospectus. However, statistical information provided in this prospectus under the heading “The Loan Groups” with respect to the Mortgage Loans is based upon the Statistical Calculation Pool. In addition, the amount of funds in the Prefunding Account has been calculated based upon assumed aggregate principal balances for the Group 1 Loans, Group 2 Loans and Group 3 Loans of \$440,000,000, \$510,000,000 and \$310,000,000, respectively.

principal and interest. We refer to the property that secures repayment of a Mortgage Loan as the “Mortgaged Property.”

No first lien Mortgage Loan will have had a principal balance at origination of more than \$275,000 if a one-family property (or \$412,500 if the property is located in Hawaii, the Virgin Islands or Alaska) or \$351,950, \$425,400 or \$528,700 if a two-, three- or four-family property, respectively (or \$527,925, \$638,100 or \$793,050, respectively, if the property is located in Hawaii, the Virgin Islands or Alaska).

No second lien Mortgage Loan will have a principal balance at origination of greater than \$137,500 (or \$206,250 if the property is located in Hawaii, the Virgin Islands or Alaska).

The Group 1 Loans and the Group 2 Loans will have been underwritten by Countrywide substantially in accordance with its underwriting standards for loans made to borrowers with blemished credit histories as described below under “—Countrywide’s Underwriting Standards for the Group 1 and Group 2 Loans.” As a result, it is possible that mortgage loans originated under these less stringent standards would be more likely to experience delinquencies and defaults in the event of negative economic conditions impacting the borrowers or the related mortgaged properties than mortgage loans originated using underwriting guidelines for non-blemished credit borrowers.

### **The Statistical Calculation Pool**

The statistical information presented under the headings “—The Group 1 Loans,” “—The Group 2 Loans” and “—The Group 3 Loans” below is based on the Statistical Calculation Pool as of August 15, 2001 (the “Statistical Calculation Date”). The Statistical Calculation Pool includes those Mortgage Loans originated or purchased by Countrywide and delivered to Fannie Mae for inclusion in the Lower Tier REMIC through the Statistical Calculation Date. The statistical information is based on the number of those Mortgage Loans as of the Statistical Calculation Date and their principal balances as of the later of August 1, 2001 (after giving effect to the related scheduled payments due on or before that date, whether or not received) and the respective dates of origination.

On the Settlement Date, it is expected that the Lower Tier REMIC will consist of Mortgage Loans included in the Statistical Calculation Pool as well as Mortgage Loans originated by Countrywide and delivered to Fannie Mae after the Statistical Calculation Date. However, it is possible that certain Mortgage Loans in the Statistical Calculation Pool may prepay in full (or may otherwise be removed from the Statistical Calculation Pool) and as a result may be excluded from the Lower Tier REMIC on the Settlement Date. Nevertheless, it is expected that the respective Group 1, Group 2 and Group 3 Mortgage Loans included in the Lower Tier REMIC on the Settlement Date will be substantially similar in all material respects to the Group 1, Group 2 or Group 3 Loans included in the Statistical Calculation Pool described below.

The information set forth in the following sections has been provided by Countrywide. The sums of the numbers in the principal balance and percentage columns in the following tables may not equal the totals listed at the bottom of those columns due to rounding.

### **The Group 1 Loans**

The Group 1 Loans will have fixed interest rates (subject to the interest rate reduction features described below with respect to the Credit Comeback Loans) and will be secured by first liens on the related Mortgaged Properties. The Group 1 Loans will be either fully amortizing Mortgage Loans or Balloon Mortgage Loans. A “Balloon Mortgage Loan” is a Mortgage Loan providing for amortization on the basis of an amortization schedule extending beyond its stated maturity with a disproportionate payment due on a stated maturity date equal to the remaining principal balance of the Mortgage Loan. The monthly payments for the Balloon Mortgage Loans in the Lower Tier REMIC generally are based upon 30-year amortization schedules, with lump sum payments on the related dates of maturity (in



most cases, 15 years from origination). See “Description of the Certificates—Maturity Considerations and Final Distribution Dates” in this prospectus.

The Group 1 Loans will include “credit comeback loans” that provide borrowers the potential of four mortgage rate reductions for good payment history during any one or more of the first four consecutive 12-month periods following the origination date of the loan (“Credit Comeback Loans”). Upon any such interest rate reduction, the amortization schedule for the related Mortgage Loan will be recalculated by adjusting the scheduled principal and interest payments so that its principal balance will be paid in full by its original stated maturity date. As a result, the scheduled principal payments on that Mortgage Loan will be increased to a limited extent during the periods following the interest rate reduction. For purposes of interest payments made on the Group 1 Classes, including the calculation of the Net WAC and the Net Mortgage Rate (both defined below) of the Group 1 Loans as well as other Group 1 Loan interest rate calculations, each Credit Comeback Loan will be treated at all times as having a mortgage interest rate that is equal to the related original note rate minus 1.50% (whether or not the borrower actually qualifies for the rate reductions). As a result, all Credit Comeback Loans will be treated at all times as having a mortgage interest rate that is 1.50% lower than the mortgage interest rate at origination.

In addition, approximately 83.59% of the Group 1 Loans included in the Statistical Calculation Pool are subject to prepayment premiums. In most cases, the prepayment premium will be equal to six months’ advance interest calculated on the basis of the rate in effect at the time of such prepayment on the amount prepaid in excess of 20% of the original balance of such Mortgage Loan, if the loan is prepaid in full or in part during the first five years after origination. After the expiration of the applicable prepayment period, however, borrowers may prepay the mortgage loans at anytime without paying a premium. In no event will Certificateholders be entitled to any portion of any prepayment premiums paid by borrowers.

### Loan Programs

<u>Loan Program</u>	<u>Number of Mortgage Loans</u>	<u>Aggregate Principal Balance Outstanding</u>	<u>Percent of Loan Group 1</u>
Fixed Rate – 10 Year maturity .....	10	\$ 432,231	0.18%
Fixed Rate – 15 Year maturity .....	170	11,698,648	4.85
Fixed Rate – 15 Year maturity – Credit Comeback Loan ...	46	4,678,450	1.94
Fixed Rate – 20 Year maturity .....	62	4,276,609	1.77
Fixed Rate – 25 Year maturity .....	12	1,022,472	0.42
Fixed Rate – 30 Year maturity .....	1,065	129,682,510	53.80
Fixed Rate – 30 Year maturity – Credit Comeback Loan ...	564	74,074,828	30.73
Fixed Rate – 30/15 Year – Balloon Mortgage Loan .....	198	15,176,219	6.30
	<u>2,127</u>	<u>\$241,041,968</u>	<u>100.00%</u>

### Current Mortgage Loan Principal Balances (1)

<u>Current Mortgage Loan Principal Balances</u>	<u>Number of Mortgage Loans</u>	<u>Aggregate Principal Balance Outstanding</u>	<u>Percent of Loan Group 1</u>
\$ 0.00 to \$ 25,000 .....	50	\$ 1,012,928	0.42%
\$ 25,000.01 to \$ 50,000 .....	276	10,873,676	4.51
\$ 50,000.01 to \$ 75,000 .....	406	25,382,744	10.53
\$ 75,000.01 to \$100,000 .....	338	29,524,657	12.25
\$100,000.01 to \$150,000 .....	496	61,217,222	25.40
\$150,000.01 to \$200,000 .....	333	58,184,680	24.14
\$200,000.01 to \$250,000 .....	150	33,497,301	13.90
\$250,000.01 to \$300,000 .....	68	17,962,618	7.45
\$300,000.01 to \$350,000 .....	8	2,574,144	1.07
\$400,000.01 to \$450,000 .....	2	812,000	0.34
	<u>2,127</u>	<u>\$241,041,968</u>	<u>100.00%</u>

(1) As of the Statistical Calculation Date, the average current principal balance for the Group 1 Loans is expected to be approximately \$113,325.

### Mortgage Interest Rates (1)

<u>Mortgage Rates (%)</u>	<u>Number of Mortgage Loans</u>	<u>Aggregate Principal Balance Outstanding</u>	<u>Percent of Loan Group 1</u>
6.001- 6.500 .....	2	\$ 230,774	0.10%
6.501- 7.000 .....	28	3,463,629	1.44
7.001- 7.500 .....	47	7,010,080	2.91
7.501- 8.000 .....	191	29,977,816	12.44
8.001- 8.500 .....	186	26,892,920	11.16
8.501- 9.000 .....	387	51,308,770	21.29
9.001- 9.500 .....	274	33,130,761	13.74
9.501-10.000 .....	320	31,443,190	13.04
10.001-10.500 .....	195	17,723,522	7.35
10.501-11.000 .....	183	15,382,341	6.38
11.001-11.500 .....	108	9,868,816	4.09
11.501-12.000 .....	97	7,045,289	2.92
12.001-12.500 .....	55	4,045,632	1.68
12.501-13.000 .....	54	3,518,427	1.46
	<u>2,127</u>	<u>\$241,041,968</u>	<u>100.00%</u>

(1) As of the Statistical Calculation Date, the weighted average mortgage rate of the Group 1 Loans is expected to be approximately 9.319% per annum. The mortgage interest rates in this table are mortgage interest rates at origination. These mortgage interest rates do not reflect the 1.50% interest rate reduction for Credit Comeback Loans.

### Remaining Terms to Stated Maturity (1)

<u>Remaining Terms to Stated Maturity (months)</u>	<u>Number of Mortgage Loans</u>	<u>Aggregate Principal Balance Outstanding</u>	<u>Percent of Loan Group 1</u>
1-120 .....	10	\$ 432,231	0.18%
121-180 .....	414	31,553,318	13.09
181-300 .....	74	5,299,081	2.20
301-360 .....	<u>1,629</u>	<u>203,757,338</u>	<u>84.53</u>
	<u>2,127</u>	<u>\$241,041,968</u>	<u>100.00%</u>

(1) As of the Statistical Calculation Date, the weighted average remaining term of the Group 1 Loans is expected to be approximately 333 months.

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

<u>Original Loan-to-Value Ratios (%)</u>	<u>Number of Mortgage Loans</u>	<u>Aggregate Principal Balance Outstanding</u>	<u>Percent of Loan Group 1</u>
50.00 or Less .....	166	\$ 13,024,963	5.40%
50.01- 55.00 .....	77	7,562,634	3.14
55.01- 60.00 .....	80	8,249,779	3.42
60.01- 65.00 .....	106	11,519,818	4.78
65.01- 70.00 .....	233	29,285,397	12.15
70.01- 75.00 .....	282	32,379,674	13.43
75.01- 80.00 .....	569	64,705,845	26.84
80.01- 85.00 .....	324	38,891,185	16.13
85.01- 90.00 .....	269	32,748,983	13.59
90.01- 95.00 .....	20	2,550,570	1.06
95.01-100.00 .....	<u>1</u>	<u>123,119</u>	<u>0.05</u>
	<u>2,127</u>	<u>\$241,041,968</u>	<u>100.00%</u>

(1) As of the Statistical Calculation Date, the weighted average original loan-to-value ratio of the Group 1 Loans is expected to be approximately 75.21%.

\* The loan-to-value ratio of a first lien mortgage loan is equal to its principal balance at origination divided by the *lesser* of the appraised value of the related mortgaged property at origination and, if applicable, the sales price at origination.

### Documentation Program for Mortgage Loans (1)

<u>Type of Program</u>	<u>Number of Mortgage Loans</u>	<u>Aggregate Principal Balance Outstanding</u>	<u>Percent of Loan Group 1</u>
Full Doc .....	1,766	\$191,885,032	79.61%
Stated Income .....	292	39,671,679	16.46
Simple Doc .....	<u>69</u>	<u>9,485,258</u>	<u>3.94</u>
Total .....	<u>2,127</u>	<u>\$241,041,968</u>	<u>100.00%</u>

(1) For a description of Countrywide's documentation programs, see "—Countrywide's Underwriting Standards for the Group 1 and Group 2 Loans" below.

### Types of Mortgaged Properties

<u>Property Type</u>	<u>Number of Mortgage Loans</u>	<u>Aggregate Principal Balance Outstanding</u>	<u>Percent of Loan Group 1</u>
1 Unit .....	1,838	\$205,808,787	85.38%
Planned Unit Development .....	111	16,273,479	6.75
2 Unit .....	57	7,078,905	2.94
Low Rise Condominium .....	61	6,296,218	2.61
3 Unit .....	16	2,286,119	0.95
Manufactured Housing .....	36	2,279,438	0.95
4 Unit .....	5	656,674	0.27
High Rise Condominium .....	3	362,348	0.15
Total .....	<u>2,127</u>	<u>\$241,041,968</u>	<u>100.00%</u>

### Purpose of Mortgage Loans

<u>Loan Purpose</u>	<u>Number of Mortgage Loans</u>	<u>Aggregate Principal Balance Outstanding</u>	<u>Percent of Loan Group 1</u>
Cash-Out/Refinance .....	1,652	\$188,973,062	78.40%
Purchase .....	259	24,577,026	10.20
Refinance .....	216	27,491,880	11.41
Total .....	<u>2,127</u>	<u>\$241,041,968</u>	<u>100.00%</u>

### Occupancy Types (1)

<u>Occupancy Type</u>	<u>Number of Mortgage Loans</u>	<u>Aggregate Principal Balance Outstanding</u>	<u>Percent of Loan Group 1</u>
Primary Residence .....	2,006	\$231,532,019	96.05%
Investor Property .....	108	8,000,821	3.32
Second Residence .....	13	1,509,128	0.63
Total .....	<u>2,127</u>	<u>\$241,041,968</u>	<u>100.00%</u>

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

### Geographic Distribution of Mortgaged Properties

<u>State</u>	<u>Number of Mortgage Loans</u>	<u>Aggregate Principal Balance Outstanding</u>	<u>Percent of Loan Group 1</u>
Alabama .....	36	\$ 2,014,826	0.84%
Arizona .....	33	3,327,014	1.38
Arkansas .....	14	931,169	0.39
California .....	459	74,584,090	30.94
Colorado .....	50	6,763,961	2.81
Connecticut .....	15	1,868,531	0.78
Delaware .....	7	663,724	0.28

<u>State</u>	<u>Number of Mortgage Loans</u>	<u>Aggregate Principal Balance Outstanding</u>	<u>Percent of Loan Group 1</u>
District of Columbia .....	11	\$ 1,048,254	0.43%
Florida .....	171	16,828,107	6.98
Georgia .....	70	6,810,924	2.83
Hawaii .....	19	4,168,646	1.73
Idaho .....	2	118,550	0.05
Illinois .....	39	3,427,602	1.42
Indiana .....	96	6,891,507	2.86
Iowa .....	8	352,296	0.15
Kansas .....	12	944,424	0.39
Kentucky .....	27	1,753,236	0.73
Louisiana .....	45	3,207,294	1.33
Maine .....	4	349,688	0.15
Maryland .....	35	3,631,081	1.51
Massachusetts .....	51	8,409,618	3.49
Michigan .....	97	9,276,547	3.85
Minnesota .....	10	1,122,798	0.47
Mississippi .....	27	2,140,883	0.89
Missouri .....	43	3,310,499	1.37
Montana .....	2	277,140	0.11
Nebraska .....	2	114,835	0.05
Nevada .....	16	2,467,236	1.02
New Hampshire .....	10	1,410,260	0.59
New Jersey .....	28	4,046,475	1.68
New Mexico .....	4	333,254	0.14
New York .....	85	12,519,995	5.19
North Carolina .....	29	2,232,857	0.93
Ohio .....	115	10,008,163	4.15
Oklahoma .....	18	1,464,306	0.61
Oregon .....	13	1,301,522	0.54
Pennsylvania .....	97	7,310,828	3.03
Rhode Island .....	3	236,872	0.10
South Carolina .....	16	1,152,429	0.48
South Dakota .....	2	114,850	0.05
Tennessee .....	82	6,991,999	2.90
Texas .....	82	8,388,972	3.48
Utah .....	28	3,262,408	1.35
Virginia .....	41	4,911,670	2.04
Washington .....	34	4,857,725	2.02
West Virginia .....	6	374,257	0.16
Wisconsin .....	32	3,229,847	1.34
Wyoming .....	1	88,800	0.04
	<u>2,127</u>	<u>\$241,041,968</u>	<u>100.00%</u>

## Credit Bureau Risk Score (1)

Credit Bureau Risk Score	Number of Mortgage Loans	Aggregate Principal Balance Outstanding	Percent of Loan Group 1
Greater than or equal to 621 .....	671	\$ 79,989,427	33.18%
601-620 .....	347	42,999,725	17.84
581-600 .....	375	43,061,144	17.86
561-580 .....	315	34,774,895	14.43
541-560 .....	190	20,078,015	8.33
521-540 .....	144	14,443,446	5.99
501-520 .....	61	4,368,440	1.81
Less than or equal to 500 .....	6	383,270	0.16
Not Scored .....	18	943,606	0.39
Total .....	<u>2,127</u>	<u>\$241,041,968</u>	<u>100.00%</u>

(1) As of the Statistical Calculation Date, the weighted average Credit Bureau Risk Score of the Group 1 Loans is expected to be approximately 605. See “—Countrywide’s Underwriting Standards for the Group 1 and Group 2 Loans” below.

### The Group 2 Loans

All of the Group 2 Loans will be secured by first liens on the related Mortgaged Properties and none of the Group 2 Loans will be a Balloon Mortgage Loan.

The Group 2 Loans will bear interest at rates that vary based generally upon the index described below, and adjust at periodic intervals as described below. Subject to any applicable adjustment caps, each mortgage interest rate at any time generally will be equal to the sum of a specified percentage and the index level then applicable to that loan. The Group 2 Loans will provide for a maximum mortgage interest rate. The Group 2 Loans also will provide for periodic adjustments of scheduled payments in order to fully amortize by their respective stated maturities.

Each of the Group 2 Loans will have a mortgage interest rate that is subject to adjustment on the first day of the month specified in the related Mortgage Note (each such date, an “Adjustment Date”) generally to equal the *sum*, rounded to the nearest 0.125% (or, in some cases, rounded up to the next highest 0.125%), of:

- the average of the London interbank offered rates for six-month U.S. dollar deposits in the London market, most recently published in *The Wall Street Journal* 45 days prior to (or in some cases on the first business day of the month immediately preceding the month of) the Adjustment Date (the “Mortgage Index”),

*plus*

- a fixed percentage amount specified in the related Mortgage Note (the “Gross Margin”);

*provided, however*, that the mortgage interest rate for substantially all of the Group 2 Loans will not increase or decrease by more than 2.00% on any Adjustment Date (the “Periodic Rate Cap”), with the exception of the initial Adjustment Date for certain of the 2/13 Loans, 2/28 Loans, 3/12 Loans and 3/27 Loans (each defined below), which are subject to a different initial Periodic Rate Cap as set forth in the related Mortgage Note. Substantially all of the Group 2 Loans will have been originated with mortgage interest rates less than the sum of the then-current Mortgage Index and the related Gross Margin. If the rate referred to in the first bullet point above ceases to be published in *The Wall Street Journal* or becomes unavailable for any reason, then the holder of the related Mortgage Note will select a new index based on comparable information.

Each “2/13 Loan,” “2/28 Loan,” “3/12 Loan” and a “3/27 Loan” will have a fixed interest rate for approximately 24, 24, 36 and 36 months, respectively, after origination before the fixed rate becomes subject to adjustment based on the Mortgage Index described in the immediately preceding paragraph.

Substantially all of the Group 2 Loans will provide that over the life of each such loan the mortgage interest rate will in no event be more than the initial mortgage interest rate plus 7.00%. Effective with the first payment due on a Group 2 Loan after each related Adjustment Date, the monthly payment will be adjusted to an amount which will fully amortize the outstanding principal balance of the Group 2 Loan over its remaining term.

In addition, approximately 87.55% of the Group 2 Loans included in the Statistical Calculation Pool are subject to prepayment premiums. In most cases, the prepayment premium will be equal to six months’ advance interest calculated on the basis of the rate in effect at the time of such prepayment on the amount prepaid in excess of 20% of the original balance of such Mortgage Loan, if the loan is prepaid in full or in part during the first two or three years after origination. After the expiration of the applicable prepayment period, however, borrowers may prepay the mortgage loans at anytime without paying a premium. In no event will Certificateholders be entitled to any portion of any prepayment premiums paid by borrowers.

