

\$427,698,000 (Approximate)



FannieMae®

**Guaranteed REMIC Pass-Through Certificates
Fannie Mae REMIC Trust 2001-W3**

Carefully consider the additional risk factors appearing on page S-2 of this senior supplement as well as the risk factors starting on page 7 of the prospectus. Unless you understand and are able to tolerate these risks, you should not invest in the senior certificates.

The senior 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.

This senior supplement is intended to be used only with the prospectus. Investors should not purchase senior certificates before reading this senior supplement, the prospectus and the Fannie Mae information statement identified on page 3 of the prospectus.

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

The Senior Certificates

We, the Federal National Mortgage Association ("Fannie Mae"), will issue and guarantee the classes of senior certificates listed in the chart on this page. The senior certificates are being offered by this senior supplement and the attached prospectus. Only the senior certificates are offered by this senior supplement together with the attached prospectus.

Payments to Certificateholders

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

- interest accrued on the balance of your senior certificate to the extent available for payment on your class, and
- principal to the extent available for payment on your class.

We may pay principal at rates that vary from time to time.

The Fannie Mae Guaranty of the Senior Certificates

We will guarantee that

- required payments of principal and interest on the senior certificates are distributed to investors on time, and
- the full principal balances of the A and A-R Classes will be paid no later than the distribution date in September 2041.

Our guaranty does not cover uncovered prepayment interest shortfalls.

Our guaranty covers the classes of senior certificates only and does not cover any other classes of certificates being offered by the prospectus.

The Trust and its Assets

The trust will own first lien, one- to four-family, primarily fixed-rate, fully amortizing mortgage loans insured by the Federal Housing Administration or partially guaranteed by the U.S. Department of Veterans Affairs and having the characteristics described in the prospectus.

Class	Original Class Balance(1)	Principal Type	Interest Rate	Interest Type	CUSIP Number
A	\$427,697,900	SEQ	7.00%(2)	FIX/AFC	3139216F0
A-IO	444,361,585(3)	NTL	(4)	WAC/IO	3139216G8
A-R	100	SEQ	7.00(2)	FIX/AFC	3139216P8

- (1) May vary by plus or minus 5%.
- (2) The A and A-R Classes will bear interest at an annual rate equal to the lesser of 7.00% and the weighted average net interest rate of the mortgage loans.
- (3) Notional balance. This class is an interest only class.
- (4) The A-IO Class will bear interest at an annual rate equal to the weighted average net mortgage rate minus 7.00% (but not less than 0%). During the first interest accrual period, the A-IO Class is expected to bear interest at an annual rate of approximately 0.84840%.

The dealers specified below will offer the certificates from time to time in negotiated transactions at varying prices. We expect the settlement date to be October 30, 2001.

NOMURA

CSC
COUNTRYWIDE SECURITIES CORPORATION
A Countrywide Capital Markets Company

Co-Lead Dealers

ADDITIONAL RISK FACTORS

Protection afforded by the Fannie Mae guaranty is limited. Our guaranty of the senior certificates does not cover uncovered prepayment interest shortfalls or reductions in certificate interest rates that may arise from mortgage interest rate modifications or the application of the Soldiers' and Sailors' Civil Relief Act of 1940.

Without Fannie Mae's guaranty, the senior certificates would be paid only from the mortgage loans and supported only by subordination. If we were unable to perform our guaranty obligations, payments to holders of the senior certificates would consist solely of payments and other recoveries on the mortgage loans. In such event, delinquencies and defaults on the mortgage loans would affect payments to holders of the senior certificates and, if the protection provided by the subordination of the non-senior certificates were exhausted, holders of the senior certificates could lose money on their investment.

FANNIE MAE GUARANTY

Under our guaranty of the senior certificates, we will pay to the holders of the applicable classes of the senior certificates the following amounts:

- the Senior Interest Distribution Amount (defined in the prospectus),
- the Senior Principal Distribution Amount (defined in the prospectus), and
- the principal balances of the A and A-R Classes in full no later than the distribution date in September 2041, whether or not sufficient funds are available in the certificate account.

Our guaranty would by its terms be available to the holders of the senior certificates in the event of any liquidation, reorganization, or similar proceeding involving the assets of the master servicer. Although we guarantee the timely payment of the Senior Principal Distribution Amount to the A-R and A Classes, these payments may not include the entire stated principal balance of each liquidated loan at the time of its liquidation. Furthermore, our guaranty does not cover any uncovered prepayment interest shortfalls. See "Risk Factors—*Delays or reductions in cash flow can result from default and liquidation*" in the prospectus. Our guaranty is not backed by the full faith and credit of the United States.

FINAL DISTRIBUTION DATE

The distribution date in September 2041 (the "Final Distribution Date") is the date by which the principal balances of the A and A-R Classes are required to be fully paid. The Final Distribution Date has been determined so that scheduled payments on the Mortgage Loans will be sufficient to retire the A and A-R Classes on or before the Final Distribution Date without any call on our guaranty.

DEFINED TERMS

Certain capitalized terms are used but not defined in this senior supplement. See "Index of Defined Terms" in the prospectus for the definitions of the capitalized terms used.

\$436,585,000 (Approximate)

WISCONSIN AVENUE SECURITIES

REMIC Pass-Through Certificates Fannie Mae REMIC Trust 2001-W3

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

This prospectus may not be used to offer and sell senior certificates unless it is accompanied by the senior supplement.

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

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 or Fannie Mae, will issue the classes of certificates listed in the chart on this page. These classes of certificates are being offered by this prospectus. We will also issue the subordinate classes in connection with the trust. The subordinate classes are not offered by this prospectus.

Subordination

We will not make monthly payments of interest on the mezzanine classes unless the holders of the senior classes have received all required payments of interest in that month. Furthermore, we will not make monthly payments of principal of the mezzanine classes unless the holders of the senior classes have received all required payments of principal in that month.

Payments to Certificateholders

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

- interest accrued on the balance of your certificate to the extent available for payment on your class, and
- principal to the extent available for payment on your class.

We may pay principal at rates that vary from time to time. On any particular distribution date, we may not pay principal to certain classes.

Proceeds of the trust assets are the sole source of payments on the mezzanine certificates. The mezzanine certificates, together with any interest thereon, are not guaranteed by or obligations of Fannie Mae, the United States or any other governmental entity.

The Trust and its Assets

The trust will own a pool of first lien, one- to four-family, primarily fixed rate, fully amortizing mortgage loans insured by the Federal Housing Administration or partially guaranteed by the U.S. Department of Veterans Affairs and having the characteristics described in this prospectus.

Classes of Senior Certificates	Original Class Balance(1)	Principal Type	Interest Rate	Interest Type	CUSIP Number
A	\$427,697,900	SEQ	7.00%(2)	FIX/AFC	3139216F0
A-IO	444,361,585 (3)	NLT	(4)	WAC/IO	3139216G8
A-R	100	SEQ	7.00(2)	FIX/AFC	3139216P8

Classes of Mezzanine Certificates(5)	Original Class Balance(1)	Interest Rate	Interest Type	CUSIP Number
M	\$4,443,000	7.00%(2)	FIX/AFC	3139216H6
B-1	2,222,000	7.00(2)	FIX/AFC	3139216J2
B-2	2,222,000	7.00(2)	FIX/AFC	3139216K9

- (1) May vary by plus or minus 5%.
- (2) The A, A-R, M, B-1 and B-2 Classes each will bear interest at an annual rate equal to the *lesser* of 7.00% and the weighted average net interest rate of the mortgage loans.
- (3) Notional balance. This class is an interest only class.
- (4) The A-IO Class will bear interest at an annual rate equal to the weighted average net mortgage rate *minus* 7.00% (but not less than 0%). During the first interest accrual period, the A-IO Class is expected to bear interest at an annual rate of approximately 0.84840%.
- (5) **Payments of interest on the mezzanine certificates are subordinated to the payments of interest on the senior certificates and payments of principal of the mezzanine certificates are subordinated to payments of principal of the senior certificates. Payments in respect of the mezzanine certificates are NOT guaranteed by Fannie Mae.**

The dealers specified below will offer the certificates from time to time in negotiated transactions at varying prices. We expect the settlement date to be October 30, 2001.

NOMURA

CSC
COUNTRYWIDE SECURITIES CORPORATION
A Countrywide Capital Markets Company

Co-Lead Dealers

October 24, 2001

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AVAILABLE INFORMATION

You should purchase the certificates only if you have read and understood this prospectus, the senior supplement (if you are purchasing senior certificates) and our Information Statement dated March 30, 2001 and its supplements (the “Information Statement”).

You can obtain the disclosure documents listed above (the “Disclosure Documents”) by writing or calling us at:

Fannie Mae
3900 Wisconsin Avenue, N.W.
Area 2H-3S
Washington, D.C. 20016
1-800-237-8627 or 1-202-752-6547.

The Disclosure Documents, together with the class factors, are available on our website located at <http://www.fanniemae.com>.

You can also obtain the Disclosure Documents by writing or calling the dealers at:

Nomura Securities International, Inc.
Prospectus Department
25 Corporate Place South
Piscataway, New Jersey 08854
1-732-465-7200

or

Countrywide Securities Corporation
Prospectus Department
4500 Park Granada
Calabasas, California 91302
1-800-669-6091

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 certificates only after reading this prospectus in its entirety and each of the additional disclosure documents listed on page 3.

The Certificates

- The certificates will represent beneficial ownership interests in Fannie Mae REMIC Trust 2001-W3.
- The assets of the trust will consist of a pool of first lien, one- to four-family, primarily fixed rate, fully amortizing mortgage loans insured by the Federal Housing Administration or partially guaranteed by the U.S. Department of Veterans Affairs and having the characteristics described in this prospectus.

Certain Characteristics of the Mortgage Loans

Each of the mortgage loans was originated in accordance with the underwriting guidelines of the FHA or VA and previously included in a Ginnie Mae pool. Generally, each mortgage loan was subsequently repurchased from a Ginnie Mae pool after uncured delinquency in accordance with Ginnie Mae guidelines. The mortgage loans are now reperforming as and to the extent described in the section of this prospectus entitled “The Mortgage Loans.”

The table appearing in Exhibit A sets forth certain summary information regarding the assumed characteristics of the mortgage loans.

General

The certificates will consist of the following classes, which represent the entire ownership interest in the trust:

Three classes of senior certificates issued and guaranteed by Fannie Mae:

- A-R Class or Residual Class
- A Class
- A-IO Class

Three classes of mezzanine certificates issued, but not guaranteed, by Fannie Mae:

- M Class
- B-1 Class
- B-2 Class

Three classes of subordinate certificates issued, but not guaranteed, by Fannie Mae:

- B-3 Class
- B-4 Class
- B-5 Class

We expect that the stated principal balance of the mortgage loans in the trust will total approximately \$444,361,585. This amount may vary by plus or minus 5%. The senior, mezzanine and

subordinate certificates will have the initial aggregate principal balances, and will represent the undivided percentage ownership interests in the mortgage loans, shown below:

	<u>Approximate initial aggregate principal balance (1)</u>	<u>Approximate initial undivided ownership interest in the mortgage loans</u>
Senior certificates	\$427,698,000	96.25%
Mezzanine certificates.....	\$ 8,887,000	2.00%
Subordinate certificates	\$ 7,776,585	1.75%

(1) The principal balances may vary by plus or minus 5%. However, in the case of the mezzanine and subordinate certificates, the proportion that the original principal balance of each class bears to the aggregate original principal balance of all such classes will remain the same.

Only the senior and mezzanine certificates are being offered by this prospectus and, in the case of the senior certificates, by the senior supplement. On the settlement date, we also will issue the subordinate certificates to the Dealers, which may sell them at any time thereafter in limited private offerings. We have included in this prospectus certain information about the subordinate certificates only to help you understand the senior and mezzanine certificates.