### Loan Programs

<u>Loan Program</u>	<u>Number of Mortgage Loans</u>	<u>Aggregate Principal Balance Outstanding</u>	<u>Percent of Loan Group 2</u>
Six-Month LIBOR .....	70	\$ 8,164,132	2.26%
2/13 Loan .....	3	239,935	0.07
2/28 Loan .....	2,164	268,375,217	74.34
3/12 Loan .....	1	83,544	0.02
3/27 Loan .....	740	84,149,761	23.31
Total .....	<u>2,978</u>	<u>\$361,012,589</u>	<u>100.00%</u>

### Current Mortgage Loan Principal Balances (1)

<u>Current Mortgage Loan Principal Balances</u>	<u>Number of Mortgage Loans</u>	<u>Aggregate Principal Balance Outstanding</u>	<u>Percent of Loan Group 2</u>
\$ 0.00 to \$ 25,000 .....	26	\$ 582,289	0.16%
\$ 25,000.01 to \$ 50,000 .....	254	10,201,760	2.83
\$ 50,000.01 to \$ 75,000 .....	504	31,973,945	8.86
\$ 75,000.01 to \$100,000 .....	519	45,403,051	12.58
\$100,000.01 to \$150,000 .....	819	101,453,643	28.10
\$150,000.01 to \$200,000 .....	481	83,501,040	23.13
\$200,000.01 to \$250,000 .....	280	62,643,527	17.35
\$250,000.01 to \$300,000 .....	91	23,994,821	6.65
\$300,000.01 to \$350,000 .....	4	1,258,511	0.35
Total .....	<u>2,978</u>	<u>\$361,012,589</u>	<u>100.00%</u>

(1) As of the Statistical Calculation Date, the average current principal balance for the Group 2 Loans is expected to be approximately \$121,227.

### Mortgage Interest Rates (1)

<u>Mortgage Rates (%)</u>	<u>Number of Mortgage Loans</u>	<u>Aggregate Principal Balance Outstanding</u>	<u>Percent of Loan Group 2</u>
6.001- 6.500 .....	1	\$ 111,746	0.03%
6.501- 7.000 .....	44	6,698,722	1.86
7.001- 7.500 .....	90	13,706,745	3.80
7.501- 8.000 .....	143	22,163,146	6.14
8.001- 8.500 .....	222	33,800,594	9.36
8.501- 9.000 .....	409	59,404,836	16.46
9.001- 9.500 .....	435	55,004,252	15.24
9.501-10.000 .....	544	65,052,335	18.02
10.001-10.500 .....	342	36,571,079	10.13
10.501-11.000 .....	327	32,416,567	8.98
11.001-11.500 .....	182	16,014,963	4.44
11.501-12.000 .....	134	11,413,398	3.16
12.001-12.500 .....	84	7,386,749	2.05
12.501-13.000 .....	21	1,267,457	0.35
Total .....	<u>2,978</u>	<u>\$361,012,589</u>	<u>100.00%</u>

(1) As of the Statistical Calculation Date, the weighted average mortgage rate of the Group 2 Loans is expected to be approximately 9.505% per annum.

### Remaining Terms to Stated Maturity (1)

<u>Remaining Terms to Stated Maturity (months)</u>	<u>Number of Mortgage Loans</u>	<u>Aggregate Principal Balance Outstanding</u>	<u>Percent of Loan Group 2</u>
121-180 .....	4	\$ 323,479	0.09%
301-360 .....	<u>2,974</u>	<u>360,689,110</u>	<u>99.91</u>
Total .....	<u>2,978</u>	<u>\$361,012,589</u>	<u>100.00%</u>

(1) As of the Statistical Calculation Date, the weighted average remaining term of the Group 2 Loans is expected to be approximately 359 months.



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

<u>Original Loan-to-Value Ratios (%)</u>	<u>Number of Mortgage Loans</u>	<u>Aggregate Principal Balance Outstanding</u>	<u>Percent of Loan Group 2</u>
50.00 or Less .....	93	\$ 8,208,780	2.27%
50.01- 55.00 .....	53	6,334,892	1.75
55.01- 60.00 .....	70	6,961,401	1.93
60.01- 65.00 .....	112	12,321,756	3.41
65.01- 70.00 .....	253	28,548,509	7.91
70.01- 75.00 .....	387	45,754,716	12.67
75.01- 80.00 .....	870	109,396,780	30.30
80.01- 85.00 .....	493	60,786,268	16.84
85.01- 90.00 .....	539	67,540,866	18.71
90.01- 95.00 .....	97	13,905,201	3.85
95.01-100.00 .....	11	1,253,419	0.35
Total .....	<u>2,978</u>	<u>\$361,012,589</u>	<u>100.00%</u>

(1) As of the Statistical Calculation Date, the weighted average original loan-to-value ratio of the Group 2 Loans is expected to be approximately 79.10%.

\* The loan-to-value ratio of a first lien mortgage loan is equal to its principal balance at origination divided by the *lesser* of the appraised value of the related mortgaged property at origination and, if applicable the sales price at origination.

### Documentation Program for Mortgage Loans (1)

<u>Type of Program</u>	<u>Number of Mortgage Loans</u>	<u>Aggregate Principal Balance Outstanding</u>	<u>Percent of Loan Group 2</u>
Full Doc .....	2,427	\$286,345,453	79.32%
Stated Income .....	453	63,061,575	17.47
Simple Doc .....	98	11,605,561	3.21
Total .....	<u>2,978</u>	<u>\$361,012,589</u>	<u>100.00%</u>

(1) For a description of Countrywide's documentation programs, see "—Countrywide's Underwriting Standards for the Group 1 and Group 2 Loans" below.

### Types of Mortgaged Properties

<u>Property Type</u>	<u>Number of Mortgage Loans</u>	<u>Aggregate Principal Balance Outstanding</u>	<u>Percent of Loan Group 2</u>
1 Unit .....	2,429	\$288,789,993	79.99%
Planned Unit Development .....	227	35,343,684	9.79
Low Rise Condominium .....	156	18,502,189	5.13
2 Unit .....	79	9,227,370	2.56
Manufactured Housing .....	48	3,860,776	1.07
3 Unit .....	19	3,180,165	0.88
High Rise Condominium .....	16	1,355,359	0.38
4 Unit .....	4	753,053	0.21
Total .....	<u>2,978</u>	<u>\$361,012,589</u>	<u>100.00%</u>

### Purpose of Mortgage Loans

<u>Loan Purpose</u>	<u>Number of Mortgage Loans</u>	<u>Aggregate Principal Balance Outstanding</u>	<u>Percent of Loan Group 2</u>
Cash-out/Refinance .....	1,611	\$197,397,235	54.68%
Purchase .....	1,118	131,707,537	36.48
Refinance .....	249	31,907,818	8.84
Total .....	<u>2,978</u>	<u>\$361,012,589</u>	<u>100.00%</u>

### Occupancy Types (1)

<u>Occupancy Type</u>	<u>Number of Mortgage Loans</u>	<u>Aggregate Principal Balance Outstanding</u>	<u>Percent of Loan Group 2</u>
Primary Residence .....	2,849	\$348,530,602	96.54%
Investor Property .....	121	11,633,127	3.22
Second Residence .....	8	848,859	0.24
Total .....	<u>2,978</u>	<u>\$361,012,589</u>	<u>100.00%</u>

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

### Geographic Distribution of Mortgaged Properties

<u>State</u>	<u>Number of Mortgage Loans</u>	<u>Aggregate Principal Balance Outstanding</u>	<u>Percent of Loan Group 2</u>
Alabama .....	14	\$ 1,005,043	0.28%
Alaska .....	1	75,940	0.02
Arizona .....	96	10,606,355	2.94
Arkansas .....	19	1,727,908	0.48
California .....	670	113,834,310	31.53
Colorado .....	78	11,079,754	3.07
Connecticut .....	44	5,330,546	1.48
Delaware .....	2	318,235	0.09
District of Columbia .....	3	473,632	0.13
Florida .....	184	18,098,958	5.01
Georgia .....	70	8,974,815	2.49
Hawaii .....	28	4,258,851	1.18
Idaho .....	18	2,125,598	0.59
Illinois .....	76	8,190,666	2.27
Indiana .....	107	8,997,642	2.49
Iowa .....	25	1,847,920	0.51
Kansas .....	35	3,444,695	0.95
Kentucky .....	26	1,763,022	0.49
Louisiana .....	49	4,272,762	1.18
Maine .....	3	414,847	0.11
Maryland .....	38	4,643,454	1.29
Massachusetts .....	79	11,659,855	3.23
Michigan .....	242	22,643,947	6.27
Minnesota .....	48	5,390,952	1.49

<u>State</u>	<u>Number of Mortgage Loans</u>	<u>Aggregate Principal Balance Outstanding</u>	<u>Percent of Loan Group 2</u>
Mississippi .....	9	\$ 668,029	0.19%
Missouri .....	77	7,392,702	2.05
Montana .....	7	588,886	0.16
Nebraska .....	5	424,098	0.12
Nevada .....	41	5,764,913	1.60
New Hampshire .....	7	879,194	0.24
New Jersey .....	42	5,655,223	1.57
New Mexico .....	9	903,112	0.25
New York .....	53	8,282,972	2.29
North Carolina .....	59	6,195,823	1.72
Ohio .....	105	8,616,814	2.39
Oklahoma .....	34	2,029,967	0.56
Oregon .....	31	4,033,351	1.12
Pennsylvania .....	83	6,500,449	1.80
Rhode Island .....	8	815,505	0.23
South Carolina .....	16	1,218,637	0.34
South Dakota .....	1	65,100	0.02
Tennessee .....	88	8,802,563	2.44
Texas .....	144	15,508,126	4.30
Utah .....	32	4,091,286	1.13
Virginia .....	31	3,747,392	1.04
Washington .....	84	12,189,489	3.38
West Virginia .....	4	169,875	0.05
Wisconsin .....	50	5,032,799	1.39
Wyoming .....	3	256,574	0.07
	<u>2,978</u>	<u>\$361,012,589</u>	<u>100.00%</u>

### Credit Bureau Risk Score (1)

<u>Credit Bureau Risk Score</u>	<u>Number of Mortgage Loans</u>	<u>Aggregate Principal Balance Outstanding</u>	<u>Percent of Loan Group 2</u>
Greater than or equal to 621 .....	906	\$116,732,900	32.33%
601-620 .....	442	55,323,523	15.32
581-600 .....	415	51,024,581	14.13
561-580 .....	476	56,272,957	15.59
541-560 .....	377	43,553,007	12.06
521-540 .....	228	24,470,257	6.78
501-520 .....	103	10,754,447	2.98
Less than or equal to 500 .....	11	1,242,224	0.34
Not Scored .....	20	1,638,692	0.45
	<u>2,978</u>	<u>\$361,012,589</u>	<u>100.00%</u>

(1) As of the Statistical Calculation Date, the weighted average Credit Bureau Risk Score of the Group 2 Loans is expected to be approximately 600. See “—Countrywide’s Underwriting Standards for the Group 1 and Group 2 Loans” below.

### Mortgage Interest Rate Life Cap (1)

<u>Mortgage Interest Rate Life Cap (%)</u>	<u>Number of Mortgage Loans</u>	<u>Aggregate Principal Balance Outstanding</u>	<u>Percent of Loan Group 2</u>
12.001-13.000 .....	15	\$ 1,702,816	0.47%
13.001-14.000 .....	100	15,219,970	4.22
14.001-15.000 .....	328	49,569,852	13.73
15.001-16.000 .....	731	103,736,219	28.73
16.001-17.000 .....	928	108,320,186	30.00
17.001-18.000 .....	547	53,968,075	14.95
18.001-19.000 .....	251	22,197,630	6.15
19.001-20.000 .....	78	6,297,840	1.74
	<u>2,978</u>	<u>\$361,012,589</u>	<u>100.00%</u>

(1) As of the Statistical Calculation Date, the weighted average mortgage interest rate life cap of the Group 2 Loans is expected to be approximately 16.217% per annum.

### Mortgage Interest Rate Life Floor (1)

<u>Mortgage Interest Rate Life Floor (%)</u>	<u>Number of Mortgage Loans</u>	<u>Aggregate Principal Balance Outstanding</u>	<u>Percent of Loan Group 2</u>
6.001- 7.000 .....	45	\$ 6,810,468	1.89%
7.001- 8.000 .....	233	35,869,891	9.94
8.001- 9.000 .....	631	93,205,430	25.82
9.001-10.000 .....	979	120,056,587	33.26
10.001-11.000 .....	669	68,987,646	19.11
11.001-12.000 .....	316	27,428,361	7.60
12.001-13.000 .....	105	8,654,206	2.40
	<u>2,978</u>	<u>\$361,012,589</u>	<u>100.00%</u>

(1) As of the Statistical Calculation Date, the weighted average mortgage interest rate life floor of the Group 2 Loans is expected to be approximately 9.505% per annum.

### Hybrid ARMs (1) — Next Rate Adjustment

<u>Next Interest Adjustment Date</u>	<u>Number of Mortgage Loans</u>	<u>Aggregate Principal Balance Outstanding</u>	<u>Percent of Loan Group 2</u>
June 2002 .....	1	\$ 70,256	0.02%
July 2002 .....	1	66,141	0.02
August 2002 .....	2	202,584	0.06
October 2002 .....	1	60,832	0.02
November 2002 .....	2	122,774	0.03
December 2002 .....	2	109,852	0.03
January 2003 .....	3	402,631	0.11
February 2003 .....	6	625,832	0.18
March 2003 .....	9	1,177,692	0.33
April 2003 .....	35	4,414,355	1.25

<u>Next Interest Adjustment Date</u>	<u>Number of Mortgage Loans</u>	<u>Aggregate Principal Balance Outstanding</u>	<u>Percent of Loan Group 2</u>
May 2003 .....	142	\$ 19,571,300	5.55%
June 2003 .....	390	51,624,257	14.63
July 2003 .....	712	88,813,279	25.17
August 2003 .....	724	85,022,444	24.10
September 2003 .....	139	16,502,789	4.68
November 2003 .....	1	36,664	0.01
January 2004 .....	2	210,541	0.06
February 2004 .....	3	146,097	0.04
March 2004 .....	6	810,120	0.23
April 2004 .....	20	2,549,304	0.72
May 2004 .....	149	16,359,463	4.64
June 2004 .....	295	33,198,132	9.41
July 2004 .....	185	23,268,362	6.59
August 2004 .....	62	5,870,890	1.66
September 2004 .....	16	1,611,865	0.46
	<u>2,908</u>	<u>\$352,848,457</u>	<u>100.00%</u>

(1) Hybrid ARMs consist of 2/13 Loans, 2/28 Loans, 3/12 Loans and 3/27 Loans.

#### Non-Hybrid ARMs (1) — Next Rate Adjustment

<u>Next Interest Adjustment Date</u>	<u>Number of Mortgage Loans</u>	<u>Aggregate Principal Balance Outstanding</u>	<u>Percent of Loan Group 2</u>
January 2002 .....	21	\$2,236,207	27.39%
February 2002 .....	42	5,183,815	63.49
March 2002 .....	7	744,110	9.11
	<u>70</u>	<u>\$8,164,132</u>	<u>100.00%</u>

(1) Non-Hybrid ARMs consist of Six-Month LIBOR Loans.

#### Mortgage Interest Rate Margin (1)

<u>Mortgage Interest Rate Margin ( % )</u>	<u>Number of Mortgage Loans</u>	<u>Aggregate Principal Balance Outstanding</u>	<u>Percent of Loan Group 2</u>
1.001-2.000 .....	1	\$ 54,967	0.02%
2.001-3.000 .....	2	234,851	0.07
3.001-4.000 .....	14	2,389,734	0.66
4.001-5.000 .....	154	22,047,576	6.11
5.001-6.000 .....	855	108,370,175	30.02
6.001-7.000 .....	1,450	170,553,743	47.24
7.001-8.000 .....	467	54,163,471	15.00
8.001-8.500 .....	35	3,198,073	0.89
	<u>2,978</u>	<u>\$361,012,589</u>	<u>100.00%</u>

(1) As of the Statistical Calculation Date, the weighted average mortgage interest rate margin of the Group 2 Loans is expected to be approximately 6.301% per annum.

### Initial Periodic Mortgage Interest Rate Cap

<u>Initial Periodic Mortgage Interest Rate Cap ( % )</u>	<u>Number of Mortgage Loans</u>	<u>Aggregate Principal Balance Outstanding</u>	<u>Percent of Loan Group 2</u>
1.0 .....	316	\$ 38,703,343	10.72%
1.5 .....	1,597	187,588,645	51.96
2.0 .....	268	37,844,884	10.48
3.0 .....	797	96,875,716	26.83
	<u>2,978</u>	<u>\$361,012,589</u>	<u>100.00%</u>

### Subsequent Periodic Mortgage Interest Rate Cap

<u>Subsequent Periodic Mortgage Interest Rate Cap ( % )</u>	<u>Number of Mortgage Loans</u>	<u>Aggregate Principal Balance Outstanding</u>	<u>Percent of Loan Group 2</u>
1.0 .....	1,208	\$152,487,720	42.24%
1.5 .....	1,770	208,524,869	57.76
	<u>2,978</u>	<u>\$361,012,589</u>	<u>100.00%</u>

### The Group 3 Loans

All of the Group 3 Loans will have fixed interest rates and be secured by second liens on the related Mortgaged Properties. The Group 3 Loans will be either fully amortizing loans or Balloon Mortgage Loans.

In addition, approximately 7.39% of the Group 3 Loans included in the Statistical Calculation Pool are subject to prepayment premiums. In most cases, the prepayment premium will be equal to six months' advance interest calculated on the basis of the rate in effect at the time of such prepayment on the amount prepaid in excess of 20% of the original balance of such Mortgage Loan, if the loan is prepaid in full or in part during the first five years after origination. After the expiration of the applicable prepayment period, however, borrowers may prepay the mortgage loans at anytime without paying a premium. In no event will Certificateholders be entitled to any portion of any prepayment premiums paid by borrowers.

### Loan Programs

<u>Loan Program</u>	<u>Number of Mortgage Loans</u>	<u>Aggregate Principal Balance Outstanding</u>	<u>Percent of Loan Group 3</u>
Fixed Rate - 10 Year maturity .....	244	\$ 5,967,977	2.73%
Fixed Rate - 15 Year maturity .....	3,914	102,687,866	46.90
Fixed Rate - 20 Year maturity .....	136	5,629,415	2.57
Fixed Rate - 25 Year maturity .....	5	162,392	0.07
Fixed Rate - 30 Year maturity .....	30	640,664	0.29
Fixed Rate - 30/15 Year Balloon Mortgage Loan .....	3,614	103,885,385	47.44
	<u>7,943</u>	<u>\$218,973,699</u>	<u>100.00%</u>

### Current Mortgage Loan Principal Balances (1)

Current Mortgage Loan Principal Balances	Number of Mortgage Loans	Aggregate Principal Balance Outstanding	Percent of Loan Group 3
\$ 0.00 to \$ 10,000 .....	281	\$ 2,447,626	1.12%
\$ 10,000.01 to \$ 20,000 .....	2,197	35,163,822	16.06
\$ 20,000.01 to \$ 30,000 .....	2,901	72,949,767	33.31
\$ 30,000.01 to \$ 40,000 .....	1,495	52,169,214	23.82
\$ 40,000.01 to \$ 50,000 .....	661	29,332,512	13.40
\$ 50,000.01 to \$ 75,000 .....	329	19,480,246	8.90
\$ 75,000.01 to \$100,000 .....	65	5,762,873	2.63
\$100,000.01 to \$200,000 .....	14	1,667,639	0.76
	<u>7,943</u>	<u>\$218,973,699</u>	<u>100.00%</u>

(1) As of the Statistical Calculation Date, the average current principal balance for the Group 3 Loans is expected to be approximately \$27,568.

### Mortgage Interest Rates (1)

Mortgage Rates (%)	Number of Mortgage Loans	Aggregate Principal Balance Outstanding	Percent of Loan Group 3
6.501- 7.000 .....	1	\$ 18,406	0.01%
7.001- 7.500 .....	34	1,226,201	0.56
7.501- 8.000 .....	73	2,121,024	0.97
8.001- 8.500 .....	318	8,746,392	3.99
8.501- 9.000 .....	1,252	32,946,729	15.05
9.001- 9.500 .....	1,652	43,321,752	19.78
9.501-10.000 .....	1,779	48,479,231	22.14
10.001-10.500 .....	973	27,792,316	12.69
10.501-11.000 .....	988	28,985,511	13.24
11.001-11.500 .....	464	13,511,782	6.17
11.501-12.000 .....	294	8,448,448	3.86
12.001-12.500 .....	71	1,984,141	0.91
12.501-13.000 .....	30	897,674	0.41
13.001-13.500 .....	14	494,092	0.23
	<u>7,943</u>	<u>\$218,973,699</u>	<u>100.00%</u>

(1) As of the Statistical Calculation Date, the weighted average mortgage rate of the Group 3 Loans is expected to be approximately 9.892% per annum.