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 payments in the same month). We publish the class factors on or shortly after the 21st day of each month.

Settlement Date

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

Distribution Date

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

Book-Entry and Physical Certificates

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

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

<u>DTC Book-Entry</u>	<u>Physical</u>
All classes of senior and mezzanine certificates other than the A-R Class	A-R Class

Interest Payments

During each interest accrual period, the senior and mezzanine certificates will bear interest at the annual rates described on the cover of this prospectus. On each distribution date, the senior certificates will be entitled to receive the Senior Interest Distribution Amount and each class of mezzanine certificates will be entitled to receive its Interest Distribution Amount. For a description of the Senior Interest Distribution Amount and the Interest Distribution Amount for each class of mezzanine certificates, see “Description of the Senior and Mezzanine Certificates—Payments on the Senior and Mezzanine Certificates—*Interest Calculations*” and “—Certain Definitions Relating to Payments on the Certificates” in this prospectus.

Notional Class

A notional class will not receive any principal. Its notional principal balance is the balance used to calculate accrued interest. The notional principal balance of the A-IO Class will equal 100% of the aggregate stated principal balance of the mortgage loans immediately before the related distribution date.

Principal Payments

Senior Principal Distribution Amount

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

Principal Distribution Amounts Relating to Mezzanine Certificates

To the M Class, the B-1 Class and the B-2 Class, in that order.

For a description of the Senior Principal Distribution Amount and the Principal Distribution Amount for each class of mezzanine certificates, see “Description of the Senior and Mezzanine Certificates—Certain Definitions Relating to Payments on the Certificates” in this prospectus.

Weighted Average Lives (years) *

<u>Senior Classes</u>	<u>CPR Prepayment Assumption**</u>						
	<u>0%</u>	<u>9%</u>	<u>12%</u>	<u>15%</u>	<u>18%</u>	<u>24%</u>	<u>30%</u>
A	15.5	7.5	6.1	5.1	4.3	3.2	2.5
A-IO	15.5	7.6	6.3	5.3	4.5	3.4	2.7
A-R	0.1	0.1	0.1	0.1	0.1	0.1	0.1

<u>Mezzanine Classes</u>	<u>CPR Prepayment Assumption**</u>						
	<u>0%</u>	<u>9%</u>	<u>12%</u>	<u>15%</u>	<u>18%</u>	<u>24%</u>	<u>30%</u>
M, B-1, B-2	15.5	11.8	11.0	10.3	9.8	9.0	8.4

* Determined as specified under “Description of the Senior and Mezzanine Certificates—Weighted Average Lives of the Senior and Mezzanine Certificates” in this prospectus.

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

Ratings

We will not issue the certificates unless the M Class, B-1 Class and B-2 Class are rated at least “Aa2”, “A2” and “Baa2”, respectively, by Moody’s Investors Service, Inc.

RISK FACTORS

Risk Factors Affecting Senior and Mezzanine Certificates

Certificates may not be a suitable investment. The certificates are not a suitable investment for every investor. Before investing, you should consider carefully the following:

- You should have sufficient knowledge and experience to evaluate the merits and risks of the certificates and the information contained in this prospectus and the other disclosure documents.
- You should understand the terms of the certificates thoroughly.
- 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.

Factors that can affect your yield. Your effective yield on the certificates will depend upon:

- the price you paid for the certificates,
- how quickly or slowly borrowers prepay the mortgage loans,
- if and when the mortgage loans are liquidated due to borrower defaults, casualties or condemnations affecting the properties securing those loans,
- the extent of any uncovered prepayment interest shortfalls,
- if and when the mortgage loans are repurchased;
- the actual characteristics of the mortgage loans;
- in the case of the A Class and the mezzanine certificates, reductions in the weighted average of the net mortgage rates below 7.00%; and

- in the case of the A-IO Class, any fluctuations in the weighted average of the net mortgage interest rates.

In particular, if the weighted average of the net mortgage interest rates is equal to or below 7.00%, the A-IO Class will receive no payment of interest on the related distribution date.

Mortgage interest rate reductions will reduce the yield on some or all of the certificates. Reduction in the interest rates on the mortgage loans due to loan modifications as a loss mitigation technique or the application of the Soldiers' and Sailors' Civil Relief Act of 1940 will have the effect of reducing the weighted average of the net mortgage interest rates. Accordingly, any such reductions will reduce the interest rate, and thus the yield, of the A-IO Class. In the event the weighted average of the net mortgage interest rates is reduced to below 7.00%, the interest rates and yields on all certificates will decline and, in the case of the A-IO Class, no interest will accrue during the related interest accrual period.

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

- if you bought your certificates at a premium 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.

In addition, in the case of the A-IO Class, if a disproportionately high rate of prepayments occurs on mortgage loans with relatively higher interest rates, the yields on those certificates will decrease and may be lower than you expect.

Even if the average rate at which principal is paid on the mortgage loans is consistent with your expectations, variations in the rate over time can significantly affect your yield. Generally, the earlier the payment of principal, the greater the impact 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 effect of the earlier rate on your yield.

We used certain assumptions concerning the mortgage loans in preparing certain tabular information 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 decide what principal prepayment assumptions to use in deciding whether to purchase the certificates.

Prepayment considerations and risks. Many factors affect the prepayment rate. The rate of principal payments on the certificates of a particular class 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 or prepayments. The rate of principal payments is likely to vary considerably from time to time as a result of the liquidation of foreclosed mortgage loans, FHA insurance payments and VA guarantee payments, as well as because borrowers generally may prepay the mortgage loans at any time without penalty.

In general, when the level of prevailing interest rates declines relative to the interest rates on fixed-rate mortgage loans, the rate of prepayment is likely to increase. Since substantially all of the mortgage loans bear fixed interest rates, they can be expected to be sensitive to prevailing interest rates. The prepayment rate is influenced by a number of other factors as well, including general economic conditions and homeowner mobility. In addition, no one can predict the degree to which interest rates must decline before significant prepayments are likely to occur. Increased borrower sophistication regarding the benefits of refinancing and extensive solicitation by lenders may result in an increase in the rate at which the mortgage loans are prepaid due to refinancing. Because of these and other factors, we are unable to estimate what the prepayment experience for the mortgage loans will be.