### Remaining Terms to Stated Maturity (1)

<u>Remaining Terms to Stated Maturity (months)</u>	<u>Number of Mortgage Loans</u>	<u>Aggregate Principal Balance Outstanding</u>	<u>Percent of Loan Group 3</u>
1-120 .....	261	\$ 6,095,347	2.78%
121-180 .....	7,522	206,561,032	94.33
181-300 .....	141	5,791,807	2.64
301-360 .....	19	525,512	0.24
	<u>7,943</u>	<u>\$218,973,699</u>	<u>100.00%</u>

(1) As of the Statistical Calculation Date, the weighted average remaining term of the Group 3 Loans is expected to be approximately 178 months.

### Original Combined Loan-to-Value Ratios\* (1)

<u>Original Combined Loan-to-Value Ratios (%)</u>	<u>Number of Mortgage Loans</u>	<u>Aggregate Principal Balance Outstanding</u>	<u>Percent of Loan Group 3</u>
15.01- 20.00 .....	3	\$ 113,088	0.05%
20.01- 25.00 .....	3	93,241	0.04
25.01- 30.00 .....	14	471,099	0.22
30.01- 35.00 .....	10	348,503	0.16
35.01- 40.00 .....	11	330,210	0.15
40.01- 45.00 .....	17	662,656	0.30
45.01- 50.00 .....	23	829,757	0.38
50.01- 55.00 .....	28	1,164,954	0.53
55.01- 60.00 .....	38	1,202,233	0.55
60.01- 65.00 .....	49	1,739,645	0.79
65.01- 70.00 .....	76	2,755,907	1.26
70.01- 75.00 .....	123	4,141,391	1.89
75.01- 80.00 .....	225	8,342,433	3.81
80.01- 85.00 .....	358	8,675,337	3.96
85.01- 90.00 .....	2,643	59,328,999	27.09
90.01- 95.00 .....	2,810	80,538,387	36.78
95.01-100.00 .....	<u>1,512</u>	<u>48,235,859</u>	<u>22.03</u>
	<u>7,943</u>	<u>\$218,973,699</u>	<u>100.00%</u>

(1) As of the Statistical Calculation Date, the weighted average original combined loan-to-value ratio of the Group 3 Loans is expected to be 90.91%.

\* The loan-to-value ratio of a second lien mortgage loan is equal to the sum of its principal balance at origination and the principal balance of the related first lien loan on that date divided by the *lesser* of the appraised value of the related mortgaged property at origination and, if applicable, the sales price at origination.



### Documentation Program for Mortgage Loans (1)

<u>Type of Program</u>	<u>Number of Mortgage Loans</u>	<u>Aggregate Principal Balance Outstanding</u>	<u>Percent of Loan Group 3</u>
Alternative Documentation .....	3,853	\$103,927,460	47.46%
Full Documentation .....	3,640	102,896,226	46.99
Reduced Documentation .....	165	5,040,221	2.30
Streamlined Documentation .....	228	6,120,574	2.80
Superstreamlined Documentation .....	57	989,218	0.45
Total .....	<u>7,943</u>	<u>\$218,973,699</u>	<u>100.00%</u>

(1) For a description of Countrywide's documentation programs, see "—Countrywide's Underwriting Standards for the Group 3 Loans" below.

### Types of Mortgaged Properties

<u>Property Type</u>	<u>Number of Mortgage Loans</u>	<u>Aggregate Principal Balance Outstanding</u>	<u>Percent of Loan Group 3</u>
1 Unit .....	5,417	\$150,494,674	68.73%
Planned Unit Development .....	1,950	52,905,586	24.16
Condominium .....	539	14,345,356	6.55
2 Unit .....	35	1,138,083	0.52
3 Unit .....	1	45,000	0.02
4 Unit .....	1	45,000	0.02
Total .....	<u>7,943</u>	<u>\$218,973,699</u>	<u>100.00%</u>

### Occupancy Types (1)

<u>Occupancy Type</u>	<u>Number of Mortgage Loans</u>	<u>Aggregate Principal Balance Outstanding</u>	<u>Percent of Loan Group 3</u>
Primary Residence .....	7,943	\$218,973,699	100.00%
Total .....	<u>7,943</u>	<u>\$218,973,699</u>	<u>100.00%</u>

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

### Geographic Distribution of Mortgaged Properties

<u>State</u>	<u>Number of Mortgage Loans</u>	<u>Aggregate Principal Balance Outstanding</u>	<u>Percent of Loan Group 3</u>
Alabama .....	94	\$ 2,383,755	1.09%
Alaska .....	12	499,536	0.23
Arizona .....	239	6,445,886	2.94
California .....	1,723	55,574,253	25.38
Colorado .....	239	7,198,094	3.29
Connecticut .....	66	1,671,830	0.76
Delaware .....	12	362,186	0.17
District of Columbia .....	8	308,199	0.14
Florida .....	242	6,494,096	2.97
Georgia .....	303	9,339,830	4.27

<u>State</u>	<u>Number of Mortgage Loans</u>	<u>Aggregate Principal Balance Outstanding</u>	<u>Percent of Loan Group 3</u>
Hawaii .....	43	\$ 2,083,299	0.95%
Idaho .....	66	1,876,529	0.86
Illinois .....	263	6,616,324	3.02
Indiana .....	51	1,113,033	0.51
Iowa .....	35	839,348	0.38
Kansas .....	2	58,324	0.03
Kentucky .....	29	587,741	0.27
Louisiana .....	29	693,395	0.32
Maine .....	12	250,094	0.11
Maryland .....	256	7,970,650	3.64
Massachusetts .....	108	3,749,269	1.71
Michigan .....	294	7,633,204	3.49
Minnesota .....	54	1,443,773	0.66
Mississippi .....	31	683,743	0.31
Missouri .....	89	2,435,121	1.11
Montana .....	36	872,525	0.40
Nebraska .....	26	597,746	0.27
Nevada .....	99	2,540,898	1.16
New Hampshire .....	35	1,067,143	0.49
New Jersey .....	107	3,161,425	1.44
New Mexico .....	72	1,757,360	0.80
New York .....	123	3,621,715	1.65
North Carolina .....	96	2,488,446	1.14
North Dakota .....	7	152,636	0.07
Ohio .....	147	3,180,849	1.45
Oklahoma .....	62	1,262,189	0.58
Oregon .....	236	6,195,484	2.83
Pennsylvania .....	251	5,515,750	2.52
Rhode Island .....	11	375,360	0.17
South Carolina .....	21	482,899	0.22
South Dakota .....	3	58,702	0.03
Tennessee .....	108	2,409,142	1.10
Texas .....	1,217	26,957,389	12.31
Utah .....	125	3,444,592	1.57
Vermont .....	1	20,400	0.01
Virginia .....	493	14,404,501	6.58
Washington .....	290	8,332,284	3.81
West Virginia .....	8	184,404	0.08
Wisconsin .....	55	1,189,685	0.54
Wyoming .....	14	388,661	0.18
	<u>7,943</u>	<u>\$218,973,699</u>	<u>100.00%</u>

## Credit Bureau Risk Score

Credit Bureau Risk Score (1)	Number of Mortgage Loans	Aggregate Principal Balance Outstanding	Percent of Loan Group 3
Greater than or equal to 821 .....	3	\$ 79,991	0.04%
801-820 .....	78	1,890,011	0.86
781-800 .....	428	10,993,633	5.02
761-780 .....	872	22,343,552	10.20
741-760 .....	1,117	29,899,692	13.65
721-740 .....	1,210	33,106,018	15.12
701-720 .....	1,289	35,902,394	16.40
681-700 .....	1,253	35,324,312	16.13
661-680 .....	995	29,521,536	13.48
641-660 .....	430	12,559,659	5.74
621-640 .....	245	6,808,323	3.11
601-620 .....	19	436,242	0.20
581-600 .....	4	108,336	0.05
Total .....	<u>7,943</u>	<u>\$218,973,699</u>	<u>100.00%</u>

(1) As of the Statistical Calculation Date, the weighted average Credit Bureau Risk Score of the Group 3 Loans is expected to be approximately 715. See “—Countrywide’s Underwriting Standards for the Group 3 Loans” below.

### Anti-Predatory Lending Guidelines

Prior to our purchasing the Mortgage Loans, we conducted a review of Countrywide’s origination practices and procedures and a statistical sample of the Group 1 and Group 2 Loans for compliance with our anti-predatory lending guidelines. Countrywide has made representations and warranties to us that all the Mortgage Loans were originated in compliance with our anti-predatory lending guidelines. Notwithstanding our due diligence, if any Mortgage Loan fails to meet our anti-predatory lending guidelines, it will be repurchased.

### Countrywide’s Underwriting Standards for the Group 1 and Group 2 Loans

The information in this section was provided by Countrywide.

Prior to the funding or purchase of any mortgage loan, Countrywide underwrites that loan in accordance with Countrywide’s underwriting standards. In general, the Group 1 and Group 2 Loans were underwritten centrally by a specialized group of underwriters who are familiar with the unique characteristics of mortgage loans made to borrowers with blemished credit histories.

Countrywide’s underwriting standards are primarily intended to evaluate the value and adequacy of the mortgaged property as collateral for the proposed mortgage loan and the borrower’s credit standing and repayment ability. On a case by case basis, Countrywide may determine that, based upon compensating factors, a prospective borrower not strictly qualifying under the underwriting risk category guidelines described below warrants an underwriting exception. Compensating factors may include low loan-to-value ratio, low debt-to-income ratio, stable employment and time in the same residence. It is expected that a significant number of the Group 1 and Group 2 Loans will have been originated based on such underwriting exceptions.

Each prospective borrower completes an application which includes information with respect to the applicant’s assets, liabilities, income, credit history and employment history, as well as certain other personal information. If the loan-to-value ratio is greater than 70%, Countrywide generally verifies the source of funds for any down payment; Countrywide does not verify the source of such funds if the loan-to-value ratio is 70% or less. Countrywide requires an independent credit bureau report on the credit history of each applicant in order to evaluate the applicant’s ability to repay. The

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, repossession, suits or judgments.

After obtaining all applicable employment, credit and property information, Countrywide uses a debt-to-income ratio to assist in determining whether the prospective borrower has sufficient monthly income available to support the payments of principal and interest on the mortgage loan in addition to other monthly credit obligations. The “debt-to-income ratio” is the ratio of the borrower’s total monthly credit obligations to the borrower’s gross monthly income. The maximum monthly debt-to-income ratio varies depending upon a borrower’s credit grade and documentation level (as described below) but does not generally exceed 60%. Variations in the monthly debt-to-income ratios limit are permitted based on compensating factors.

Countrywide’s underwriting standards are applied in accordance with applicable federal and state laws and regulations and require an independent appraisal of the mortgaged property prepared on a Uniform Residential Appraisal Report (Form 1004). Each appraisal includes a market data analysis based on recent sales of comparable homes in the area and, where deemed appropriate, replacement cost analysis based on the current cost of constructing a similar home and generally is required to have been made not earlier than 180 days prior to the date of origination of the mortgage loan. Every independent appraisal is reviewed by a Countrywide representative before the loan is funded, and an additional field review appraisal is generally performed in connection with loan amounts over \$350,000 or 80% or higher loan-to-value ratios. A field review appraisal is an exterior examination of the premises by the appraiser to determine that the property is in acceptable condition and the appraised value is reasonable. In most cases, properties that are not in at least average condition (including properties requiring major deferred maintenance) are not acceptable as collateral for mortgage loans originated under these guidelines. The maximum loan amount varies depending upon a borrower’s credit grade and documentation level. Variations in maximum loan amount limits are permitted based on compensating factors.

Countrywide’s underwriting standards permit first mortgage loans with loan-to-value ratios at origination of up to 100% and second mortgage loans with combined loan-to-value ratios at origination of up to 100% depending on the program, type and use of the property, documentation level, creditworthiness of the borrower and debt-to-income ratio.

Countrywide requires title insurance on all the mortgage loans. 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 loan or the replacement cost of the mortgaged property, whichever is less.

While Countrywide’s underwriting guidelines place primary reliance on a borrower’s ability to repay, Countrywide may require lower loan-to-value ratios as a loss mitigation tool. Borrowers who qualify generally have blemished payment histories, higher debt-to-income ratios and may have a record of major derogatory credit items such as outstanding judgments or prior bankruptcies. Countrywide’s mortgage loan underwriting guidelines establish the maximum permitted loan-to-value ratio for each loan type based upon these and other risk factors with more risk factors requiring lower loan-to-value ratios.

Countrywide underwrites or originates mortgage loans pursuant to alternative sets of underwriting criteria under its Full Documentation Loan Program (the “Full Doc Program”), Simple Documentation Loan Program (the “Simple Doc Program”) and Stated Income Loan Program (the “Stated Income Program”). Under each of the underwriting programs, Countrywide verifies the loan applicant’s sources of income (except under the Stated Income Program), calculates the amount of income from all sources indicated on the loan application, reviews the credit history of the applicant, calculates the debt-to-income ratio to determine the applicant’s ability to repay the loan, and reviews the appraisal of the mortgaged property for compliance with Countrywide’s underwriting standards.

The Simple Doc Program is an alternative documentation program. Under the Simple Doc Program, acceptable documentation of income consists of six months' income verification. In the case of self-employed individuals, acceptable alternative documentation consists of a profit and loss statement supported by a record of bank statements. Maximum loan-to-value ratios and maximum loan amounts are generally lower than those permitted under the Full Doc Program.

Under the Stated Income Program, the borrower's employment and income sources must be stated on the borrower's application. The borrower's income as stated must be reasonable for the related occupation and such determination as to reasonableness is subject to the loan underwriter's discretion. However, the borrower's income as stated on the application is not independently verified. Maximum loan-to-value ratios are generally lower than those permitted under the Full Doc Program. Except as otherwise stated above, the same mortgage credit, consumer credit and collateral related underwriting guidelines apply.

Under the Full Doc, Simple Doc and Stated Income Programs, various risk categories are used to grade the likelihood that the borrower will satisfy the repayment conditions of the mortgage loan. These risk categories establish the maximum permitted loan-to-value ratio, debt-to-income ratio and loan amount, given the borrower's credit history, the occupancy status of the mortgaged property and the type of mortgaged property. In general, higher debt-to-income ratios and more (or more recent) major derogatory credit items such as outstanding judgments or prior bankruptcies result in a loan being assigned to a higher credit risk category.

Countrywide's underwriting guidelines for mortgage loans made to borrowers with blemished credit histories utilize credit categories to grade the likelihood that the mortgagor will satisfy the repayment conditions of the mortgage loans. In general, a credit category is assigned by evaluating a borrower's consumer credit history, mortgage history, time since bankruptcy, and time since foreclosure or notice of default. The credit categories establish guidelines for determining maximum allowable loan-to-value ratios, debt-to-income ratios and loan amounts for a given mortgage loan. A summary of the credit categories for the Group 1 and Group 2 Loans is set forth below.

*Credit Category:* 46.65% of the Group 1 and Group 2 Loans in the Statistical Calculation Pool

**Loan-to-Value Ratio:** Maximum of 100%

**Debt-to-Income Ratio:** Maximum of 50%

**Loan Amount:** Maximum of \$500,000

**Consumer Credit History:** Credit Bureau Risk Score must be greater than or equal to 600, unless no delinquencies of 30 days in the past 12 months in which case the Credit Risk Bureau Score shall be greater than or equal to 580. If no Credit Bureau Risk Score is available, then no more than 4 delinquencies of 30 days in the past 12 months.

**Mortgage History:** No more than 1 delinquency of 30 days during the past 12 months.

**Bankruptcy:** At least 3 years since discharge/dismissal.

**Foreclosure/Notice of Default (NOD):** At least 3 years since foreclosure/NOD released.

*Credit Category:* 22.24% of the Group 1 and Group 2 Loans in the Statistical Calculation Pool

**Loan-to-Value Ratio:** Maximum of 90%

**Debt-to-Income Ratio:** Maximum of 55%

**Loan Amount:** Maximum of \$500,000

**Consumer Credit History:** Credit Bureau Risk Score must be greater than or equal to 570, unless no delinquencies of 30 days in the past 12 months in which case the Credit Risk Bureau Score shall be greater than or equal to 560. If no Credit Bureau Risk Score is available, then no more than 6 delinquencies of 60 days in the past 12 months.

**Mortgage History:** No more than 2 delinquencies of 30 days during the past 12 months.

**Bankruptcy:** At least 2 years since discharge/dismissal.

**Foreclosure/Notice of Default (NOD):** At least 3 years since foreclosure/NOD released.

*Credit Category:* 17.00% of the Group 1 and Group 2 Loans in the Statistical Calculation Pool

**Loan-to-Value Ratio:** Maximum of 85%

**Debt-to-Income Ratio:** Maximum of 55%

**Loan Amount:** Maximum of \$350,000

**Consumer Credit History:** Credit Bureau Risk Score must be greater than or equal to 550, unless no delinquencies of 30 days in the past 12 months in which case the Credit Risk Bureau Score shall be greater than or equal to 540. If no Credit Bureau Risk Score is available, then no more than 10 delinquencies of 30 days, 4 delinquencies of 60 days, and 2 delinquencies of 90 or more in the past 12 months.

**Mortgage History:** No more than 4 delinquencies of 30 days during the past 12 months, or no more than 2 delinquencies of 30 days and 1 delinquency of 60 days in the past 12 months.

**Bankruptcy:** Chapter 13 Bankruptcy must be dismissed at least 2 years prior to funding. Chapter 13 Bankruptcy must be discharged at least 1 year prior to funding. Chapter 7 Bankruptcy must be discharged/dismissed at least 1 year prior to funding.

**Foreclosure/Notice of Default (NOD):** At least 2 years since foreclosure/NOD released.

*Credit Category:* 11.26% of the Group 1 and Group 2 Loans in the Statistical Calculation Pool

**Loan-to-Value Ratio:** Maximum of 80%

**Debt-to-Income Ratio:** Maximum of 55%

**Loan Amount:** Maximum of \$350,000

**Consumer Credit History:** The preferred minimum Credit Bureau Risk Score is 500. If no Credit Bureau Risk Score is available, then no more than 8 delinquencies of 60 days, 4 delinquencies of 90 days or more in the past 12 months.

**Mortgage History:** No more than 1 delinquency of 90 days during the past 12 months.

**Bankruptcy:** At least 1 year since discharge/dismissal.

**Foreclosure/Notice of Default (NOD):** At least 1 year since foreclosure/NOD released.

*Credit Category:* 2.60% of the Group 1 and Group 2 Loans in the Statistical Calculation Pool

**Loan-to-Value Ratio:** Maximum of 70%

**Debt-to-Income Ratio:** Maximum of 55%

**Loan Amount:** Maximum of \$300,000

**Consumer Credit History:** The preferred minimum Credit Bureau Risk Score is 500. If no Credit Bureau Risk Score is available, then no more than 12 delinquencies of 60 days, and 8 delinquencies of 90 days or more in the past 12 months.

**Mortgage History:** No more than 2 delinquencies of 90 days during the past 12 months.

**Bankruptcy:** Chapter 13 Bankruptcy must be discharged/dismissed, or paid-off through escrow at funding. Chapter 7 Bankruptcy must be discharged/dismissed at least 1 day prior to funding.

**Foreclosure/Notice of Default (NOD):** None at time of funding.

*Credit Category:* 0.26% of the Group 1 and Group 2 Loans in the Statistical Calculation Pool

**Loan-to-Value Ratio:** Maximum of 65%

**Debt-to-Income Ratio:** Maximum of 55%

**Loan Amount:** Maximum of \$250,000

**Consumer Credit History:** The preferred minimum Credit Bureau Risk Score is 500. If no Credit Bureau Risk Score is available, then no more than 12 delinquencies of 60 days, and 8 delinquencies of 90 days or more in the past 12 months.

**Mortgage History:** Notice of default is acceptable at funding.

**Bankruptcy:** Chapter 13 Bankruptcy must be discharged/dismissed, or paid-off through escrow at funding. Chapter 7 Bankruptcy must be discharged/dismissed at least 1 day prior to funding.

**Foreclosure/Notice of Default (NOD):** Notice of default is acceptable at funding.

The loan-to-value ratios, debt-to-income ratios, and loan amounts stated above are maximum levels for a given credit grade category. There are additional restrictions on loan-to-value ratios, debt-



to-income ratios, and loan amounts depending on, but not limited to, the occupancy status of the mortgaged property, the type of mortgaged property, and the documentation program.

The “Credit Bureau Risk Score” is a statistical credit score obtained by Countrywide in connection with the loan application to help assess a borrower’s credit-worthiness. Credit Bureau Risk Scores are generated by models developed by a third party and are made available to mortgage lenders through three national credit bureaus. The models were derived by analyzing data on consumers in order to establish patterns which are believed to be indicative of the borrower’s probability of default. The Credit Bureau Risk Scores are based on a borrower’s historical credit data, including, among other things, payment history, delinquencies on accounts, levels of outstanding indebtedness, length of client history, types of credit, and bankruptcy experience. Credit Bureau Risk Scores range from approximately 250 to approximately 900, with higher scores indicating an individual with a more favorable credit history compared to an individual with a lower score. However, a Credit Bureau Risk Score purports only to be a measurement of the relative degree of risk a borrower represents to a lender, i.e., that a borrower with a higher score is statistically expected to be less likely to default in payment than a borrower with a lower score. In addition, it should be noted that Credit Bureau Risk Scores were developed to indicate a level of default probability over a two-year period which does not correspond to the life of a mortgage loan. Furthermore, Credit Bureau Risk Scores were not developed specifically for use in connection with mortgage loans, but for consumer loans in general. Therefore, a Credit Bureau Risk Score does not take into consideration the effect of mortgage loan characteristics on the probability of repayment by the borrower.

In determining a Credit Bureau Risk Score for a particular borrower, Countrywide attempts to obtain Credit Bureau Risk Scores from each of the three national credit bureaus that produce such scores. Although different scores may be available from each of the three national credit bureaus for a particular borrower, Countrywide will use only one score in its determination of whether to underwrite a mortgage loan, based on the following methodology: if scores are available from each of the three national credit bureaus, Countrywide will disregard the highest and lowest scores, and use the remaining score; and if scores are available from only two of the three national credit bureaus, Countrywide will use the lower of the two scores. If only one score is available, Countrywide will follow its No Credit Score guidelines. For loans with more than one applicant, Countrywide will use the Credit Bureau Risk Score of the applicant contributing the highest percentage of the total qualifying income.

The Credit Bureau Risk Scores set forth above were obtained at either the time of origination of the Mortgage Loan or more recently. The Credit Bureau Risk Score is used as an aid to, not a substitute for, the underwriter’s judgment.

### **Countrywide’s Underwriting Standards for the Group 3 Loans**

The information in this section was provided by Countrywide.

The following is a description of the underwriting procedures customarily employed by Countrywide with respect to fixed rate closed-end second lien mortgage loans made to borrowers with non-blemished credit histories. The underwriting process is intended to assess the applicant’s credit standing and repayment ability, and the value and adequacy of the real property security as collateral for the proposed loan. Exceptions to Countrywide’s underwriting guidelines will be made when compensating factors are present. These factors include the borrower’s employment stability, favorable credit history, equity in the related property, and the nature of the underlying first mortgage loan.

Each applicant for a closed-end second lien mortgage loan must complete an application that lists the applicant’s assets, liabilities, income, employment history, and other demographic and personal information. If information in the loan application demonstrates that the applicant has sufficient income and there is sufficient equity in the real property to justify making a closed-end second lien mortgage loan, Countrywide will conduct a further credit investigation of the applicant. This



investigation includes obtaining and reviewing an independent credit bureau report on the credit history of the applicant to evaluate the applicant's ability and willingness to repay. The credit report typically contains information relating to such matters as credit history with local merchants and lenders, installment and revolving debt payments, and any record of delinquencies, defaults, bankruptcy, collateral repossessions, suits or judgments.

Countrywide originates or acquires mortgage loans pursuant to alternative sets of underwriting criteria under its Full Documentation Program, Alternative Documentation Program, Reduced Documentation Program, Streamlined Documentation Program and Super-Streamlined Documentation Program. Generally, the Full Documentation Program will provide a complete and executed verification of employment covering a two year period, as well as current paystubs covering one month and W-2s or tax returns covering two years. The Alternative Documentation Program permits a salaried borrower to provide paystubs and W-2s covering the most recent two years, in lieu of providing a verification of employment. The Reduced Documentation Program places more emphasis on property underwriting than on credit underwriting. Therefore, certain credit underwriting documentation concerning income and employment verification is waived. The Reduced Documentation Program requires applicants to list their assets and also permits bank statements in lieu of verifications of deposits. Only self-employed borrowers with credit histories that demonstrate an established ability to repay indebtedness in a timely fashion are eligible for the Reduced Documentation Program. The Streamlined Documentation Program allows for a single paystub with year-to-date earnings for salaried borrowers and the most recent year's tax return for borrowers who are self-employed or commissioned. The Super-Streamlined Documentation Program is available for first-lien borrowers in good standing with Countrywide. The Super-Streamlined Documentation Loan Program is available for borrowers who have recently purchased or refinanced with Countrywide if they have not been 30 days delinquent in payment during the previous twelve month period. Under the Super-Streamlined Documentation Program, the value used in conjunction with obtaining the first lien from Countrywide is used in lieu of a new appraisal and subsequently used to determine the combined loan-to-value ratios for the new second lien loan. In most instances, the maximum loan amount is limited to the lesser of 25% of the first lien balance or \$50,000. Although a credit review is conducted no debt ratio calculation, income documentation or asset verification is required. A telephone verification of employment is required before loan closing.

Full appraisals are generally performed on all closed-end second lien mortgage loans that at origination had a loan amount greater than \$100,000. These appraisals are determined on the basis of a Countrywide-approved, independent third-party, fee-based appraisal. For certain closed-end second lien mortgage loans that had at origination a loan amount less than or equal to \$100,000, a drive-by evaluation is generally completed by a state licensed, independent third-party, professional appraiser on Uniform Residential Appraisal Report (Form 1004). The drive-by evaluation is an exterior examination of the premises by the appraiser to determine that the property is in good condition. The appraisal is based on various factors, including the market value of comparable homes and the cost of replacing the improvements, and generally must have been made not earlier than 180 days before the date of origination of the mortgage loan. For certain closed-end second lien mortgage loans with loan amounts less than or equal to \$100,000, Countrywide may have the related mortgaged property appraised electronically. Electronic appraisals use commercially-available home price indices and will only be completed on mortgaged properties where Countrywide or an affiliate also services the first-lien mortgage. Countrywide's minimum and maximum loan amounts for closed-end second lien mortgage loans are generally \$7,500 and \$500,000, respectively.

After obtaining all applicable income, liability, asset, employment, credit and property information, Countrywide generally uses a debt-to-income ratio to assist in determining whether the prospective borrower has sufficient monthly income available to support the payments on the closed-end second lien mortgage loan in addition to any senior mortgage loan payments (including any escrows for property taxes and hazard insurance premiums) and other monthly credit obligations. The "debt-to-income ratio" is the ratio of the borrower's total monthly credit obligations to the borrower's

gross monthly income. Based on this, the maximum monthly debt-to-income ratio is 45%. Variations in the monthly debt-to-income ratios limits are permitted based on compensating factors. Countrywide currently offers closed-end second lien mortgage loan products that allow maximum combined loan-to-value ratios up to 100%.

It is generally Countrywide's policy to require a title search or limited coverage policy before it makes a closed-end second lien mortgage loan for amounts less than or equal to \$100,000. In addition, if the closed-end second lien mortgage loan has an original principal balance of more than \$100,000, Countrywide requires that the borrower obtain an ALTA policy, or other assurance of title customary in the relevant jurisdiction. In addition, ALTA title policies are generally obtained in situations where the property is on leased land or there has been a change in title.

## DESCRIPTION OF THE CERTIFICATES

### Book-Entry Procedures

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

*Title to DTC Certificates.* The DTC Certificates will be registered at all times in the name of the nominee of DTC. Under its normal procedures, DTC will record the amount of DTC Certificates held by each firm which participates in the book-entry system of DTC (each, a "DTC Participant"), whether held for its own account or on behalf of another person.

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

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

*Holding Through International Clearing Systems.* Beneficial interests in the DTC Certificates may be held through organizations participating in the international clearing systems described below. Electronic securities and payment transfer, processing, depository and custodial arrangements among these systems and DTC, either directly or indirectly through custodians and depositories, may enable beneficial interests in the DTC Certificates to be issued, held and transferred among these systems as described below. Special procedures among these systems allow clearance and settlement of beneficial interests in certain securities traded across borders in the secondary market. Cross-market transfers of beneficial interests in the DTC Certificates may be cleared and settled using these procedures.

However, we can give no assurance that cross-market transfers of beneficial interests in the DTC Certificates will be possible.

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

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

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

*Euroclear and Clearstream.* The Euroclear System (“Euroclear”) was created in 1968 to hold securities for its participants and to clear and settle transactions between its participants through simultaneous electronic book-entry delivery against payment. Euroclear is operated by Morgan Guaranty Trust Company of New York, Brussels office (“Morgan”), and all Euroclear securities clearance and cash accounts are with Morgan. They are governed by the terms and conditions governing the use of Euroclear and the related operating procedures of Euroclear, and applicable Belgian law. Clearstream Banking, *société anonyme* (“Clearstream”), was incorporated in 1970 under the laws of Luxembourg as a limited liability company. A participant’s overall contractual relations with Clearstream are governed by the general terms and conditions, related operating rules and procedures and applicable Luxembourg law.

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

## Interest Payments

### *Categories of Classes*

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

<u>Interest Type*</u>	<u>Classes</u>
<b>Group 1 Classes</b>	
Fixed Rate	AF-1, AF-2, AF-3, AF-4, AF-5 and AF-6
Available Funds	AF-1, AF-2, AF-3, AF-4, AF-5 and AF-6
Weighted Average Coupon	AF-IO
Interest Only	AF-IO
<b>Group 2 Classes</b>	
Floating Rate	AV-1
Available Funds	AV-1
Weighted Average Coupon	AV-IO
Interest Only	AV-IO

<u>Interest Type*</u>	<u>Classes</u>
<b>Group 3 Classes</b>	
Fixed Rate	AS-1, AS-2, AS-3, AS-4 and AS-5
Available Funds	AS-1, AS-2, AS-3, AS-4 and AS-5
Weighted Average Coupon	AS-IO
Interest Only	AS-IO
<b>No Payment Residual</b>	R, RM and RL

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

*General.* We will pay interest on the Certificates at the applicable interest rates or in the applicable amounts described in this prospectus subject to the limitations specified below. We will calculate interest, in the case of all Classes other than the Floating Rate Class, on the basis of an assumed 360-day year consisting of twelve 30-day months and, in the case of the Floating Rate Class, on the basis of an assumed 360-day year and the actual number of days elapsed in the applicable Interest Accrual Period. We will pay interest monthly on each Distribution Date, beginning on September 25, 2001.

Subject to the limitations specified below, interest to be paid on each Certificate on a Distribution Date will consist of the interest accrued during the related Interest Accrual Period on the related Certificate’s outstanding principal balance (or notional principal balance) immediately prior to that Distribution Date; provided, however, that in the case of the first Interest Accrual Period, we will pay only 26 days’ interest on the Floating Rate Class.

There are certain circumstances that could reduce the amount of interest to be paid to you. See “—*Excess Prepayment Interest Shortfalls*” below.

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

<u>Classes</u>	<u>Interest Accrual Period</u>
All interest-bearing Classes other than the Floating Rate Class (the “Delay Classes”)	Calendar month preceding the month in which the Distribution Date occurs
Floating Rate Class	One-month period beginning on the 25th day of the month preceding the month in which the Distribution Date occurs (other than the initial Interest Accrual Period, which is the 26-day period beginning on August 30, 2001)

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

*Notional Classes.* The AF-IO, AV-IO and AS-IO Classes are Notional Classes and, accordingly, will not have principal balances. During each Interest Accrual Period, the Notional Classes will be entitled to receive interest on their notional principal balances in the amounts described under “—*The Group 1 Classes—The AF-IO Class*,” “—*The Group 2 Classes—The AV-IO Class*” and “—*The Group 3 Classes—The AS-IO Class*” below.

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

### *The Group 1 Classes*

*The Group 1 Sequential Classes.* On each Distribution Date, we will pay interest on each of the AF-1, AF-2, AF-3, AF-4, AF-5 and AF-6 Classes (collectively, the “Group 1 Sequential Classes”) in an amount equal to one-month’s interest at the applicable annual rate described below (each such amount, the related “Group 1 Sequential Class Current Interest Amount”).

For purposes of calculating the Group 1 Sequential Class Current Interest Amount for each of the AF-1, AF-2, AF-3, AF-4, AF-5 and AF-6 Classes for any Distribution Date, interest will accrue (except as noted in the following sentence) at an annual rate equal to the *lesser* of (i) the applicable fixed rate shown on the cover of this prospectus and (ii) the Net WAC of the Group 1 Loans for that Distribution Date. On each Distribution Date after the Group 1 Optional Termination Date, we will pay interest on the AF-5 and AF-6 Classes at an annual rate equal to the *lesser* of (i) the sum of the applicable fixed rate shown on the cover of this prospectus plus 50 basis points and (ii) the Net WAC of the Group 1 Loans for that Distribution Date.

The “Net WAC” of the Group 1 Loans for any Distribution Date means the weighted average of the Net Mortgage Rates of the Group 1 Loans in effect on, and weighted on the basis of the principal balances of the Group 1 Loans as of, the first day of the month immediately preceding the month in which that Distribution Date occurs (after giving effect to scheduled payments of principal due on or before that date). The “Net Mortgage Rate” of a Group 1 Loan for any date means the original mortgage interest rate for that loan less 1.56%; *provided, however*, that in the case of any Credit Comeback Loan, the rate thus obtained is reduced by an additional 1.50%.

In addition, on each Distribution Date we will pay to the Group 1 Sequential Classes, pro rata, the aggregate Group 1 Sequential Class Interest Carryover Amount (defined below) for that Distribution Date to the extent of amounts that would otherwise have been payable as interest on the AF-IO Class on that Distribution Date if there had been no Group 1 Sequential Class Interest Carryover Amount payable on that Distribution Date. This pro rata payment will be based on the *ratio* of

- the Group 1 Sequential Class Interest Carryover Amount for each of the related Classes for that Distribution Date

*to*

- the aggregate Group 1 Sequential Class Interest Carryover Amount for that Distribution Date.

The “Group 1 Sequential Class Interest Carryover Amount” means, with respect to each of the Group 1 Sequential Classes and any Distribution Date, the *sum* of

- the *excess* of the amount of interest that the applicable Class would have been entitled to receive had the interest rate for that Class not been calculated based on the Net WAC of the Group 1 Loans for that Distribution Date *over* the related Group 1 Sequential Class Current Interest Amount for that Distribution Date

*plus*

- the unpaid portion of any such excess from prior Distribution Dates (and interest thereon at the then current interest rate for that Class, without giving effect to the Net WAC cap for that Distribution Date).

*The AF-IO Class.* On each Distribution Date, we will pay interest on the AF-IO Class in an amount equal to the *excess*, if any, of:

- interest for the related Interest Accrual Period calculated at the Net WAC of the Group 1 Loans for that Distribution Date

*over*

- the aggregate amount of interest actually paid on the Group 1 Sequential Classes on that Distribution Date.



### *The Group 2 Classes*

*The AV-1 Class.* On each Distribution Date, we will pay interest on the AV-1 Class in an amount equal to one-month's interest at the annual rate described below (the "AV-1 Class Current Interest Amount").

For purposes of calculating the AV-1 Class Current Interest Amount for any Distribution Date, interest will accrue on the AV-1 Class as follows:

- during each Interest Accrual Period on or prior to the Group 2 Optional Termination Date, the *least* of (i) One-Month LIBOR (calculated as described below under "—Calculation of One-Month LIBOR") plus 13 basis points, (ii) the Net WAC of the Group 2 Loans for the related Distribution Date and (iii) the Net Maximum Rate of the Group 2 Loans for the related Distribution Date

and

- during each Interest Accrual Period after the Group 2 Optional Termination Date, the *least* of (i) One-Month LIBOR plus 26 basis points, (ii) the Net WAC of the Group 2 Loans for the related Distribution Date and (iii) the Net Maximum Rate of the Group 2 Loans for the related Distribution Date.

The "Net WAC" of the Group 2 Loans for any Distribution Date means the weighted average of the Net Mortgage Rates of the Group 2 Loans in effect on, and weighted on the basis of the principal balances of the Group 2 Loans as of, the first day of the month immediately preceding the month in which that Distribution Date occurs (after giving effect to scheduled payments of principal due on or before that date). The "Net Mortgage Rate" of a Group 2 Loan for any date means the mortgage interest rate for that loan in effect on that date less 1.56% (as adjusted from a 30/360 to an actual/360 basis).

The "Net Maximum Rate" of the Group 2 Loans for any Distribution Date means the weighted average of the maximum Net Mortgage Rates of the Group 2 Loans, weighted on the basis of the principal balances of the Group 2 Loans as of the first day of the month immediately preceding the month in which that Distribution Date occurs (after giving effect to scheduled payments of principal due on that date), and adjusted to reflect the accrual of interest on an actual/360 basis.

In addition, on each Distribution Date we will pay to the AV-1 Class the AV-1 Class Interest Carryover Amount (defined below) to the extent of amounts that would otherwise have been payable as interest on the AV-IO Class on that Distribution Date if there had been no AV-1 Class Interest Carryover Amount on that Distribution Date.

The "AV-1 Class Interest Carryover Amount" means, for any Distribution Date, the *sum* of

- the *excess* of the amount of interest that the AV-1 Class would have been entitled to receive had the interest rate for that Class not been calculated based on the Net WAC of the Group 2 Loans for that Distribution Date *over* the AV-1 Class Current Interest Amount for that Distribution Date

*plus*

- the unpaid portion of any such excess from prior Distribution Dates (and interest thereon at the then current interest rate for the AV-1 Class, without giving effect to the Net WAC cap for that Distribution Date, but not in excess of the Net Maximum Rate of the Group 2 Loans for that Distribution Date).

*The AV-IO Class.* On each Distribution Date, we will pay interest on the AV-IO Class in an amount equal to the *excess*, if any, of:

- interest for the related Interest Accrual Period calculated at the Net WAC of the Group 2 Loans for that Distribution Date

*over*

- the interest actually paid on the AV-1 Class on that Distribution Date.

### *The Group 3 Classes*

*The Group 3 Sequential Classes.* On each Distribution Date, we will pay interest on the AS-1, AS-2, AS-3, AS-4 and AS-5 Classes (the “Group 3 Sequential Classes”) in an amount equal to one month’s interest at the applicable annual rate described below (each such amount, the related “Group 3 Sequential Class Current Interest Amount”).

For purposes of calculating the Group 3 Sequential Class Current Interest Amounts for any Distribution Date, interest will accrue (except as noted in the following sentence) at an annual rate equal to the *lesser* of (i) the applicable fixed rate shown on the cover of this prospectus and (ii) the Net WAC of the Group 3 Loans for that Distribution Date. On each Distribution Date after the Group 3 Optional Termination Date, we will pay interest on the AS-4 and AS-5 Classes at an annual rate equal to the *lesser* of (i) the sum of the applicable fixed rate shown on the cover of this prospectus plus 50 basis points and (ii) the Net WAC of the Group 3 Loans for the related Distribution Date.

The “Net WAC” of the Group 3 Loans for any Distribution Date means the weighted average of the Net Mortgage Rates of the Group 3 Loans in effect on, and weighted on the basis of, the principal balances of the Group 3 Loans as of the first day of the month immediately preceding the month in which that Distribution Date occurs (after giving effect to scheduled payments of principal due on or before that date). The “Net Mortgage Rate” of a Group 3 Loan for any date means the mortgage interest rate for that loan in effect on that date less 1.70%.

In addition, on each Distribution Date we will pay to the Group 3 Sequential Classes, pro rata, the aggregate Group 3 Sequential Class Interest Carryover Amount for that Distribution Date to the extent of amounts that would otherwise have been payable as interest on the AS-IO Class on that Distribution Date if there had been no Group 3 Sequential Class Interest Carryover Amount payable on that Distribution Date. This pro rata payment will be based on the *ratio* of

- the Group 3 Sequential Class Interest Carryover Amount for each of the Group 3 Sequential Classes for that Distribution Date

*to*

- the aggregate Group 3 Sequential Class Interest Carryover Amount for that Distribution Date.

The “Group 3 Sequential Class Interest Carryover Amount” means, with respect to each of the Group 3 Sequential Classes and any Distribution Date, the *sum* of

- the *excess* of the amount of interest that the applicable Class would have been entitled to receive had the interest rate for that Class not been calculated based on the Net WAC of the Group 3 Loans for that Distribution Date *over* the related Group 3 Sequential Class Current Interest Amount for that Distribution Date

*plus*

- the unpaid portion of any such excess from prior Distribution Dates (and interest thereon at the then current interest rate for that Class, without giving effect to the Net WAC cap for that Distribution Date).