It is highly unlikely that the mortgage loans will prepay:

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

The mortgage loans generally provide that the lender can require repayment in full if the borrower sells the property that secures the mortgage loan. However, some of the mortgage loans may be assumed by creditworthy purchasers of mortgaged properties from the original borrowers. Additionally, FHA and VA have historically permitted borrowers to sell the mortgaged property without requiring the buyer to assume the mortgage and, at times, without verifying the buyer's creditworthiness. In this way, property sales by borrowers can affect the rate of prepayment. Furthermore, the seller made representations and warranties with respect to the mortgage loans and may have to repurchase the related loans if they materially breach those representations and warranties. Any such repurchases will increase the rate of prepayment.

The amortization schedules of the mortgage loans may be recast and their terms may be extended. In addition, the master servicer has the right under certain circumstances to recast the amortization schedule (based on a 30-year term) and/or extend the scheduled date of final payment on a mortgage loan (but not beyond September 2041). To the extent that the master servicer so recasts the amortization schedule or extends the term of a mortgage loan, the weighted average lives of the certificates could be extended.

Loan characteristics affect weighted average lives and yields on the certificates. Slight variations in mortgage loan characteristics could affect the weighted average lives and yields of the certificates.

Your yield may be reduced due to uncovered prepayment interest shortfalls. The effective yields on the certificates will be reduced to the extent prepayments of the mortgage loans result in uncovered prepayment interest shortfalls.

Delay classes have lower yields and market values. Since the classes do not receive interest immediately following each interest accrual pe-

riod, they have lower yields and therefore lower market values than they would if there were no such delay.

Unpredictable timing of last payment affects yields on certificates. The actual final payment on each class of certificates is likely to occur earlier, and could occur much earlier, than the maturity date of the latest maturing mortgage loan. If you assume the actual final payment will occur on that date, your yield could be lower than you expect.

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

Delayed information can result in delayed distribution of prepayments. Provided that timely information is available, all principal prepayments received during a calendar month will be passed through to certificateholders on the distribution date following the end of that prepayment period. However, in the event that timely information is not available, principal prepayments will be paid on the second distribution date following the end of that prepayment period.

Delays or reductions in cash flow can result from default and liquidation. Even assuming that the mortgaged properties provide adequate security for the mortgage loans, substantial delays could be encountered in connection with the liquidation of defaulted mortgage loans, and corresponding delays in distributing the related liquidation proceeds to holders of the senior and mezzanine certificates could occur. Further, liquidation expenses (such as legal fees, real estate taxes and maintenance and preservation expenses) will reduce the proceeds of the mortgage loans payable to certificateholders.

Certain classes of certificates provide credit enhancement for other classes. For purposes of this discussion, the term “related junior classes” means:

- as to the senior certificates—the mezzanine certificates and the subordinate certificates, and
- as to each class of mezzanine certificates—each class of mezzanine certi-

cates with a higher numerical class designation as well as the subordinate certificates. (The M Class is deemed to have a lower numerical designation, and to have a higher payment priority, than the other classes of non-senior certificates.)

Credit enhancement will be provided for the senior and mezzanine certificates:

- first, by the right of the holders of the senior and mezzanine certificates to receive certain payments of principal prior to the related junior classes, and
- second, by the allocation of realized losses to the related junior classes.

None of the seller, the trustee, the master servicer or any of their respective affiliates will have any obligation to replace or supplement the credit enhancement. Credit enhancement is provided from collections on the mortgage loans otherwise payable to the holders of the related junior classes. In the case of the mezzanine certificates, such collections comprise the sole source of funds from which the credit enhancement is provided. Accordingly, if the aggregate principal balance of the related junior classes were to be reduced to zero, delinquencies and defaults on the mortgage loans would affect monthly payments to holders of the mezzanine certificates.

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

Uncertain market for the certificates could make them difficult to sell and cause their values to fluctuate. We cannot be sure that a market for resale of the certificates will develop. Further, if a market develops, it may not continue or be sufficiently liquid to allow you to sell your certificates. As a result, you may be unable to sell your certificates easily or at a price that enables you to obtain your anticipated yield. In particular, it may be difficult to sell senior and mezzanine certificates that are designed for specific investment objectives or strategies or that have been structured to meet the investment requirements of limited categories of investors (includ-

ing the A-IO Class). Such certificates may have little or no liquidity. You should purchase certificates only if you understand and can bear the risk that the value of your certificates will vary over time and that your certificates may not be easily sold.

Concentration of mortgaged properties in certain states. The table on page 20 under “The Mortgage Loans—General” sets out the geographic distribution of the mortgage loans. As of the issue date, the states of California, Texas and Florida have the largest concentrations of mortgage loans in the trust. Based on the aggregate stated principal balances,

- 14.15% of the mortgage loans are in California,
- 10.02% of the mortgage loans are in Texas, and
- 7.37% of the mortgage loans are in Florida.

If the residential real estate markets in the areas with the heaviest concentrations of mortgage loans should experience an overall decline in property values, the rates of delinquencies, foreclosures, bankruptcies and realized losses on the mortgage loans probably will increase and may increase substantially.

Loan characteristics may differ from descriptions due to permitted variance. The actual pool of mortgage loans included in the trust may be up to 5% larger or 5% smaller than the pool described in this prospectus. In that event the principal balances of the certificates will be adjusted accordingly. In addition, it is expected that additional mortgage loans may be added to, and certain mortgage loans may be deleted from, the pool between the issue date and the settlement date. As a result, the characteristics of the mortgage loans actually included in the mortgage pool may differ from the characteristics of the mortgage loans set forth in the discussion and tables in this prospectus.