*The AS-IO Class.* On each Distribution Date, we will pay interest on the AS-IO Class in an amount equal to the excess, if any, of:

- interest for the related Interest Accrual Period calculated at the Net WAC of the Group 3 Loans for that Distribution Date

*over*

- the aggregate amount of interest actually paid on the Group 3 Sequential Classes on that Distribution Date.

#### *Excess Prepayment Interest Shortfalls*

When a borrower prepays all or a portion of a Mortgage Loan between scheduled monthly payment due dates, the borrower pays interest on the amount prepaid only to the date of prepayment. In order to mitigate the effect of any such shortfall in interest payments to Certificateholders on any Distribution Date, one-half of the servicing fee with respect to the Group 1, Group 2 or Group 3 Loans, as applicable, otherwise payable to the Servicer for that month will, to the extent of the interest shortfall, be included in the payment of interest to the related Certificateholders on that Distribution Date as “compensating interest.” Prepayment interest shortfall amounts in excess of compensating interest on a Distribution Date for any Loan Group will be covered by amounts otherwise payable on the Interest Only Class related to that Loan Group. Remaining prepayment interest shortfall amounts, after giving effect to the foregoing coverage, will reduce the current interest amount otherwise due to each Class in the related Group, pro rata, based on the proportion that the amount of current interest otherwise payable on that Distribution Date to that Class bears to the aggregate amount of current interest otherwise payable on that Distribution Date to all Classes in the related Group.

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

*General.* The “Index Determination Date” for the AV-1 Class means the second business day before the first day of each Interest Accrual Period (or, in the case of the initial Interest Accrual Period, August 28, 2001). For purposes of calculating One-Month LIBOR, the term “business day” means a day on which banks are open for dealing in foreign currency and exchange in London and New York City.

We are responsible for calculating One-Month LIBOR on each Index Determination Date using the method described below. The Index value that we calculate on each Index Determination Date and the interest rate that we determine for the AV-1 Class for the related Interest Accrual Period will be final and binding, absent manifest error. You may obtain each such interest rate by telephoning us in Washington, D.C. at 800-237-8627 or 202-752-6547.

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

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

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

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

The “Reserve Interest Rate” means the annual rate that we determine as the arithmetic mean (rounded upwards, if necessary, to the nearest  $\frac{1}{32}$  of 1%) of the one-month U.S. dollar lending rates that New York City banks (which we select) are then quoting to the principal London offices of at least two of the Reference Banks. If we cannot establish the arithmetic mean, then the Reserve Interest Rate is the lowest one-month U.S. dollar lending rate that New York City banks (which we select) are then quoting to leading European banks. The term “Reference Bank” means a leading bank (that we do not control either solely or with a third party) which engages in Eurodollar deposit transactions in the international Eurocurrency market.

## Principal Payments

### *Categories of Classes*

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

<u>Principal Type*</u>	<u>Classes</u>
<b>Group 1 Classes</b>	
Sequential Pay	AF-1, AF-2, AF-3, AF-4, AF-5 and AF-6
NAS	AF-6
Notional	AF-IO
<b>Group 2 Classes</b>	
Pass-Through	AV-1
Notional	AV-IO
<b>Group 3 Classes</b>	
Sequential Pay	AS-1, AS-2, AS-3, AS-4 and AS-5
NAS	AS-5
Notional	AS-IO
<b>No Payment Residual</b>	R, RM and RL

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

### *Principal Distribution Amount*

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

- the principal portion of any scheduled monthly payment on a Mortgage Loan (including a balloon payment on a Balloon Mortgage Loan), whether or not received,
- the principal balance of any Mortgage Loan that was liquidated or prepaid in full during the related Due Period,
- the principal balance of any Mortgage Loan that has been repurchased during the related Due Period as described in “The Trust Agreement—Collection and Other Servicing Procedures” in this prospectus,

- the amount of any partial prepayment of any Mortgage Loan received during the related Due Period, and
- in the case of the December 2001 Distribution Date, any funds remaining in the Prefunding Account after November 28, 2001.

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

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

#### *Group 1 Classes*

On each Distribution Date, we will pay that portion of the Principal Distribution Amount attributable to the Group 1 Loans as principal of the Group 1 Classes in the following priority:

- (i) to the AF-6 Class, the Lockout Percentage (defined below) of the AF-6 Class Specified Percentage (defined below) of such amount for that Distribution Date; and } **NAS Class**
- (ii) sequentially, to the AF-1, AF-2, AF-3, AF-4, AF-5 and AF-6 Classes, in that order, until their principal balances are reduced to zero. } **Sequential Pay Classes**

The “AF-6 Class Specified Percentage” for any Distribution Date will be calculated by *dividing*

- the outstanding principal balance of the AF-6 Class
- by
- the aggregate outstanding principal balance of the AF-1, AF-2, AF-3, AF-4, AF-5 and AF-6 Classes.

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

<u>Distribution Date</u>	<u>Lockout Percentage</u>
September 2001 through August 2004.....	0%
September 2004 through August 2006.....	45%
September 2006 through August 2007.....	80%
September 2007 through August 2008.....	100%
September 2008 and thereafter .....	300%

#### *The AV-1 Class*

On each Distribution Date, we will pay that portion of the Principal Distribution Amount attributable to the Group 2 Loans as principal of the AV-1 Class, until its principal balance is reduced to zero. } **Pass-Through Class**

#### *Group 3 Classes*

On each Distribution Date, we will pay that portion of the Principal Distribution Amount attributable to the Group 3 Loans as principal of the Group 3 Classes in the following priority:

- (i) to the AS-5 Class, the Lockout Percentage set forth above of the AS-5 Class Specified Percentage (defined below) of such amount for that Distribution Date; and } **NAS Class**
- (ii) sequentially, to the AS-1, AS-2, AS-3, AS-4 and AS-5 Classes, in that order, until their principal balances are reduced to zero. } **Sequential Pay Classes**

The “AS-5 Class Specified Percentage” for any Distribution Date will be calculated by *dividing*

- the outstanding principal balance of the AS-5 Class

*by*

- the aggregate outstanding principal balance of the AS-1, AS-2, AS-3, AS-4 and AS-5 Classes.

### **Class Definitions and Abbreviations**

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

<u>Abbreviation</u>	<u>Category of Class</u>	<u>Definition</u>
<b>PRINCIPAL TYPES</b>		
NAS	Non-Accelerated	Is designed to receive no principal payments prior to a designated date and thereafter to receive an increasing percentage of principal payments in subsequent months.
NTL	Notional	Has no principal balance and bears interest on its notional principal balance. The notional principal balance is used to determine interest payments on an Interest Only Class that is not entitled to principal.
NPR	No Payment Residual	Receives no payments of principal.
PT	Pass-Through	Receives principal payments in direct relation to scheduled payments on the underlying Mortgage Loans.
SEQ	Sequential Pay	Receives principal payments in a prescribed sequence but without a predetermined schedule.
<b>INTEREST TYPES</b>		
AFC	Available Funds	Receives as interest all or a portion of the scheduled interest payments made on the Mortgage Loans. However, this amount may be insufficient on any Distribution Date to cover fully the accrued and unpaid interest on the Certificates of this Class at its specified interest rate for the related Interest Accrual Period.
FIX	Fixed Rate	Has an interest rate that is fixed throughout the life of the class.
FLT	Floating Rate	Has an interest rate that resets periodically based upon a designated index and that varies directly with changes in the index.
IO	Interest Only	Receives some of the scheduled interest payments made on the Mortgage Loans but no principal. Interest Only Classes have a notional 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.
NPR	No Payment Residual	Receives no payments of interest.
WAC	Weighted Average Coupon	Has an interest rate that represents an effective weighted average interest rate that may change from period to period.

### **Special Characteristics of R, RM and RL Class Certificates**

The R, RM and RL Classes will not have principal balances and will not bear interest. If any assets of the Upper Tier REMIC, Middle Tier REMIC or the Lower Tier REMIC remain after the

principal balances of the Group 1, Group 2 and Group 3 Classes are reduced to zero, we will pay the Holder of the R Class Certificate the proceeds from the Upper Tier REMIC, will pay the Holder of the RM Class Certificate the proceeds from the Middle Tier REMIC, and will pay the Holder of the RL Class Certificate the proceeds from the Lower Tier REMIC. We do not expect that any material assets will remain in the Upper Tier REMIC, the Middle Tier REMIC or the Lower Tier REMIC.

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

- the transferee is a “U.S. Person” (as defined below) or a foreign person subject to United States income taxation on a net basis on income derived from that Certificate;
- if the transferee is a partnership for U.S. federal income tax purposes, each person or entity that holds an interest (directly, or indirectly through a pass-through entity) in the partnership is a U.S. Person or a foreign person subject to United States income taxation on a net basis on income derived from that Certificate;
- the transferee is not a disqualified organization,
- it is not acquiring the R, RM or RL Class Certificate for the account of a disqualified organization,
- it consents to any amendment of the Trust Agreement that we deem necessary (upon the advice of our counsel) to ensure that the R, RM and RL Class Certificates will not be owned directly or indirectly by a disqualified organization,
- it is not acquiring the R, RM or RL Class Certificate to avoid or impede the assessment or collection of tax,
- it understands that it may incur tax liabilities in excess of any cash that it will receive on the R, RM or RL Class Certificate,
- it intends to pay taxes on the R, RM or RL Class Certificate as they become due, and
- it will not transfer the R, RM or RL Class Certificate unless it has received from the new transferee an affidavit containing these same representations and it does not have actual knowledge that this other affidavit is false.

See “Certain Federal Income Tax Consequences—*Taxation of Beneficial Owners of the Residual Certificates*—Sales and Other Dispositions of Residual Certificates—*Residual Certificates Transferred to or Held by Disqualified Organizations*” in this prospectus. The transferee also must deliver a properly executed Internal Revenue Service Form W-9 (or, if applicable a Form W-8ECI) with its taxpayer identification number. In addition, if a pass-through entity (including a nominee) holds an R, RM or RL Class Certificate, it may be subject to additional taxes if a disqualified organization is a record holder in the entity.

No R, RM or RL Class Certificate may be transferred to any person that is not (i) a “U.S. Person” or (ii) a foreign person subject to United States income taxation on a net basis on income derived from the Residual Certificate. The term “U.S. Person” means

- a citizen or resident of the United States,
- a corporation, partnership or other entity created under the laws of the United States or any of the states or the District of Columbia,
- 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”), if a “noneconomic residual interest” is transferred, the transfer will be disregarded for all federal tax purposes unless no significant purpose of the transfer is to impede the assessment or collection of tax. The R, RM or RL Classes will constitute noneconomic residual interests under the Regulations.

Under the Regulations, the phrase “a significant purpose of the transfer to impede the assessment or collection to tax” means that the transferor of the R, RM or RL Class Certificate had “improper knowledge” at the time of the transfer. In other words, the transferor knew, or should have known, that the transferee would be unwilling or unable to pay taxes due on its share of the taxable income of the REMIC trust. A transferor is presumed not to have improper knowledge if two conditions are met. First, the transferor conducts, at the time of the transfer, a reasonable investigation of the financial condition of the transferee and, based on the results, finds that the transferee has historically paid its debts as they come due and finds no significant evidence to indicate that the transferee will not continue to pay its debts as they come due in the future. Second, the transferee makes certain representations to the transferor in the affidavit relating to disqualified organizations discussed above. The Treasury Department has proposed an amendment to the Regulations that would add a third condition, effective February 4, 2000. According to the proposed amendment, a transferor of a R, RM or RL Class Certificate would be presumed not to have improper knowledge only if the present value of the anticipated tax liabilities associated with holding the R, RM or RL Class Certificate is less than or equal to the present value of the sum of (i) any consideration given to the transferee to acquire the Residual Certificate, (ii) expected future distributions on the R, RM or RL Class Certificate, and (iii) anticipated tax savings associated with holding the R, RM or RL Class Certificate as the REMIC trust generates losses. The application of the proposed amendment to an actual transfer is uncertain, and you should consult your own tax advisor regarding its effect on the transfer of a R, RM or RL Class Certificate.

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



The Holder of the R Class Certificate will be considered to be the holder of the “residual interest” in the REMIC constituted by the Upper Tier REMIC, the Holder of the RM Class Certificate will be considered to be the holder of the “residual interest” in the REMIC constituted by the Middle Tier REMIC, and the Holder of the RL Class Certificate will be considered to be the holder of the “residual interest” in the REMIC constituted by the Lower Tier REMIC. See “Certain Federal Income Tax Consequences—*REMIC Elections and Special Tax Attributes*” below. Pursuant to the Trust Agreement we will be obligated to provide to the Holder or Holders of the R, RM and RL Class Certificates (i) information needed to prepare federal income tax returns and (ii) any reports regarding the R, RM or RL Class Certificate that may be required under the Code.

## Structuring Assumptions

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

- the Group 1 Loans prepay at the HEP levels specified in the related tables;
- the Group 2 and Group 3 Loans prepay at the percentages of CPR specified in the related tables;
- the scheduled amortization for all Mortgage Loans is based upon their gross interest rates and no interest rate reductions occur on the Credit Comeback Loans;
- none of the Mortgage Loans ever becomes a delinquent Mortgage Loan;
- the closing date for the sale of the Certificates occurs on August 30, 2001;
- the entire amount of the Prefunding Account is used to purchase additional Group 1, Group 2 and Group 3 Loans in the amounts described in this prospectus;
- each Distribution Date for the Certificates occurs on the 25th day of the related month;
- the Servicer does not exercise any of its optional clean-up calls and we do not exercise our repurchase option;
- the assumed value for Six-Month LIBOR is 3.56%;
- the assumed value for One-Month LIBOR is 3.60%; and
- the assumed initial interest rate for the AV-1 Class is 3.73%.

*Prepayment Assumptions.* Prepayments of mortgage loans commonly are measured relative to a prepayment standard or model. The models used in this prospectus are the “Home Equity Prepayment” or “HEP” model for the Group 1 Loans and the constant prepayment model (“CPR”) for the Group 2 and Group 3 Loans (each, the “Prepayment Assumption”).

CPR represents an assumed constant rate of prepayment each month, expressed as an annual rate, relative to the then outstanding principal balance of a pool of new mortgage loans. Thus, “0% CPR” means no prepayments, “30% CPR” means an annual prepayment rate of 30%, and so forth. HEP assumes that a pool of loans prepays in the first month of the life of the loans at a constant prepayment rate that corresponds in CPR to one-tenth of the given HEP percentage and increases by an additional one-tenth each month thereafter until the tenth month, where it remains at a CPR equal to the given HEP percentage. For example, a 23% HEP assumes a CPR of 2.3% for the mortgage loans in the first month of the life of the mortgage loans and an additional 2.3% CPR each month thereafter until the tenth month. Beginning in the tenth month and in each month thereafter during the life of the mortgage loans, 23% HEP assumes a CPR of 23% each month.



*These models do not purport to be historical descriptions of the prepayment experience of any pool of mortgage loans or predictions of the anticipated rates of prepayment of any pools of mortgage loans, including the Mortgage Loans. It is highly unlikely that the Group 1, Group 2 or Group 3 Loans will prepay at rates consistent with the assumptions made in this prospectus until maturity or that all of the Group 1, Group 2 or Group 3 Loans will prepay at the same rate.*

## **Yield Tables**

*General.* The tables below illustrate the sensitivity of the pre-tax corporate bond equivalent yields to maturity of the applicable Classes to various constant percentages of HEP or constant levels of CPR, as applicable, and, where specified, to various assumed purchase prices. We calculated the yields set forth in the tables by

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

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

We cannot assure you that

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

In addition, it is unlikely that One-Month LIBOR will correspond to the level assumed in the Pricing Assumptions. Furthermore, because some of the Mortgage Loans are likely to have remaining terms to maturity shorter or longer than those assumed and interest rates higher or lower than those assumed, the principal payments on the related Certificates are likely to differ from those assumed. This would be the case even if all the Group 1 Loans prepay at the indicated constant percentages of HEP and all the Group 2 or Group 3 Loans prepay at the indicated constant levels of CPR. Moreover, it is unlikely that

- the Group 1 Loans will prepay at a constant percentage of HEP, or the Group 2 or Group 3 Loans will prepay at a constant level of CPR, until maturity,
- all of the Group 1, Group 2 or Group 3 Loans will prepay at the same rate, or
- the level of One-Month LIBOR will remain constant.

*The AF-IO, AV-IO and AS-IO Classes.* **The yields on the AF-IO, AV-IO and AS-IO Classes will be very sensitive to the rate of principal payments (including prepayments) of the related Mortgage Loans. The Mortgage Loans generally require the payment of a prepayment penalty as described in this prospectus. On the basis of the assumptions described below and assumed purchase prices of 5.144696%, 11.710553% and 7.020654% for the AF-IO, AV-IO and AS-IO Classes, respectively, the yield to maturity on the AF-IO, AV-IO and AS-IO Classes would be 0% if prepayments of the related Mortgage Loans were to occur at a constant rate of 23% HEP, in the case of the Group 1 Loans, or a constant level of 30% or 28% CPR, in the case of the Group 2 and Group 3 Loans, respectively, assuming no optional clean-up calls are exercised. If the actual prepayment rate of the related Mortgage Loans were to exceed the level specified for as little as one month while equaling such level for the remaining months, the investors in the AF-IO, AV-IO and AS-IO Classes would lose money on their initial investments.**

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

### Sensitivity of the AF-IO Class to Prepayments

Price†	Yield to Call* HEP Prepayment Assumption				
	0%	10%	23%	35%	45%
3.50%.....	58.4%	41.7%	19.1%	(2.6)%	(21.6)%
4.00%.....	50.4%	33.8%	11.3%	(10.4)%	(29.6)%
4.50%.....	44.3%	27.8%	5.3%	(16.5)%	(35.9)%

  

Price†	Yield to Maturity** HEP Prepayment Assumption				
	0%	10%	23%	35%	45%
3.50%.....	58.4%	41.7%	19.3%	(0.8)%	(15.9)%
4.00%.....	50.4%	33.8%	11.6%	(8.0)%	(22.3)%
4.50%.....	44.3%	27.8%	5.8%	(13.5)%	(27.0)%

\* Assumes that the related optional clean-up call is exercised.

\*\* Assumes that neither the related optional clean-up call nor the Fannie Mae repurchase option is exercised.

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

### Sensitivity of the AV-IO Class to Prepayments

Price†	Yield to Call* CPR Prepayment Assumption				
	0%	15%	30%	40%	50%
8.00%.....	57.0%	37.5%	14.0%	(5.8)%	(29.3)%
8.50%.....	53.5%	34.2%	10.6%	(9.2)%	(32.8)%
9.00%.....	50.3%	31.3%	7.6%	(12.4)%	(36.0)%

  

Price†	Yield to Maturity** CPR Prepayment Assumption				
	0%	15%	30%	40%	50%
8.00%.....	57.0%	37.6%	16.3%	0.7%	(16.3)%
8.50%.....	53.5%	34.3%	13.2%	(2.2)%	(19.0)%
9.00%.....	50.3%	31.4%	10.5%	(4.7)%	(21.3)%

\* Assumes that the related optional clean-up call is exercised.

\*\* Assumes that neither the related optional clean-up call nor the Fannie Mae repurchase option is exercised.

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

### Sensitivity of the AS-IO Class to Prepayments

Price†	Yield to Call* CPR Prepayment Assumption				
	0%	18%	28%	38%	48%
5.00%.....	65.1%	35.3%	16.4%	(5.1)%	(29.3)%
5.50%.....	58.4%	29.1%	10.4%	(11.0)%	(35.2)%
6.00%.....	52.8%	24.0%	5.4%	(16.0)%	(40.2)%

Price†	Yield to Maturity** CPR Prepayment Assumption				
	0%	18%	28%	38%	48%
5.00%.....	65.1%	35.4%	17.6%	(0.4)%	(18.9)%
5.50%.....	58.4%	29.3%	12.0%	(5.5)%	(23.4)%
6.00%.....	52.8%	24.3%	7.3%	(9.7)%	(27.0)%

\* Assumes that the related optional clean-up call is exercised.

\*\* Assumes that neither the related optional clean-up call nor the Fannie Mae repurchase option is exercised.

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

### Weighted Average Lives of the Certificates

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

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

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

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

We expect the original maturities of substantially all of the Mortgage Loans to be between 10 and 30 years. Except for the Balloon Mortgage Loans, each Mortgage Loan will provide for amortization of principal according to a schedule that, in the absence of prepayments, would result in repayment of the Mortgage Loan by its maturity date. Each Balloon Mortgage Loan provides for monthly payments, which generally are based upon a 30 year amortization schedule with a lump sum payment equal to the unpaid principal balance of the Balloon Mortgage Loan on its maturity date (generally 15 years from origination).