Declines in real estate values and mortgaged property values diminish security for mortgage loans. An overall decline in residential real estate markets could adversely affect the values of the mortgaged properties that secure the mortgage loans. In that event, the outstanding balances of the mortgage loans could equal or exceed the values of the related mortgaged

properties. Residential real estate markets in many states have experienced periods of softness and decline in the recent past. We cannot predict, much less quantify, such declines in property values. During a period of property value decline, the rates of delinquencies, foreclosures and losses on the underlying mortgage loans would probably be higher than those experienced in the mortgage lending industry in general. Geographic concentration of the underlying mortgage loans may increase the impact of such market changes.

In addition, the actual value of a mortgaged property may decrease in relation to its appraised value at origination due to numerous other factors including

- a rise in interest rates over time,
- the general condition of the mortgaged property, and
- general employment levels.

FHA and VA loans such as the mortgage loans to be included in the trust generally may be originated with loan-to-value ratios of up to 100%. If there is a reduction in the value of a mortgaged property, the loan-to-value ratio may increase relative to the original loan-to-value ratio. In that event, it will be less likely that the outstanding balance of the related mortgage loan could be paid in full from liquidation proceeds.

The FHA may settle claims on defaulted FHA insured mortgage loans in FHA debentures rather than cash. FHA has the option to settle claims made with respect to losses on defaulted FHA-insured loans by delivering FHA debentures rather than cash. The debentures can have maturities of up to 20 years. If a debenture is issued by FHA, the master servicer will be obligated to purchase such debenture from the trust with the proceeds of such purchase being passed through to certificateholders. Any such purchase will be made at a price equal to the par amount of the debenture plus interest accrued on such amount at the related net mortgage rate less certain servicing advances. However, if the par amount of the debenture is less than the unpaid principal balance of the related mortgage loan, the deficiency will represent a realized loss and will be allocated to the classes of subordinate certificates until the aggregate principal balance of those certificates is reduced to zero. Any such

loss occurring after the aggregate principal balance of the classes of subordinate certificates has been reduced to zero will be allocated to the mezzanine certificates. Although the FHA generally has not issued debentures in settlement of claims since 1965, it continues to be authorized to do so.

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

Applicable state laws generally regulate interest rates and other charges, require certain disclosures, and require licensing of mortgage loan originators and servicers. In addition, other state laws, public policies and general principles of equity relating to the protection of consumers, unfair and deceptive practices and debt collection practices may apply to the origination, servicing and collection of the mortgage loans. The seller will be required to repurchase any mortgage loans that, at the time of origination, did not comply with applicable federal and state laws and regulations. Depending on the provisions of the applicable law and the factual circumstances, violations of such laws, policies and principles

- may limit the ability of the trust to collect all or part of the principal of or interest on the related mortgage loans,

- may entitle the related borrower to a refund of amounts previously paid, and
- could subject the trust to monetary damages and administrative enforcement.

The mortgage loans also are subject to a number of federal laws, which, if violated, may limit the ability of the master servicer to collect all or part of the principal of or interest on the mortgage loans and, in addition, could subject the trust to monetary damages and administrative enforcement.

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

In light of these legal factors, the amount of collections on the mortgage loans available for payment to investors could be limited or diminished.

Recent Events. The effects that the recent terrorist attacks in the United States and related military action may have on the performance of the mortgage loans and the certificates cannot be determined at this time. Investors should consider the possible effects on delinquency, default and prepayment experience of the mortgage loans. In accordance with the servicing standard set forth in the sale and servicing agreement, the master servicer may defer, reduce or forgive payments and delay foreclosure proceedings in respect of mortgage loans to borrowers affected in some way by recent and possible future events. In addition, activation of a substantial number of United States military reservists or members of the National Guard may significantly increase the proportion of mortgage loans whose interest rates are reduced by the application of the Soldiers' and Sailors' Civil Relief Act of 1940.

Additional Risk Factors Affecting Mezzanine Certificates

Yields affected by realized losses allocated to non-senior classes. If you are considering an investment in the mezzanine certificates, you also should bear in mind the impact on your yield if any defaulted mortgage loans remain in the trust until the final disposition of the related

mortgaged properties. Any realized losses on such loans will be allocated to the mezzanine and subordinate certificates in the reverse order of their numerical class designations. The proceeds of the final disposition may be insufficient to pay principal to the mezzanine certificates in an amount equal to the full balance of the related mortgage loan. (For purposes of allocating losses or payments to the mezzanine certificates, the M Class will be deemed to have a lower numerical designation, and to be of a higher payment priority, than the other classes of non-senior certificates.)

If the principal balances of the more junior classes were reduced to zero due to the allocation of realized losses, the yields on the mezzanine certificates would be extremely sensitive to

- the default and realized loss experience on the mortgage loans, and
- the timing of any such defaults or realized losses.

The rights of holders of each class of mezzanine certificates to receive payments will be subordinate to the rights of holders of more senior classes to the extent described in this prospectus. In general, all realized losses and other shortfalls in collections will be allocated:

- first, to the subordinate classes, and
- second, to the mezzanine classes,

in the reverse order of their numerical class designations, until their principal balances are reduced to zero. If, as a purchaser of mezzanine certificates, you calculate your anticipated yield based on your estimates of the rate of default and amount of realized losses on the mortgage loans, and your estimates prove to be less than the levels experienced, your actual yield may be lower than your anticipated yield. In fact, your actual yield could be negative in the event of substantial realized losses. The timing of realized losses will also affect your actual yield, even if the default rate and amount of realized losses are consistent with your expectations. In general, the earlier a realized loss occurs, the greater the effect on your yield.

No one can predict the delinquency, foreclosure or realized loss experience of the mortgage loans. **Before investing in the mezzanine certificates, you should fully consider the risk that realized losses on the**

mortgage loans could result in your failure to recover your investment in full.