The “Final Distribution Date” for a particular Class is the date by which the principal balance is required to be fully paid and is specified on the cover of this prospectus. The Final Distribution Date of the respective Classes will be determined so that distributions on the Mortgage Loans will be sufficient to retire the related Certificates on or before their Final Distribution Date without the necessity of any call on our guaranty.

## **Decrement Tables**

The following tables indicate the percentages of the original principal balances of the specified Classes that would be outstanding after each of the dates shown at various percentages of HEP and various levels of CPR, as applicable, and the corresponding weighted average lives of the specified Classes. The table has been prepared on the basis of the Pricing Assumptions.

It is unlikely that all the Mortgage Loans:

- will have the interest rates or remaining terms to maturity assumed, or
- will prepay at any *constant* percentage of the related HEP or any *constant* CPR level, as applicable.

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

## Percent of Original Principal Balances Outstanding

Date	AF-1 Class					AF-2 Class					AF-3 Class					AF-4 Class				
	HEP Prepayment Assumption					HEP Prepayment Assumption					HEP Prepayment Assumption					HEP Prepayment Assumption				
	0%	10%	23%	35%	45%	0%	10%	23%	35%	45%	0%	10%	23%	35%	45%	0%	10%	23%	35%	45%
Initial Percent	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100
August 2002	97	76	48	21	0	100	100	100	100	91	100	100	100	100	100	100	100	100	100	100
August 2003	94	44	0	0	0	100	100	41	0	0	100	100	100	44	0	100	100	100	100	88
August 2004	91	16	0	0	0	100	100	0	0	0	100	100	45	0	0	100	100	100	50	0
August 2005	88	0	0	0	0	100	68	0	0	0	100	100	0	0	0	100	100	96	0	0
August 2006	84	0	0	0	0	100	0	0	0	0	100	94	0	0	0	100	100	45	0	0
August 2007	80	0	0	0	0	100	0	0	0	0	100	67	0	0	0	100	100	11	0	0
August 2008	76	0	0	0	0	100	0	0	0	0	100	44	0	0	0	100	100	0	0	0
August 2009	72	0	0	0	0	100	0	0	0	0	100	30	0	0	0	100	100	0	0	0
August 2010	68	0	0	0	0	100	0	0	0	0	100	16	0	0	0	100	100	0	0	0
August 2011	64	0	0	0	0	100	0	0	0	0	100	1	0	0	0	100	100	0	0	0
August 2012	59	0	0	0	0	100	0	0	0	0	100	0	0	0	0	100	82	0	0	0
August 2013	54	0	0	0	0	100	0	0	0	0	100	0	0	0	0	100	63	0	0	0
August 2014	47	0	0	0	0	100	0	0	0	0	100	0	0	0	0	100	45	0	0	0
August 2015	41	0	0	0	0	100	0	0	0	0	100	0	0	0	0	100	29	0	0	0
August 2016	20	0	0	0	0	100	0	0	0	0	100	0	0	0	0	100	8	0	0	0
August 2017	14	0	0	0	0	100	0	0	0	0	100	0	0	0	0	100	0	0	0	0
August 2018	7	0	0	0	0	100	0	0	0	0	100	0	0	0	0	100	0	0	0	0
August 2019	0	0	0	0	0	98	0	0	0	0	100	0	0	0	0	100	0	0	0	0
August 2020	0	0	0	0	0	65	0	0	0	0	100	0	0	0	0	100	0	0	0	0
August 2021	0	0	0	0	0	27	0	0	0	0	100	0	0	0	0	100	0	0	0	0
August 2022	0	0	0	0	0	0	0	0	0	0	96	0	0	0	0	100	0	0	0	0
August 2023	0	0	0	0	0	0	0	0	0	0	79	0	0	0	0	100	0	0	0	0
August 2024	0	0	0	0	0	0	0	0	0	0	61	0	0	0	0	100	0	0	0	0
August 2025	0	0	0	0	0	0	0	0	0	0	41	0	0	0	0	100	0	0	0	0
August 2026	0	0	0	0	0	0	0	0	0	0	19	0	0	0	0	100	0	0	0	0
August 2027	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	91	0	0	0	0
August 2028	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	53	0	0	0	0
August 2029	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	11	0	0	0	0
August 2030	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
August 2031	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Weighted Average Life (years)**	11.1	1.9	1.0	0.7	0.6	19.4	4.2	2.0	1.4	1.1	23.5	7.1	3.0	2.0	1.6	27.1	12.8	5.0	3.1	2.3

Date	AF-5 Class					AF-6 Class					AF-IO§ Class					AV-1 and AV-IO§ Classes				
	HEP Prepayment Assumption					HEP Prepayment Assumption					HEP Prepayment Assumption					CPR Prepayment Assumption				
	0%	10%	23%	35%	45%	0%	10%	23%	35%	45%	0%	10%	23%	35%	45%	0%	15%	30%	40%	50%
Initial Percent	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100
August 2002	100	100	100	100	100	100	100	100	100	100	99	92	83	75	68	99	84	70	60	50
August 2003	100	100	100	100	100	100	100	100	100	100	98	82	64	48	37	99	71	48	36	25
August 2004	100	100	100	100	76	100	100	100	100	100	97	73	48	31	20	98	60	34	21	12
August 2005	100	100	100	89	25	99	95	89	82	76	96	65	37	20	11	97	51	23	13	6
August 2006	100	100	100	46	1	99	90	78	67	58	95	58	28	13	6	96	43	16	7	3
August 2007	100	100	100	26	0	98	82	63	47	32	93	51	21	8	3	95	36	11	4	1
August 2008	100	100	86	17	0	96	72	48	30	17	92	46	16	5	2	94	30	8	3	1
August 2009	100	100	77	17	0	91	50	20	11	9	90	40	12	3	1	93	25	5	2	*
August 2010	100	100	63	14	0	86	34	8	3	5	89	35	9	2	1	92	21	4	1	*
August 2011	100	100	50	10	0	80	23	4	1	3	87	31	7	1	*	91	18	3	1	*
August 2012	100	100	38	6	0	74	16	1	*	1	84	27	5	1	*	89	15	2	*	*
August 2013	100	100	29	4	0	68	10	1	*	1	82	24	4	1	*	87	12	1	*	*
August 2014	100	100	22	3	0	62	7	*	*	*	80	21	3	*	*	85	10	1	*	*
August 2015	100	100	16	2	0	56	4	*	*	*	77	18	2	*	*	83	9	1	*	*
August 2016	100	100	11	1	0	39	2	*	*	*	69	15	1	*	*	81	7	*	*	*
August 2017	100	95	8	1	0	35	1	*	*	*	66	13	1	*	*	78	6	*	*	*
August 2018	100	83	6	*	0	31	1	*	*	*	64	11	1	*	*	76	5	*	*	*
August 2019	100	71	5	*	0	27	1	*	*	*	61	9	1	*	*	73	4	*	*	*
August 2020	100	61	3	*	0	23	*	*	*	*	58	8	*	*	*	69	3	*	*	*
August 2021	100	52	2	*	0	20	*	*	0	*	54	7	*	*	*	66	3	*	*	*
August 2022	100	44	2	*	0	16	*	*	0	*	51	6	*	*	*	61	2	*	*	*
August 2023	100	36	1	*	0	13	*	*	0	*	47	5	*	*	*	57	2	*	*	*
August 2024	100	30	1	*	0	9	*	*	0	*	43	4	*	*	*	52	1	*	*	*
August 2025	100	24	1	*	0	7	*	*	0	*	38	3	*	*	*	46	1	*	*	*
August 2026	100	19	*	*	0	4	*	*	0	*	33	2	*	*	*	40	1	*	*	*
August 2027	100	14	*	*	0	2	*	0	0	*	28	2	*	*	*	34	*	*	*	0
August 2028	100	10	*	*	0	1	*	0	0	*	22	1	*	*	*	26	*	*	*	0
August 2029	100	6	*	*	0	*	*	0	0	*	15	1	*	*	*	18	*	*	*	0
August 2030	57	3	*	*	0	*	*	0	0	*	8	*	*	*	0	9	*	*	*	0
August 2031	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Weighted Average Life (years)**	29.1	21.0	10.8	5.9	3.6	14.9	8.4	6.6	5.9	5.5	19.7	8.1	4.0	2.6	2.0	21.4	5.7	2.8	2.0	1.5

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

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

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

Date	AS-1 Class					AS-2 Class					AS-3 Class				
	CPR Prepayment Assumption					CPR Prepayment Assumption					CPR Prepayment Assumption				
	0%	18%	28%	38%	48%	0%	18%	28%	38%	48%	0%	18%	28%	38%	48%
Initial Percent	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100
August 2002	96	64	46	27	9	100	100	100	100	100	100	100	100	100	100
August 2003	92	34	7	0	0	100	100	100	54	0	100	100	100	100	98
August 2004	88	10	0	0	0	100	100	44	0	0	100	100	100	65	0
August 2005	83	0	0	0	0	100	80	0	0	0	100	100	98	3	0
August 2006	78	0	0	0	0	100	42	0	0	0	100	100	42	0	0
August 2007	73	0	0	0	0	100	14	0	0	0	100	100	12	0	0
August 2008	67	0	0	0	0	100	0	0	0	0	100	89	0	0	0
August 2009	62	0	0	0	0	100	0	0	0	0	100	74	0	0	0
August 2010	56	0	0	0	0	100	0	0	0	0	100	54	0	0	0
August 2011	50	0	0	0	0	100	0	0	0	0	100	34	0	0	0
August 2012	43	0	0	0	0	100	0	0	0	0	100	17	0	0	0
August 2013	35	0	0	0	0	100	0	0	0	0	100	2	0	0	0
August 2014	26	0	0	0	0	100	0	0	0	0	100	0	0	0	0
August 2015	16	0	0	0	0	100	0	0	0	0	100	0	0	0	0
August 2016	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
August 2017	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
August 2018	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
August 2019	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
August 2020	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
August 2021	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
August 2022	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
August 2023	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
August 2024	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
August 2025	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
August 2026	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
August 2027	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
August 2028	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
August 2029	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
August 2030	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
August 2031	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Weighted Average Life (years)**	9.2	1.6	1.0	0.7	0.5	14.8	4.9	3.0	2.1	1.6	14.8	9.3	5.0	3.3	2.4

Date	AS-4 Class					AS-5 Class					AS-10§ Class				
	CPR Prepayment Assumption					CPR Prepayment Assumption					CPR Prepayment Assumption				
	0%	18%	28%	38%	48%	0%	18%	28%	38%	48%	0%	18%	28%	38%	48%
Initial Percent	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100
August 2002	100	100	100	100	100	100	100	100	100	100	98	80	71	61	51
August 2003	100	100	100	100	100	100	100	100	100	100	96	64	50	37	26
August 2004	100	100	100	100	62	100	100	100	100	100	93	52	35	22	13
August 2005	100	100	100	100	0	99	90	85	80	66	91	41	24	13	7
August 2006	100	100	100	33	0	97	81	73	64	33	88	33	17	8	3
August 2007	100	100	100	12	0	94	67	54	42	17	85	26	12	5	2
August 2008	100	100	87	7	0	91	53	37	25	8	81	20	8	3	1
August 2009	100	100	84	7	0	78	25	13	13	4	77	16	6	2	*
August 2010	100	100	67	7	0	66	11	4	6	2	73	12	4	1	*
August 2011	100	100	48	7	0	54	5	1	2	1	68	9	3	1	*
August 2012	100	100	33	6	0	43	2	*	*	*	64	7	2	*	*
August 2013	100	100	22	4	0	33	1	*	*	*	58	5	1	*	*
August 2014	100	78	14	2	0	24	*	*	*	*	52	4	1	*	*
August 2015	100	56	9	1	0	16	*	*	*	*	46	3	*	*	*
August 2016	27	1	*	*	0	0	0	0	0	*	1	*	*	*	*
August 2017	23	1	*	*	0	0	0	0	0	*	1	*	*	*	*
August 2018	18	1	*	*	0	0	0	0	0	*	1	*	*	*	*
August 2019	13	*	*	*	0	0	0	0	0	*	1	*	*	*	*
August 2020	8	*	*	*	0	0	0	0	0	*	*	*	*	*	*
August 2021	3	*	*	*	0	0	0	0	0	*	*	*	*	*	0
August 2022	3	*	*	*	0	0	0	0	0	*	*	*	*	*	0
August 2023	3	*	*	*	0	0	0	0	0	0	*	*	*	*	0
August 2024	2	*	*	*	0	0	0	0	0	0	*	*	*	*	0
August 2025	1	*	*	*	0	0	0	0	0	0	*	*	*	*	0
August 2026	1	*	*	*	0	0	0	0	0	0	*	*	*	*	0
August 2027	*	*	*	0	0	0	0	0	0	0	*	*	*	*	0
August 2028	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
August 2029	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
August 2030	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
August 2031	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Weighted Average Life (years)**	15.8	14.0	10.2	5.4	3.2	10.5	6.9	6.2	5.8	4.8	11.4	4.2	2.8	2.0	1.5

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

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

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

## **THE TRUST AGREEMENT**

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

You may request a copy of the Trust Agreement by writing or calling us at the address and telephone numbers shown on page 3 of this prospectus.

### **Transfer of Mortgage Loans to the Lower Tier REMIC**

The Trust Agreement will contain a mortgage loan schedule that will identify the Mortgage Loans that are being transferred to the Lower Tier REMIC. As Trustee, we will hold, on behalf of the Certificateholders, the original Mortgage Notes, endorsed in blank, and assignments of the mortgage instruments to us in recordable form. Usually assignments are in a form suitable for recording but they are not recorded. However, a blanket assignment may be used for the transfer of a large number of Mortgage Loans, even if the properties are not located in the same recording jurisdiction. We may change these document custody requirements at any time, as long as we determine that any such change will not have a materially adverse effect on the interests of Certificateholders.

### **Servicing Through Countrywide Home Loans Servicing LP**

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

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

Each month, an amount calculated at the annual rate of 1.56% in the case of the Group 1 and Group 2 Loans, and 1.70% in the case of the Group 3 Loans, calculated based on the principal balance of each related Mortgage Loan, will be retained to pay various Trust expenses, including servicing payable to the Servicer, and to compensate us for providing our guaranty. In addition, in the case of the Credit Comeback Loans, any amounts received in respect of interest in excess of the related Net Mortgage Rates will be payable as additional servicing compensation to the Servicer. Moreover, the Servicer is entitled to retain a portion of the proceeds of the liquidation of a Mortgage Loan that exceeds (i) the principal balance of that Mortgage Loan, (ii) interest owed through the end of the month of such liquidation at the Net Mortgage Rate and (iii) any compensation owed to Fannie Mae. We will pay all expenses incurred in connection with servicing activities, including, without limitation, the fees to the Servicer, and we are not entitled to be reimbursed for such expenses out of the assets of the Lower Tier REMIC. Prepayment fees, late charges, assumption fees and similar charges, to the extent they are collected from borrowers, will be retained by the Servicer as additional servicing compensation.



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

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

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

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

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

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

## **Reports to Certificateholders**

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

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

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

## **Collection and Other Servicing Procedures**

In connection with its servicing activities, the Servicer has full power and authority to do or cause to be done any and all things it may deem necessary or appropriate, including the foreclosure or comparable conversion of a defaulted Mortgage Loan. Subject to certain conditions and limitations described in the Sale and Servicing Agreement, the Servicer may, in its discretion and without obligation, purchase from the Lower Tier REMIC any Mortgage Loan that has become more than 90 days delinquent, in whole or in part. Fannie Mae will have a similar option to repurchase delinquent Mortgage Loans. The purchase price will be equal to the principal balance of the delinquent Mortgage Loan together with accrued interest at the applicable Net Mortgage Rate. We will pay the purchase price to Certificateholders in the same manner as full prepayments of Mortgage Loans. See “Description of the Certificates—Principal Payments” in this prospectus.

With respect to each Mortgage Loan, Countrywide makes certain warranties to Fannie Mae concerning the following matters:

- the recordation of the original Mortgage,
- the validity of the Mortgage Loan as a first or second lien on the Mortgaged Property, and
- compliance by the Mortgage Loan with applicable state and federal laws.

In the event of a material breach of any warranty or a material defect in the Mortgage Loan documentation, we may withdraw the defective Mortgage Loan from the Lower Tier REMIC at a price equal to its principal balance together with interest thereon at the applicable Net Mortgage Rate. Alternatively, we may, at our option, substitute a new Mortgage Loan for a defective Mortgage Loan. Any substitute Mortgage Loan must meet certain criteria to ensure that the substitute Mortgage Loan will not alter the general characteristics of the Mortgage Loans. No such substitution may take place more than two years after we issue the Certificates. We will pass through to Certificateholders as principal the amount, if any, by which the principal balance of the defective Mortgage Loan exceeds the principal balance of the substitute Mortgage Loan.

Subject to the limitations discussed below, the Servicer may:

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

The Trust Agreement prohibits certain other modifications, such as reducing the mortgage interest rate or principal amount or extending the term of a Mortgage Loan. However, the Servicer is authorized to waive any prepayment charge, assumption fee, or late payment charge.

In connection with the transfer or prospective transfer of title to a Mortgaged Property securing any Mortgage Loan, the Servicer has undertaken to accelerate the maturity of the related Mortgage Loan if it contains a “due-on-sale” clause that permits acceleration under those conditions (unless applicable law prohibits enforcing the “due-on-sale” clause).

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

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

We may not resign from our duties under the Trust Agreement unless a change in law requires it. Even then, our resignation would not become effective until a successor has assumed our duties under the Trust Agreement. In no event, however, would any successor take over our guaranty obligations. Even if our other duties under the Trust Agreement should terminate, we would still be obligated under that guaranty. In the event that we are unable to fulfill our continuing guaranty obligations, the Trust Agreement may be modified to provide for monthly distributions to be made from then-available Mortgage Loan payments and other recoveries in a manner similar to practices and procedures followed in the servicing of whole loans for institutional investors. See “—Rights upon Event of Default” below.

We are not liable under the Trust Agreement to the Lower Tier REMIC, the Middle Tier REMIC, the Trust or to Certificateholders for our errors in judgment or for anything we do, or do not do, in good faith. This also applies to our directors, officers, employees and agents. Nevertheless, neither we nor they will be protected from liability if it results from willful misfeasance, bad faith or gross negligence or as a result of a willful disregard of duties.

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

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

### **Events of Default**

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

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

### **Rights upon Event of Default**

If one of the Events of Default under the Trust Agreement has occurred and continues uncorrected, Certificateholders who own at least 25% of any Class have the right to terminate, in writing, all of our obligations under the Trust Agreement. These obligations include our duties as trustee as well as in our corporate capacity. However, our guaranty obligations will continue in effect. The same proportion of Certificateholders also may appoint, in writing, a successor to assume all of our terminated obligations. This successor will take legal title to the Mortgage Loans and other assets of the Lower Tier Trust, the Middle Tier Trust and the Trust.

### **Amendment**

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

- to add to our duties;
- to evidence that another party has become our successor and has assumed our duties under the Trust Agreement as Trustee or in our corporate capacity or both;
- to eliminate any of our rights in our corporate capacity under the Trust Agreement;
- to cure any ambiguity or correct or add to any provision in the Trust Agreement, so long as no Certificateholder is adversely affected; or
- to modify the Trust Agreement to maintain the legal status of the Lower Tier REMIC, the Middle Tier REMIC and the Upper Tier REMIC as REMICs.

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

## **Termination**

The Trust Agreement will terminate when the last Mortgage Loan remaining in the Lower Tier REMIC has been paid off or liquidated, and the proceeds of that loan have been paid to Certificateholders. The Trust Agreement also will terminate if the Servicer exercises all of the optional clean-up calls or if we exercise our option to repurchase all of the Certificates. The purchase price for such optional purchase will equal the outstanding principal balance of each Mortgage Loan (including one month's interest at the Net Mortgage Rate).

Subject to certain conditions and limitations described in the Sale and Servicing Agreement, the Servicer may exercise the optional clean-up calls if the aggregate principal balance of the Mortgage Loans remaining in any of the Group 1, Group 2 or Group 3 Loans is 10% or less of the aggregate principal balance of the Group 1, Group 2 or Group 3 Loans, as applicable, as of the applicable Cut-off Date.

We may not exercise our option to repurchase the Certificates unless the aggregate principal balance of the remaining Mortgage Loans is less than one percent of the aggregate principal balance of all the Mortgage Loans as of the applicable Cut-off Date. In addition, we do not intend to exercise this option if (i) we have knowledge that any related Certificate has been pledged to secure an issue of cash flow obligations or is included in assets underlying an issue of cash flow obligations and (ii) the exercise of such option would take place prior to the earliest date upon which the issuer of such cash flow obligations can exercise an option to redeem such obligations or purchase such Certificates without premium.

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

## **CERTAIN FEDERAL INCOME TAX CONSEQUENCES**

The Certificates and payments on the Certificates are not generally exempt from taxation. Therefore, you should consider the tax consequences of holding a Certificate before you acquire one. The following discussion describes certain U.S. federal income tax consequences to beneficial owners of Certificates. The discussion is general and does not purport to deal with all aspects of federal taxation that may be relevant to particular investors. This discussion may not apply to your particular circumstances for one of the following, or other, reasons:

- This discussion is based on federal tax laws in effect as of the date of this prospectus. Changes to any of these laws after the date of this prospectus may affect the tax consequences discussed below.
- This discussion addresses only Certificates acquired at original issuance and held as “capital assets” (generally, property held for investment).
- This discussion does not address tax consequences to beneficial owners subject to special rules, such as dealers in securities, certain traders in securities, banks, tax-exempt organizations, life insurance companies, persons that hold Certificates as part of a hedging transaction or as a position in a straddle or conversion transaction, or persons whose functional currency is not the U.S. dollar.
- This discussion does not address taxes imposed by any state, local or foreign taxing jurisdiction.

Further, although the AV-1 Class Certificates resemble variable rate debt instruments, the tax treatment of these Certificates can differ from the tax treatment of such an investment. For these

reasons, you should consult your own tax advisors regarding the federal income tax consequences of holding and disposing of Certificates as well as any tax consequences arising under the laws of any state, local or foreign taxing jurisdiction.

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

- REMIC Elections and Special Tax Attributes
- Treatment of the Group 1, Group 2 and Group 3 Classes
- Taxation of Beneficial Owners of Regular Certificates
- Taxation of the Interest Carryover Amounts
- Taxation of Beneficial Owners of the Residual Certificates
- Taxes on the REMICs
- Reporting and Other Administrative Matters
- Backup Withholding
- Foreign Investors

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

We will elect to treat the Lower Tier REMIC, the Middle Tier REMIC and the Upper Tier REMIC as REMICs 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 Lower Tier REMIC, the Middle Tier REMIC and the Upper Tier REMIC will be treated as REMICs for federal income tax purposes. The Lower Tier Regular Interests will be designated as the “regular interests” and the RL Class Certificate will be designated as the “residual interest” in the Lower Tier REMIC. The Middle Tier REMIC Regular Interests will be designated as the “regular interests” and the RM Class Certificate will be designated as the “residual interest” in the Middle Tier REMIC. The R Class will be designated as the “residual interest” in the Upper Tier REMIC. (The R Class Certificate, the RM Class Certificate and the RL Class Certificate are each referred to herein as a “Residual Certificate” and, together, as the “Residual Certificates.”)

The Upper Tier REMIC will be taxed as if it had issued 15 regular interests, one corresponding to each of the AF-1, AF-2, AF-3, AF-4, AF-5, AF-6, AF-IO, AV-1, AV-IO, AS-1, AS-2, AS-3, AS-4, AS-5 and AS-IO Classes. Each of these regular interests will be entitled to receive interest and principal payments at the times and in the amounts equal to those made to the Class to which it corresponds, except that the interest rate on these regular interests will be determined without regard to the Group 1 Sequential Class Interest Carryover Amount, the AV-1 Class Interest Carryover Amount and the Group 3 Sequential Class Interest Carryover Amount. A beneficial owner of an AF-1, AF-2, AF-3, AF-4, AF-5, AF-6, AV-1, AS-1, AS-2, AS-3, AS-4 or AS-5 Class Certificate will be treated for federal income tax purposes as the beneficial owner of a pro rata interest in the corresponding regular interest. Any excess of the amount of interest actually payable to an AF-1, AF-2, AF-3, AF-4, AF-5, AF-6, AV-1, AS-1, AS-2, AS-3, AS-4 or AS-5 Class Certificate over the amount of interest payable on the corresponding regular interest will be deemed to have been received pursuant to a notional principal contract as discussed below. See “—Taxation of the Interest Carryover Amounts” below. Each of the remaining regular interests, corresponding to the AF-IO, AV-IO and AS-IO Classes, will be taxed as if it were entitled to receive interest payments at the times and in the amounts equal to those made to the Class to which it corresponds, except that the interest rate on such regular interest will be determined without regard to the Group 1 Sequential Class Interest Carryover Amount, the AV-1 Class Interest Carryover Amount or the Group 3 Sequential Class Interest Carryover Amount. Any excess of the amount of interest payable on this REMIC regular interest over the amount of interest payable to the AF-IO, AV-IO or AS-IO Class (whichever corresponds to such REMIC regular



interest) will be deemed to have been paid by such Class pursuant to a notional principal contract as discussed below. See “—Taxation of the Interest Carryover Amounts” below. For purposes of this discussion, each of the regular interests issued by the Upper Tier REMIC is referred to as a “Regular Certificate” and, together, as “Regular Certificates.”

Because the Lower Tier REMIC, the Middle Tier REMIC and the Upper Tier REMIC will qualify as REMICs, the Regular and Residual Certificates will be “regular or residual interests in a REMIC” within the meaning of section 7701(a)(19)(C)(xi) of the Code and “real estate assets” within the meaning of section 856(c)(5)(B) of the Code. If at any time during a calendar year less than 95% of the assets of the Lower Tier REMIC consist of “qualified mortgages,” then the portion of the Regular and Residual Certificates that are qualifying assets under those sections during the calendar year may be limited to the portion of the assets of the Lower Tier REMIC that are “qualified mortgages.” Similarly, income on the Regular and Residual Certificates will be treated as “interest on obligations secured by mortgages on real property” within the meaning of section 856(c)(3)(B) of the Code, subject to the same limitation as set forth in the preceding sentence. In general, a Mortgage Loan or an additional Group 1, Group 2 or Group 3 Loan will be a “qualified mortgage” if it is “principally secured by an interest in real property” within the meaning of section 860G(a)(3) of the Code. The assets of the Lower Tier REMIC will include (i) the Mortgage Loans, (ii) additional Group 1, Group 2 and Group 3 Loans purchased through the Prefunding Account and (iii) payments on the Mortgage Loans and additional Mortgage Loans held pending distribution on the Regular and Residual Certificates and any reinvestment income thereon.

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

### **Treatment of the Group 1, Group 2 and Group 3 Classes**

Except as provided below, a beneficial owner of an AF-1, AF-2, AF-3, AF-4, AF-5, AF-6, AF-IO, AV-1, AV-IO, AS-1, AS-2, AS-3, AS-4, AS-5 or AS-IO Class Certificate will be treated

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

Consequently, each beneficial owner of an AF-1, AF-2, AF-3, AF-4, AF-5, AF-6, AF-IO, AV-1, AV-IO, AS-1, AS-2, AS-3, AS-4, AS-5 or AS-IO Class Certificate will be required to report its pro rata share of income accruing with respect to the corresponding REMIC regular interest, as discussed under “—Taxation of Beneficial Owners of Regular Certificates” below. In addition, each beneficial owner of an AF-1, AF-2, AF-3, AF-4, AF-5, AF-6, AF-IO, AV-1, AV-IO, AS-1, AS-2, AS-3, AS-4, AS-5 or AS-IO Class Certificate will be required to report its pro rata share of net income with respect to the notional principal contract and will be permitted to recognize its share of a net deduction with respect to the notional principal contract, subject to the discussions under “—Taxation of the Interest Carryover Amounts” below. You should consult your own tax advisor regarding the consequences to you in light of your particular circumstances of taxing separately the two components comprising each AF-1, AF-2, AF-3, AF-4, AF-5, AF-6, AF-IO, AV-1, AV-IO, AS-1, AS-2, AS-3, AS-4, AS-5 or AS-IO Class Certificate (that is, the corresponding REMIC regular interest and the notional principal contract).

### *Allocations*

A beneficial owner of an AF-1, AF-2, AF-3, AF-4, AF-5, AF-6, AV-1, AS-1, AS-2, AS-3, AS-4 or AS-5 Class Certificate must allocate its cost to acquire that Certificate between the corresponding



REMIC regular interest and the notional principal contract based on their relative fair market values. When a beneficial owner of an AF-1, AF-2, AF-3, AF-4, AF-5, AF-6, AV-1, AS-1, AS-2, AS-3, AS-4 or AS-5 Class Certificate sells or disposes of the Certificate, the beneficial owner must allocate the sale proceeds between the corresponding REMIC regular interest and notional principal contract based on their relative fair market values and must treat the sale or other disposition of the Certificate as a sale or other disposition of a pro rata portion of the corresponding REMIC regular interest and the notional principal contract.

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

We intend to report income and expense with respect to all Certificates as if the notional principal contract corresponding to each Certificate had only a nominal value, relative to the value of the corresponding REMIC regular interest, as of the Settlement Date. See “—*Taxation of the Interest Carryover Amounts*” below. Each notional principal contract is difficult to value, and the Internal Revenue Service (IRS) could assert that the value of a notional principal contract as of the Settlement Date is greater (or perhaps, less) than the value we will use for information reporting purposes. If, for example, the IRS were to assert successfully that the notional principal contract corresponding to a Class had a higher value as of the Settlement Date, a greater portion of the purchase price for that Class would be allocated to the notional principal contract and a lesser portion would be allocated to the corresponding REMIC regular interest, which could result in differences in the beneficial owner's timing and character of income, gains, deductions and losses with respect to that Class. See “—*Taxation of Beneficial Owners of Regular Certificates*” and “—*Taxation of the Interest Carryover Amounts*” below. You therefore should consider the tax consequences to you if the IRS were to assert a different value for the notional principal contract corresponding to each of the AF-1, AF-2, AF-3, AF-4, AF-5, AF-6, AF-IO, AV-1, AV-IO, AS-1, AS-2, AS-3, AS-4, AS-5 and AS-IO Classes.

It is possible that, with respect to certain Classes, the corresponding notional principal contract provides no value, in which case the full purchase price of such a Class should be allocated to the corresponding REMIC regular interest. In such a case, a beneficial owner of the Class would not be treated as entering into a notional principal contract and the federal income tax consequences to the beneficial owner would be determined without regard to the discussion under the caption “—*Taxation of the Interest Carryover Amounts*” below.

#### *Tax Attributes*

Although the AF-1, AF-2, AF-3, AF-4, AF-5, AF-6, AF-IO, AV-1, AV-IO, AS-1, AS-2, AS-3, AS-4, AS-5 and AS-IO Class Certificates will represent beneficial ownership in REMIC regular interests, which are afforded certain tax attributes under the Code (see “—*REMIC Elections and Special Tax Attributes*” above), the interest in the corresponding notional principal contract represented by an

AF-1, AF-2, AF-3, AF-4, AF-5, AF-6, AF-IO, AV-1, AV-IO, AS-1, AS-2, AS-3, AS-4, AS-5 or AS-IO Class Certificate will not constitute:

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

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

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

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

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

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

#### ***Definition of Original Issue Discount***

In general, a Regular Certificate will be considered to be issued with OID equal to the excess, if any, of its “stated redemption price at maturity” over its “issue price.” The issue price of a Regular Certificate is the initial price at which a substantial amount of the Regular Certificates was sold. The issue price also includes any accrued interest attributable to the period before the Settlement Date. The stated redemption price at maturity of a Regular Certificate generally is its stated principal amount, plus an amount equal to the excess (if any) of the interest payable on the first Distribution Date over the interest that accrues for the period from the Settlement Date to the first Distribution Date. The stated redemption price at maturity with respect to a Regular Certificate corresponding to a Notional Class, however, is equal to the sum of all distributions to be made to that Regular Certificate.

Notwithstanding the general definition, OID on a Regular Certificate will be treated as zero if the discount is less than 0.25% of the stated redemption price at maturity of the Certificate multiplied by its weighted average life. The weighted average life of a Regular Certificate is apparently computed for this purpose as the sum, for all distributions included in the stated redemption price at maturity of the Certificate, of the amounts determined by multiplying (i) the number of complete years (rounding down for partial years) from the Settlement Date until the date on which each such distribution is expected to be made under the assumption that the Mortgage Loans prepay at a specified rate by (ii) a fraction, the numerator of which is the amount of such distribution and the denominator of which is the Regular Certificate’s stated redemption price at maturity. If OID is treated as zero under this rule, the actual amount of OID must be allocated to the principal distributions on the Regular

Certificate and, when each principal distribution is received, gain equal to the discount allocated to that distribution will be recognized. The prepayment assumptions that will be used in determining the rate of accrual of OID will be as follows:

<u>Certificate Group</u>	<u>Prepayment Assumption</u>
1	23% HEP
2	30% CPR
3	28% CPR

See “Description of the Certificates—Structuring Assumptions—*Prepayment Assumptions*” in this prospectus. No representation is made as to whether the Mortgage Loans will prepay at any of those rates or any other rate.

#### *Daily Portions of Original Issue Discount*

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

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

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

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

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

- the yield to maturity of the Regular Certificate, calculated as of the Settlement Date, giving effect to the applicable prepayment assumption,
- events (including actual prepayments) that have occurred prior to the end of the accrual period,
- the prepayment assumption, and
- in the case of Floating Rate or Weighted Average Coupon Classes, an assumption that the value of the index upon which the variable rate is based remains the same as its value on the Settlement Date over the entire life of the Regular Certificates.

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

The Code requires that the prepayment assumption be determined in the manner prescribed in Treasury regulations. To date, no such regulations have been promulgated. The legislative history of this Code provision indicates that the regulations will provide that the assumed prepayment rate must be the rate used by the parties in pricing the particular transaction. Fannie Mae believes that the

prepayment assumption described above is consistent with this standard. Fannie Mae makes no representation, however, that the Mortgage Loans will prepay at any of the rates reflected in the prepayment assumptions described above or at any other rate. Each investor must make its own decision as to the appropriate prepayment assumption to be used in deciding whether or not to purchase any of the Certificates. See “Description of the Certificates—Maturity Considerations and Final Distribution Dates” and “—Decrement Tables” in this prospectus.

#### *Weighted Average Coupon Classes*

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

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

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

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

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

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

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

## **Regular Certificates Purchased with Market Discount**

A Regular Owner that purchases a Regular Certificate at a price that is less than the remaining stated redemption price at maturity of the Regular Certificate (or in the case of a Regular Certificate issued with OID, less than the adjusted issue price of the Certificate) has market discount with respect to the Certificate in the amount of the difference. In general, three consequences arise if a Regular Owner acquires a Regular Certificate with market discount. First, the Regular Owner must treat any principal payment with respect to a Regular Certificate acquired with market discount as ordinary income to the extent of the market discount that accrued while the Regular Owner held the Certificate. Second, the Regular Owner must treat gain on the disposition or retirement of such a Certificate as ordinary income under the circumstances discussed below under “—Sales and Other Dispositions of Regular Certificates.” Third, a Regular Owner that incurs or continues indebtedness to acquire a Regular Certificate at a market discount may be required to defer the deduction of all or a portion of the interest on the indebtedness until the corresponding amount of market discount is included in income. Alternatively, a Regular Owner may elect to include market discount in income on a current basis as it accrues, in which case the three consequences discussed above will not apply. If a Regular Owner makes this election, the Regular Owner must also apply the election to all debt instruments the Regular Owner acquires on or after the beginning of the first taxable year to which the election applies. A Regular Owner may revoke the election only with the consent of the IRS.

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

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

## **Special Election**

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

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

Upon the sale, exchange, retirement or other disposition of a Regular Certificate, the beneficial owner generally will recognize gain or loss equal to the difference between the amount realized upon the disposition and the beneficial owner’s adjusted basis in the Certificate. In addition, the Code requires the recognition of gain upon the “constructive sale of an appreciated financial position.” In general, a constructive sale of an appreciated financial position occurs if a taxpayer enters into certain transactions or series of transactions with respect to a financial instrument that have the effect of



substantially eliminating the taxpayer's risk of loss and opportunity for gain with respect to the financial instrument. These provisions only apply to the Notional Classes.

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

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

## **Termination**

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

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

The beneficial owners of an AF-1, AF-2, AF-3, AF-4, AF-5, AF-6, AF-IO, AV-1, AV-IO, AS-1, AS-2, AS-3, AS-4, AS-5 or AS-IO Class Certificate will be treated as having entered into "notional principal contracts" within the meaning of Treasury Department Regulations promulgated under section 446 of the Code (the "NPC Regulations"). Pursuant to these notional principal contracts, a beneficial owner of an AF-1, AF-2, AF-3, AF-4, AF-5 or AF-6 Class Certificate will be treated as agreeing to pay a premium to the beneficial owners of the AF-IO Certificates for the right to receive the Group 1 Sequential Class Interest Carryover Amount with respect to the AF-1, AF-2, AF-3, AF-4, AF-5 or AF-6 Certificate (as the case may be), the beneficial owners of the AV-1 Class Certificate will be treated as agreeing to pay a premium to the beneficial owners of the AV-IO Certificates for the right to receive the AV-1 Class Interest Carryover Amount, and the beneficial owner of the Class AS-1, AS-2, AS-3, AS-4 or AS-5 Class Certificate will be treated as agreeing to pay a premium to the beneficial owners of the AS-IO Class Certificates for the right to receive the Group 3 Sequential Class Interest Carryover Amount with respect to the AS-1, AS-2, AS-3, AS-4 or AS-5 Class Certificate (as the case may be). A beneficial owner of an AF-1, AF-2, AF-3, AF-4, AF-5, AF-6, AF-IO, AV-1, AV-IO, AS-1, AS-2, AS-3, AS-4, AS-5 or AS-IO Class Certificate will be treated as having entered into the notional principal contract on the date the beneficial owner acquires the Certificate.

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

Under the NPC Regulations, the premium that is deemed to have been paid for the notional principal contract must be amortized over the life of the AF-1, AF-2, AF-3, AF-4, AF-5, AF-6, AV-1, AS-1, AS-2, AS-3, AS-4 or AS-5 Class (as the case may be), taking into account the declining balance



of such Class. For information reporting purposes, we intend to amortize the premium under a constant yield method, similar to that used to amortize OID. You should consult your tax advisor regarding the method for amortizing this premium.

Any payment made to the AF-1, AF-2, AF-3, AF-4, AF-5, AF-6, AV-1, AS-1, AS-2, AS-3, AS-4 or AS-5 Class will be treated as a periodic payment under the NPC Regulations. To the extent that the periodic payments for any year exceeds the amount of the premium amortized in that year, such excess shall represent net income for that year in the case of a beneficial owner of an AF-1, AF-2, AF-3, AF-4, AF-5, AF-6, AV-1, AS-1, AS-2, AS-3, AS-4 or AS-5 Class Certificate (and a net deduction for that year in the case of a beneficial owner of an AF-IO, AV-IO or AS-IO Class Certificate). Conversely, to the extent that the amount of the premium amortized in any year exceeds the periodic payments for that year, such excess shall represent a net deduction for that year in the case of a beneficial owner of an AF-1, AF-2, AF-3, AF-4, AF-5, AF-6, AV-1, AS-1, AS-2, AS-3, AS-4 or AS-5 Class Certificate (and net income for that year in the case of a beneficial owner of an AF-IO, AV-IO or AS-IO Class Certificate). Although not clear, net income or a net deduction should be treated as ordinary income or as an ordinary deduction.

A beneficial owner's ability to recognize a net deduction with respect to a notional principal contract is limited under section 67 of the Code in the case of (i) estates and trusts, and (ii) individuals owning an interest in an AF-1, AF-2, AF-3, AF-4, AF-5, AF-6, AF-IO, AV-1, AV-IO, AS-1, AS-2, AS-3, AS-4, AS-5 or AS-IO Class Certificate directly or through an investment in a "pass-through entity" (other than in connection with such individual's trade or business). Pass-through entities include partnerships, S corporations, grantor trusts, and non-publicly offered regulated investment companies, but do not include estates, nongrantor trusts, cooperatives, real estate investment trusts and publicly offered regulated investment companies. Generally, such a beneficial owner can recognize a net deduction only to the extent that these costs, when aggregated with certain of the beneficial owner's other miscellaneous itemized deductions, exceed 2% of the beneficial owner's adjusted gross income. For this purpose, an estate or nongrantor trust computes adjusted gross income in the same manner as in the case of an individual, except that deductions for administrative expenses of the estate or trust that would not have been incurred if the property were not held in such trust or estate are treated as allowable in arriving at adjusted gross income. In addition, section 68 of the Code provides that certain itemized deductions otherwise allowable for a beneficial owner who is an individual are reduced by an amount equal to 3% of the beneficial owner's adjusted gross income in excess of a statutorily defined threshold, but not more than 80% of itemized deductions otherwise allowable. Further, such a beneficial owner may not be able to recognize a net deduction with respect to the notional principal contract in computing the beneficial owner's alternative minimum tax liability.