Liquidation proceeds may be substantially reduced following the default of mortgage loans with unpaid arrearages. Certain mortgage loans will be transferred to the trust net of arrearages representing unreimbursed interest, principal and servicing advances made prior to the issue date. These amounts will not be included in trust property and any collections of such arrearages will be paid to the advancing party. In addition, upon liquidation of a defaulted mortgage loan with unpaid arrearages, liquidation proceeds will be applied first to cover the outstanding arrearages in full, as well as other related servicing and liquidation expenses, before being made available to certificateholders. As a result, liquidation proceeds available for payment to certificateholders will be reduced, and in some cases may be substantially reduced or even eliminated, following the default of a mortgage loan with unpaid arrearages.

Yields may be affected by disproportionate allocations of prepayments to the senior and mezzanine certificates. The yields and weighted average lives of the certificates probably will be affected by the disproportionately lower allocation of prepayments to the mezzanine certificates as compared to the senior certificates. This disproportionate allocation will have the effect of accelerating the amortization of the senior certificates while increasing the proportionate interest in the mortgage loans evidenced by the non-senior certificates. This effect is intended to preserve the subordination provided by the non-senior certificates to the senior certificates. The disproportionate allocation of prepayments will cause the principal balances of the mezzanine certificates to decline more slowly than they would if the mezzanine certificates received their proportionate share of principal prepayments. As a result of the disproportionate allocation of prepayments, the average lives of the mezzanine certificates will likely be longer than otherwise would be the case. In addition, the performance characteristics of the mezzanine certificates will be different from those of other mortgage pass-through certificates that do not allocate principal prepayments on mortgage loans disproportionately by certificate class.

Failure to comply with FHA and VA regulations may result in realized losses. If the master servicer does not strictly comply with applicable FHA or VA regulations, FHA insurance benefits or VA guaranty payments otherwise available may be reduced or denied which could result in realized losses on the affected mortgage loans to the extent that the losses are not covered by the master servicer from its own funds.

FHA insurance proceeds and VA guaranty payments will be reduced as a result of various factors. Benefits under FHA mortgage insurance or a VA guaranty for a defaulted mortgage loan will be reduced to account for reimbursement of the related servicers for certain costs and expenses as well as for deductions of certain amounts received or retained by the servicers after default.

Delinquencies may have an adverse effect on yield. The yield to maturity on the mezzanine certificates will be affected adversely by delinquencies on mortgage loans that are not covered by a delinquency advance. As further described in this prospectus, amounts otherwise distributable to holders of the mezzanine certificates will be used to protect the holders of the senior certificates against payment interruptions due to certain borrower delinquencies. Such delinquencies, even if subsequently cured, will affect the time when payments are received by holders of the mezzanine certificates. In addition, the rate of principal payments on the certificates would be affected by aggregate realized losses under certain realized loss scenarios, because the senior prepayment percentage would not decrease as scheduled.

GENERAL

The material under this heading summarizes certain features of the Senior and Mezzanine Certificates. You will find additional information about the Senior and Mezzanine Certificates in the other sections of this prospectus. You will also find additional information about the Senior Certificates in the Senior Supplement. 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 Federal National Mortgage Association Charter Act (12 U.S.C. 1716 *et seq.*), will create the Fannie Mae REMIC Trust specified on the cover of this prospectus (the “Trust”) pursuant to a trust agreement dated as of October 1, 2001 (the “Trust Agreement”). We will execute the Trust Agreement in our corporate capacity and as trustee (the “Trustee”). We will issue the Senior and Mezzanine Certificates pursuant to the Trust Agreement. We will also issue the Subordinate Classes pursuant to the Trust Agreement. Fannie Mae and Countrywide Home Loans, Inc., as seller (the “Seller” or “Countrywide”) and an affiliate of the Seller, Countrywide Home Loans Servicing LP, as master servicer (the “Master Servicer”), will be parties to a sale and servicing agreement (the “Sale and Servicing Agreement”) dated as of October 1, 2001 (the “Issue Date”).

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

- The Certificates (other than the A-R Class) will be “regular interests” in the Trust.
- The A-R Class will be the “residual interest” in the Trust.

The assets of the Trust will consist of the Mortgage Loans and will evidence the entire beneficial ownership interest in the payments of principal and interest on the Mortgage Loans. The Mortgage Loans are insured by the Federal Housing Administration (“FHA”) or partially guaranteed by the U.S. Department of Veterans Affairs (“VA”) and, as a result of past delinquency, have been repurchased from Ginnie Mae pools.

Authorized Denominations. We will issue the Senior Certificates (other than the A-R Class) in minimum denominations of \$1,000 and whole dollar increments above that amount (except that a single Certificate of the A Class may be issued in any denomination). We will issue the A-R Class as a single Certificate in a denomination of \$100. We will issue the Mezzanine Certificates in minimum denominations of \$100,000 and whole dollar increments above that amount.

Characteristics of Senior and Mezzanine Certificates. The Senior and Mezzanine Certificates, other than the A-R Class, will be represented by one or more certificates (the “DTC Certificates”) to be registered at all times in the name of the nominee of The Depository Trust Company (“DTC”), a New York-chartered limited purpose trust company, or any successor or depository selected or approved by us. We refer to the nominee of DTC as the “Holder” or “Certificateholder” of the 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 A-R Certificate in fully registered, certificated form. The “Holder” or “Certificateholder” of the A-R Certificate is its registered owner. The A-R 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 A-R Certificate and may require payment to cover any tax or other governmental charge. See also “Description of the Senior and Mezzanine Certificates—Special Characteristics of Residual Certificate.”

The Holder of the A-R Class will receive the proceeds of any remaining assets of the Trust only by presenting and surrendering the related Certificate at the office of the paying agent. Fannie Mae will be the initial paying agent.

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

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

Class Factors. On or shortly after the twenty-first calendar day of each month, we will publish a factor (carried to eight decimal places) for each Class of Certificates. 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 current principal balance (or notional principal balance) of that Certificate after taking into account payments on the Distribution Date in the same month.

Optional Termination. Either Fannie Mae or the Master Servicer may terminate the Trust as described under “The Agreements—Termination.”

THE MORTGAGE LOANS

The mortgage loans to be delivered to the Trust on the Settlement Date will consist of the pool of mortgage loans identified as of the Issue Date (the “Initial Mortgage Pool”), as modified to account for additions and deletions of mortgage loans on or prior to the Settlement Date. The Seller has provided us with detailed information regarding the Initial Mortgage Pool. We summarize this information below, although we have not verified it. As a result, Fannie Mae does not warrant, and can give no assessment as to the truth or accuracy of, the information.

The term “Mortgage Loans” as used in this prospectus generally refers to all of the mortgage loans actually included in the Trust. However, solely for purposes of the statistical information set forth under the heading “—General” below, the term “Mortgage Loans” refers to the mortgage loans included in the Initial Mortgage Pool.

General

The Initial Mortgage Pool consists of approximately 6,171 Mortgage Loans having an aggregate principal balance of approximately \$444,361,585 as of the Issue Date. The aggregate amount of the mortgage loans actually included in the Trust on the Settlement Date may vary from this amount by plus or minus 5%. It is expected that additional mortgage loans will be added to, and certain mortgage loans may be removed from, the Initial Mortgage Pool between the Issue Date and the Settlement Date. Notwithstanding any such additions or removals, the characteristics of the Mortgage Loans actually included in the Trust on the Settlement Date are not expected to differ materially from the characteristics of the Initial Mortgage Pool described in this prospectus.

The Mortgage Loans are first lien, one- to four-family, primarily fixed-rate, fully amortizing loans. As of the Issue Date, over 98% of the Mortgage Loans bear fixed rates of interest, with the remainder bearing adjustable rates of interest. As of the Issue Date, approximately 77.24% of the Mortgage Loans are insured by FHA (the “FHA Loans”) and 22.76% are partially guaranteed by VA (the “VA Loans”). At the time of origination, all of the FHA Loans conformed to HUD origination guidelines and all of the VA Loans to VA origination guidelines. Each Mortgage Loan is evidenced by a promissory note or similar evidence of indebtedness (a “Mortgage Note”) that is secured by a first mortgage or deed of trust on a one-to-four-family residential property. Each Mortgage Note requires the borrower to make monthly payments of principal and interest. We refer to the property that secures repayment of a Mortgage Loan as the “Mortgaged Property.”

Each of the Mortgage Loans was originated in accordance with the underwriting guidelines of FHA or VA, as the case may be, and was eligible to be included in a Ginnie Mae pool at the time of origination as permitted by the rules of Ginnie Mae. Substantially all the Mortgage Loans were pooled with Ginnie Mae and then purchased from Ginnie Mae pools when the Mortgage Loans had uncured delinquencies in accordance with Ginnie Mae guidelines.

While the Mortgage Loans generally have terms not more than 30 years, as of the Issue Date approximately 0.55% of the Mortgage Loans (based on aggregate principal balance) provided for a stated maturity date more than 30 years but not more than 40 years from their dates of origination.

Each Mortgage Loan provides that the obligor on the related Mortgage Note (the “borrower”) must make payments by a scheduled day of each month. This day is fixed at the time of origination. In addition, each Mortgage Loan provides that each borrower must pay interest on its outstanding principal balance at the rate specified or described in the related Mortgage Note (the “Mortgage Interest Rate”). In the event the Master Servicer agrees to a reduction in the interest rate with respect to any Mortgage Loan as a loss mitigation alternative or if the interest rate of any Mortgage Loan is reduced due to the application of the Soldiers’ and Sailors’ Civil Relief Act of 1940, the Mortgage Interest Rate for that Mortgage Loan thereafter will be the rate as so reduced. Interest is calculated on the basis of a 360-day year consisting of twelve 30-day months. If a borrower makes a payment earlier or later than the scheduled due date, the amortization schedule will not change, nor will the relative application of such payment to principal and interest.

Generally, the regulations applicable to FHA loans permit borrowers to finance up to 97% of the outstanding principal balance of the purchase price, although certain special FHA loan programs permit borrowers to finance 100% of the purchase price plus closing costs. The VA loan programs generally permit borrowers to finance 100% of the purchase price plus closing costs. If closing costs are financed, then the related loan-to-value may exceed 100%.

Certain of the Mortgage Loans to be transferred to the Trust are subject to certain arrearages arising from unreimbursed interest, principal and servicing advances made prior to the Issue Date. These arrearages will not be the property of the Trust and any collections of such arrearage amounts will be paid to the advancing party. Additionally, any arrearage amounts not paid as described above will be paid out of recoveries on the Mortgage Loans (including collections, insurance proceeds and liquidation proceeds) prior to the deposit of any such recoveries into the Trust. As of the Issue Date, 5,405 Mortgage Loans representing an aggregate principal balance of approximately \$397.3 million as of the Issue Date have arrearages in an aggregate amount of approximately \$15.5 million. (The number representing the aggregate arrearage amount is an approximation only, and is based on an estimate that includes (i) outstanding principal and interest payments due on the Mortgage Loans on or prior to the Issue Date, *plus* (ii) the aggregate amount of outstanding servicing advances as of the Issue Date. This estimate does not include expenses incurred but not paid prior to the Issue Date with respect to the Mortgage Loans which, if paid, would constitute servicing advances.)

The following tables set forth certain additional information, as of the Issue Date, with respect to the Initial Mortgage Pool. References to “Issue Date Principal Balance” mean the aggregate of the Stated Principal Balances of the related Mortgage Loans as of the Issue Date. The sum of the columns in the following tables may not equal the totals due to rounding.