### **Special Consequences for Beneficial Owners of AF-IO, AV-IO or AS-IO Class Certificates**

Payments that are deemed to have been made by the AF-IO, AV-IO or AS-IO Class to the AF-1, AF-2, AF-3, AF-4, AF-5, AF-6, AV-1, AS-1, AS-2, AS-3, AS-4 or AS-5 Class (as the case may be) pursuant to the notional principal contract will be made through an "outside reserve fund" described in the Regulations, which will not be an asset of the, Lower Tier REMIC, Middle Tier REMIC or Upper Tier REMIC for tax purposes. This outside reserve fund will be funded with interest payments on the REMIC regular interest corresponding to the AF-IO, AV-IO and AS-IO Classes, and the beneficial owners of the AF-IO, AV-IO and AS-IO Class Certificates will be treated for federal income tax purposes as the beneficial owners of their allocable share of this outside reserve fund. As a result, a beneficial owner of an AF-IO, AV-IO or AS-IO Class Certificate will be required to accrue income with respect to interest payments on the corresponding REMIC regular interest and will be entitled to a net deduction with respect to payments made from the outside reserve fund as follows: a beneficial owner of an AF-IO Class will be entitled to a net deduction with respect to payments made from the outside reserve fund to fund the Group 1 Sequential Class Interest Carryover Amount, a beneficial owner of an AV-IO Class will be entitled to a net deduction with respect to payments made from the outside

reserve fund to fund the AV-1 Class Interest Carryover Amount, and a beneficial owner of an AS-IO Class will be entitled to a net deduction with respect to payments made from the outside reserve fund to fund the Group 3 Sequential Class Interest Carryover Amount. Therefore, if your ability to recognize a net deduction with respect to the notional principal contract were limited, you could be required to accrue more interest income than the amount of interest actually distributed on your AF-IO, AV-IO or AS-IO Class Certificate. You should consult your own tax advisor regarding your ability to recognize a net deduction with respect to a notional principal contract, regardless of whether you hold an AF-1, AF-2, AF-3, AF-4, AF-5, AF-6, AF-IO, AV-1, AV-IO, AS-1, AS-2, AS-3, AS-4, AS-5 or AS-IO Class Certificate.

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

Any amount that is considered to be allocated to the notional principal contract in connection with the sale or other disposition of an AF-1, AF-2, AF-3, AF-4, AF-5, AF-6, AF-IO, AV-1, AV-IO, AS-1, AS-2, AS-3, AS-4, AS-5 or AS-IO Class Certificate as described under “*REMIC Election and Special Tax Attributes—Treatment of the Group 1, Group 2 and Group 3 Classes—Allocations*” above will be considered a “termination payment” under the NPC Regulations. Under the NPC Regulations, a beneficial owner of an AF-1, AF-2, AF-3, AF-4, AF-5, AF-6, AF-IO, AV-1, AV-IO, AS-1, AS-2, AS-3, AS-4, AS-5 or AS-IO Class Certificate will have gain or loss from the disposition of the notional principal contract equal to (i) the sum of the unamortized portion of any premium received or deemed to have been received by the beneficial owner upon entering into the notional principal contract and any termination payment it receives or is deemed to have received, less (ii) the sum of the unamortized portion of any premium paid or deemed to have been paid by the beneficial owner upon entering into the notional principal contract and any termination payment it makes or is deemed to have made. The gain or loss should be capital gain or loss, provided the notional principal contract is a capital asset to the beneficial owner. The ability to deduct capital losses is subject to limitations.

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

#### **Daily Portions**

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

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

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

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

- A deduction will be allowed for accruals of interest (including any OID, but without regard to the investment interest limitation in section 163(d) of the Code) on the REMIC's regular interests (but not its residual interest).
- Market discount equal to any excess of the total principal balances of the qualified mortgages over the REMIC's basis in these mortgages generally will be included in income by the REMIC as it accrues under a constant yield method, taking into account the prepayment assumption described above.
- If a REMIC is treated as having acquired qualified mortgages at a premium, the premium also will be amortized using a constant yield method.
- No item of income, gain, loss or deduction allocable to a prohibited transaction (see “—*Taxes on the REMICs*—Prohibited Transactions” below) will be taken into account.
- A REMIC generally may not deduct any item that would not be allowed in calculating the taxable income of a partnership by virtue of section 703(a)(2) of the Code.
- The limitation on miscellaneous itemized deductions imposed on individuals by section 67 of the Code will not be applied at the REMIC level to any administrative fees, such as servicing and guaranty fees. (See, however, “—Pass-Through of Servicing and Guaranty Fees to Individuals” below.)
- No deduction will be allowed for any expenses incurred in connection with the formation of the REMICs and the issuance of the Regular and Residual Certificates.
- Any gain or loss to a REMIC from the disposition of any asset, including a qualified mortgage or “permitted investment” as defined in section 860G(a)(5) of the Code, will be treated as ordinary gain or loss.

A REMIC's basis in qualified mortgages is the aggregate of the issue prices of all the Regular and Residual Certificates in the REMIC on the Settlement Date. If, however, the amount of any class of Regular or Residual Certificates that is sold is not substantial, then the fair market value of all the Regular or Residual Certificates in that class as of the date of this prospectus should be substituted for the issue price. For a discussion of the manner in which we intend to allocate, for tax information reporting purposes, the issue price of a Certificate between the issue price of the related REMIC regular interest and the value of the corresponding notional principal contract, see “—*REMIC Elections and Special Tax Attributes*—Treatment of the Group 1, Group 2 and Group 3 Classes—*Allocations*” above. If the deductions allowed to a REMIC exceed its gross income for a calendar quarter, the excess will be a net loss for the REMIC for that calendar quarter.

For purposes of determining the taxable income or net loss of each REMIC, OID will be calculated by taking into account the following. First, because all the Lower Tier Regular Interests will be issued to the Middle Tier REMIC, the Lower Tier Regular Interests will be treated as a single debt instrument because they will be issued to a single holder in a single transaction. Likewise, because all the Middle Tier Regular Interests will be issued to the Upper Tier REMIC, the Middle Tier Regular Interests will be treated as a single debt instrument because they will be issued to a single holder in a single transaction. Second, the Middle Tier REMIC will elect to include in gross income all interest that accrues on the Lower Tier Regular Interests by using a constant yield method, and the Upper Tier REMIC will elect to include in gross income all interest that accrues on the Middle Tier Regular Interests by using a constant yield method. See “—*Taxation of Beneficial Owners of Regular Certificates*—Special Election” above.

A Residual Owner may be required to recognize taxable income without being entitled to receive a corresponding amount of cash. This could occur, for example, if the qualified mortgages are considered to be purchased by the REMIC at a discount, some or all of the regular interests in the REMIC are issued at a discount, and the discount included as a result of a prepayment on a qualified mortgage that is used to pay principal on the regular interests in the REMIC exceeds the REMIC's deduction for unaccrued original issue discount relating to the regular interests in the REMIC. Taxable income may also be greater in earlier years because interest expense deductions, expressed as a percentage of the outstanding principal amount of the regular interests, may increase over time as the earlier classes of regular interests are paid, whereas interest income of the REMIC from each mortgage loan, expressed as a percentage of the outstanding principal amount of that mortgage loan, may remain constant over time.

### **Basis Rules and Distributions**

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

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

### **Treatment of Excess Inclusions**

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

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

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



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

A Residual Owner who is an individual will be required to include in income a share of the administrative fees of the related REMIC, including the servicing and guaranty fees imposed at the level of the mortgage loans. See, for example, “The Trust Agreement—Servicing Through Country-wide Home Loans Servicing LP” in this prospectus. Such a Residual Owner will be entitled to deduct these fees subject to sections 67 and 68 of the Code, as in the case of a net deduction with respect to a notional principal contract. See “—*Taxation of the Interest Carryover Amounts*—Treatment of Payments under the Notional Principal Contract” above. In addition, such a Residual Owner may not be able to deduct any portion of such fees in computing the Residual Owner’s alternative minimum tax liability. A Residual Owner’s share of such fees generally will be determined by (i) allocating the amount of such expenses for each calendar quarter on a *pro rata* basis to each day in the calendar quarter, and (ii) allocating the daily amount among the Residual Owners with respect to the REMIC in proportion to their respective holdings on that day. Similar rules apply in the case of (i) estates and trusts, and (ii) individuals owning an interest in a Residual Certificate through an investment in a “pass-through entity.” Pass-through entities include partnerships, S corporations, grantor trusts and non-publicly offered regulated investment companies, but do not include estates, trusts other than grantor trusts, cooperatives, real estate investment trusts and publicly offered regulated investment companies.

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

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

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

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

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

In addition, a tax may be imposed upon a pass-through entity (including a regulated investment company, real estate investment trust, common trust fund, partnership, trust, estate and nominee and certain cooperatives) that owns a Residual Certificate if the pass-through entity has a disqualified

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

#### *Other Transfers of the Residual Certificates*

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

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

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

### **Termination**

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

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

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

#### *Taxes on the REMICs*

Neither the Upper Tier REMIC, the Middle Tier REMIC nor the Lower Tier REMIC will be subject to federal income tax except with respect to income from prohibited transactions and in certain other instances described below. It is not anticipated that the Upper Tier REMIC, the Middle Tier REMIC or the Lower Tier REMIC will engage in any transactions that will give rise to a tax on either the Upper Tier REMIC, the Middle Tier REMIC or the Lower Tier REMIC. In any event, pursuant to our guaranty obligation, we will make distributions on the Certificates without offset or deduction for any tax imposed on the Upper Tier REMIC, the Middle Tier REMIC or the Lower Tier REMIC.



## **Prohibited Transactions**

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

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

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

## **Net Income from Foreclosure Property**

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

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

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

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

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

### ***Backup Withholding***

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

### ***Foreign Investors***

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

## **LEGAL INVESTMENT CONSIDERATIONS**

If you are an institution whose investment activities are subject to legal investment laws and regulations or to review by certain regulatory authorities, you may be subject to restrictions on investment in certain Classes of the Certificates. If you are a financial institution that is subject to the jurisdiction of the Comptroller of the Currency, the Board of Governors of the Federal Reserve System, the FDIC, the Office of Thrift Supervision, the NCUA or other federal or state agencies with similar authority, you should review any applicable rules, guidelines and regulations prior to purchasing the Certificates. You should also review and consider the applicability of the Federal Financial Institutions Examination Council Supervisory Policy Statement on Securities Activities (to the extent adopted by their respective federal regulators), which, among other things, sets forth guidelines for financial institutions investing in certain types of mortgage related securities, including securities such as the Certificates. In addition, you should consult your regulators concerning the risk-based capital treatment of any Certificate.

Pursuant to the Secondary Mortgage Market Enhancement Act of 1984 (“SMMEA”), securities that we issue or guaranty (such as the Certificates) will be legal investments for entities created under the laws of the United States or any state whose authorized investments are subject to state regulation to the same extent as obligations issued or guaranteed as to principal and interest by the United States or any agency or instrumentality thereof. Under SMMEA, if a state enacted legislation prior to October 4, 1991 specifically limiting the legal investment authority of any such entities with respect to securities that we issue or guaranty, such securities will constitute legal investments for such entities only to the extent provided in such legislation. Certain states have adopted such legislation prior to the October 4, 1991 deadline. You should consult your own legal advisors in determining whether and to what extent the Certificates constitute legal investments or are subject to restrictions on investment.

## LEGAL OPINION

If you purchase Certificates, we will send you, upon request, an opinion of our General Counsel (or one of our Deputy General Counsels) as to the validity of the Certificates and the Trust Agreement.

## ERISA CONSIDERATIONS

The Employee Retirement Income Security Act of 1974, as amended (“ERISA”), and Section 4975 of the Code impose certain requirements on employee benefit plans subject to ERISA (such as employer-sponsored retirement plans) and on other types of benefit plans and arrangements subject to section 4975 of the Code (such as individual retirement accounts). ERISA and the Code also impose these requirements on certain entities in which the benefit plans or arrangements that are subject to ERISA and the Code invest. We refer to these plans, arrangements and entities as “Plans.” Any person who is a fiduciary of a Plan is also subject to requirements imposed by ERISA and the Code. Before a Plan invests in any Certificates, the Plan fiduciary must consider whether the governing instruments for the Plan would permit the investment, whether the Certificates would be a prudent and appropriate investment for the Plan under its investment policy and whether such an investment might result in a prohibited transaction under ERISA or the Code for which no exemption is available.

The U.S. Department of Labor issued a final regulation covering the acquisition by a Plan of a “guaranteed governmental mortgage pool certificate,” defined to include certificates which are “backed by, or evidencing an interest in, specified mortgages or participation interests therein” and are guaranteed by Fannie Mae as to the payment of interest and principal. Under the regulation, investment by a Plan in a “guaranteed governmental mortgage pool certificate” does not cause the assets of the Plan to include the mortgages underlying the certificate or cause the sponsor, trustee and other servicers of the mortgage pool to be subject to the fiduciary responsibility provisions of ERISA or section 4975 of the Code in providing services with respect to the mortgages in the pool. At the time the regulation was originally issued, certificates similar to the Certificates did not exist. However, we have been advised by our counsel, Sidley Austin Brown & Wood LLP, that the Certificates qualify under the definition of “guaranteed governmental mortgage pool certificates” and, as a result, the purchase and holding of Certificates by Plans will not cause the underlying mortgage loans or the assets of Fannie Mae to be subject to the fiduciary requirements of ERISA or to the prohibited transaction requirements of ERISA and the Code.

## PLAN OF DISTRIBUTION AND RELATED MATTERS

*General.* We will acquire the Mortgage Loans from Countrywide in exchange for the Certificates pursuant to the Sale and Servicing Agreement. The Dealers, which have been retained by Countrywide, propose to offer the Certificates directly to the public from time to time in negotiated transactions at varying prices to be determined at the time of sale. The Dealers may effect the transactions to or through other dealers.

*Selling Restrictions.* The Certificates may be offered or sold only where it is legal to do so. Each Dealer has represented and agreed that it will comply with all applicable laws and regulations in each jurisdiction in which it offers, sells or delivers Certificates or distributes this prospectus or any other offering material. Each Dealer also has agreed to comply with certain selling restrictions relating to certain countries. We and the Dealers may modify selling restrictions at any time.

With respect to the United Kingdom, each Dealer has represented and agreed as follows:

(1) it has not offered or sold Certificates that have an original maturity of one year or more and, prior to six months after the issue date of the Certificates, will not offer or sell any of the Certificates to persons in the United Kingdom except to persons whose ordinary activities involve them in

acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their businesses or otherwise in circumstances which have not resulted and will not result in an offer to the public in the United Kingdom within the meaning of the Public Offers of Securities Regulations 1995;

(2) it has complied and will comply with all applicable provisions of the Financial Services Act 1986 with respect to anything it has done in relation to the Certificates in, from or otherwise involving the United Kingdom; and

(3) it has only issued or passed on, and will only issue or pass on, in the United Kingdom any document received by it in connection with an issue of Certificates to a person who is of a kind described in Article 11(3) of the Financial Services Act 1986 (Investment Advertisements) (Exemptions) Order 1996 (as amended) or is a person to whom such documents may otherwise lawfully be issued or passed on.

## **LEGAL MATTERS**

Sidley Austin Brown & Wood LLP will provide legal representation for Fannie Mae. Sidley Austin Brown & Wood LLP will also provide legal representation to Countrywide, the Servicer and the Dealers.

### Assumed Characteristics of the Mortgage Loans

The tables below summarize certain assumed characteristics of the Group 1, Group 2 and Group 3 Loans in each case as of the Cut-off Date. The information in the tables is presented in aggregated form, on the basis of the characteristics specified in the tables, and does not reflect actual or assumed characteristics of any individual Group 1, Group 2 or Group 3 Loan. The information in the tables does not give effect to prepayments received on the Group 1, Group 2 or Group 3 Loans on or after the Cut-off Date.

#### The Group 1 Loans

Principal Balance	Net WAC	WAC	Weighted Average Remaining Amortization Term (in months)	Weighted Average Age (in months)	Weighted Average Months to Balloon Payment
\$ 788,997.57	7.304254606%	8.864254606%	118	2	—
21,354,809.50	7.748178716	9.308178716	179	1	—
7,806,557.82	7.088554884	8.648554884	238	2	—
1,866,428.85	8.393208497	9.953208497	298	2	—
236,723,525.54	7.576955128	9.136955128	359	1	—
27,702,796.18	8.087418332	9.647418332	358	2	178
8,540,081.33	6.570761713	9.630761713	180	0	—
135,216,803.22	6.526394842	9.586394842	360	0	—

#### The Group 2 Loans

Principal Balance	Net WAC	WAC	Weighted Average Remaining Amortization Term (in months)	Weighted Average Age (in months)	Index	Weighted Average Margin	Weighted Average Initial Periodic Rate Cap	Weighted Average Ongoing Periodic Rate Cap	Weighted Average Lifetime Rate Cap	Weighted Average Lifetime Rate Floor	Weighted Average Months to Rate Change	Rate Reset Frequency
\$ 11,533,413.35	7.159819865%	8.719819865%	360	0	6 Month LIBOR	6.395606686%	1.000000000%	1.000000000%	15.719819865%	8.719819865%	6	6
338,954.04	7.816232857	9.376232857	175	5	6 Month LIBOR	6.525857394	3.000000000	1.000000000	15.376232857	9.376232857	19	6
379,131,822.42	7.945432421	9.505432421	359	1	6 Month LIBOR	6.303494275	1.834163608	1.337239952	16.297131306	9.505432421	23	6
118,022.42	7.190000000	8.750000000	178	2	6 Month LIBOR	4.750000000	3.000000000	1.000000000	14.750000000	8.750000000	34	6
118,877,787.77	8.019681076	9.579681076	358	2	6 Month LIBOR	6.283043312	2.198753758	1.163465580	16.014789126	9.579681076	34	6

### The Group 3 Loans

Principal Balance	Net WAC	Weighted Average Remaining Amortization Term (in months)	Weighted Average Age (in months)	Weighted Average Months to Balloon Payment
\$ 8,448,836.13	8.110139621%	119	1	—
145,374,712.29	8.140999688	178	1	—
7,969,535.60	8.459500152	236	2	—
229,896.88	8.726674301	297	2	—
906,985.57	8.211254855	315	2	—
147,070,033.53	8.232671802	358	2	178

The “Weighted Average Remaining Amortization Term” of the Group 1, Group 2 or Group 3 Loans, as applicable, is the weighted average remaining amortization term of the related Mortgage Loans, weighted on the basis of the principal balances of such Mortgage Loans as of the applicable Cut-off Date. The “Weighted Average Age” of the Group 1, Group 2 or Group 3 Loans, as applicable, is the weighted average loan age of the related Mortgage Loans, weighted on the basis of the principal balances of such Mortgage Loans as of the applicable Cut-off Date.

The “Weighted Average Months to Balloon Payment” is the weighted average term until the final balloon payment is due on the Group 1 or Group 3 Loans, as applicable, that are Balloon Mortgage Loans, weighted on the basis of the principal balances of the related Mortgage Loans as of the applicable Cut-off Date.

The “Weighted Average Margin” is the weighted average margin of the Group 2 Loans, weighted on the basis of the principal balances of the Group 2 Loans as of the applicable Cut-off Date. The “Weighted Average Initial Periodic Rate Cap” is the weighted average initial periodic rate cap of the Group 2 Loans as of the basis of the principal balances of the Group 2 Loans as of the applicable Cut-off Date. The “Weighted Average Ongoing Periodic Rate Cap” is the weighted average ongoing periodic rate cap of the Group 2 Loans, weighted on the basis of the principal balances of the Group 2 Loans as of the applicable Cut-off Date. The “Weighted Average Lifetime Rate Cap” is the weighted average lifetime rate cap of the Group 2 Loans, weighted on the basis of the principal balances of the Group 2 Loans as of the applicable Cut-off Date. The “Weighted Average Lifetime Rate Floor” is the weighted average lifetime rate floor of the Group 2 Loans, weighted on the basis of the principal balances of the Group 2 Loans as of the applicable Cut-off Date. The “Weighted Average Months to Rate Change” is the weighted average number of months to rate change of the Group 2 Loans, weighted on the basis of the principal balances of the Group 2 Loans as of the applicable Cut-off Date.



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**\$1,260,000,000**  
(Approximate)



**Guaranteed REMIC  
Pass-Through Certificates  
Fannie Mae REMIC Trust 2001-W2**

## **PROSPECTUS**

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**August 10, 2001**