Contractual Delinquency

Contractual Delinquency (Days)	Number of Mortgage Loans	Issue Date Principal Balance	Percentage by Issue Date Principal Balance	Weighted Average Mortgage Interest Rate	WAM (months)	Weighted Average Mortgage Loan Age (months)	Balance-Weighted # of Payments Last 3 Months	Balance-Weighted # of Payments Last 6 Months
Current	853	\$ 53,777,090	12.10%	8.313%	273	71	4.7	7.8
30- 59	1,565	103,496,103	23.29	8.296	279	70	3.6	6.4
60- 89	1,035	78,787,358	17.73	8.242	290	64	3.0	5.7
90-119	780	60,868,454	13.70	8.205	300	56	2.5	5.2
120-149	496	39,879,373	8.97	8.191	295	60	2.6	5.3
150 or more	1,442	107,553,206	24.20	8.457	283	72	2.6	5.5
Total	<u>6,171</u>	<u>\$444,361,585</u>	<u>100.00%</u>					

Number of Payments Made in Last 3 Months*

Number of Payments Made in Last 3 Months	Number of Mortgage Loans	Issue Date Principal Balance	Percentage by Issue Date Principal Balance	Weighted Average Mortgage Interest Rate	WAM (months)	Weighted Average Mortgage Loan Age (months)	Balance-Weighted # of Payments Last 3 Months	Balance-Weighted # of Payments Last 6 Months
1	595	\$ 46,490,171	10.46%	8.249%	294	60	1.0	4.2
2	1,291	97,886,888	22.03	8.343	292	62	2.0	4.9
3 or more	4,285	299,984,525	67.51	8.302	282	70	3.9	6.6
Total	<u>6,171</u>	<u>\$444,361,585</u>	<u>100.00%</u>					

* As of the Issue Date, the balance weighted number of payments made in the last three months is approximately 3.2.

Number of Payments Made in Last 6 Months*

Number of Payments Made in Last 6 Months	Number of Mortgage Loans	Issue Date Principal Balance	Percentage by Issue Date Principal Balance	Weighted Average Mortgage Interest Rate	WAM (months)	Weighted Average Mortgage Loan Age (months)	Balance-Weighted # of Payments Last 3 Months	Balance-Weighted # of Payments Last 6 Months
3	387	\$ 32,444,119	7.30%	8.102%	309	46	1.7	3.0
4	756	59,463,773	13.38	8.260	298	56	2.0	4.0
5	1,340	98,284,653	22.12	8.305	291	62	2.7	5.0
6 or more	3,688	254,169,040	57.20	8.343	277	74	3.8	7.2
Total	<u>6,171</u>	<u>\$444,361,585</u>	<u>100.00%</u>					

* As of the Issue Date, the balance weighted number of payments made in the last six months is approximately 6.0.

Issue Date Principal Balances*

Range of Issue Date Principal Balances (\$)	Number of Mortgage Loans	Issue Date Principal Balance	Percentage by Issue Date Principal Balance	Weighted Average Mortgage Interest Rate	WAM (months)	Weighted Average Mortgage Loan Age (months)	Balance- Weighted # of Payments Last 3 Months	Balance- Weighted # of Payments Last 6 Months
\$ 0.01- 25,000	333	\$ 5,560,511	1.25%	9.372%	128	158	3.3	6.4
\$ 25,000.01- 50,000	1,495	57,985,569	13.05	8.926	225	109	3.2	6.2
\$ 50,000.01- 75,000	1,899	118,261,786	26.61	8.437	271	83	3.2	6.0
\$ 75,000.01-100,000	1,196	102,972,740	23.17	8.149	297	59	3.2	5.9
\$100,000.01-150,000	1,056	126,131,535	28.38	8.032	313	44	3.1	5.8
\$150,000.01-200,000	171	28,798,500	6.48	8.064	322	36	3.0	5.9
\$200,000.01-250,000	19	4,113,160	0.93	8.320	334	21	3.2	6.5
\$250,000.01-300,000	2	537,784	0.12	8.624	346	14	1.5	3.5
Total	<u>6,171</u>	<u>\$444,361,585</u>	<u>100.00%</u>					

* As of the Issue Date, the average principal balance of the Mortgage Loans is approximately \$72,008.

Mortgage Interest Rates*

Range of Mortgage Interest Rates (%)	Number of Mortgage Loans	Issue Date Principal Balance	Percentage by Issue Date Principal Balance	Weighted Average Mortgage Interest Rate	WAM (months)	Weighted Average Mortgage Loan Age (months)	Balance- Weighted # of Payments Last 3 Months	Balance- Weighted # of Payments Last 6 Months
5.501- 6.000	3	\$ 229,415	0.05%	6.000%	244	39	4.4	5.7
6.001- 6.500	54	4,950,329	1.11	6.494	306	38	3.2	6.0
6.501- 7.000	248	22,657,308	5.10	6.971	308	45	3.4	6.4
7.001- 7.500	1,138	94,426,097	21.25	7.463	302	52	3.2	5.8
7.501- 8.000	1,235	93,287,625	20.99	7.944	293	57	3.1	5.8
8.001- 8.500	1,520	112,794,473	25.38	8.460	293	60	3.1	5.8
8.501- 9.000	875	61,392,457	13.82	8.926	291	63	3.2	6.0
9.001- 9.500	468	26,462,029	5.96	9.474	234	117	3.3	6.4
9.501-10.000	240	11,152,897	2.51	9.990	201	153	3.2	6.4
10.001-10.500	184	9,169,828	2.06	10.493	196	158	3.2	6.8
10.501-11.000	52	2,598,587	0.58	10.972	193	164	2.9	6.6
11.001-11.500	42	1,612,927	0.36	11.500	149	206	3.3	6.9
11.501-12.000	39	1,201,642	0.27	11.989	143	212	3.6	7.0
12.001-12.500	32	1,248,109	0.28	12.495	150	204	3.2	6.8
12.501-13.000	23	689,625	0.16	12.977	137	214	3.0	6.8
13.001-13.500	9	301,145	0.07	13.500	124	234	3.1	6.8
13.501-14.000	3	72,504	0.02	14.000	153	206	3.7	6.4
15.001-15.500	5	112,797	0.03	15.500	119	231	2.8	6.9
16.001-16.500	1	1,791	0.00	16.500	5	235	3.0	9.0
Total	<u>6,171</u>	<u>\$444,361,585</u>	<u>100.00%</u>					

* As of the Issue Date, the weighted average Mortgage Interest Rate of the Mortgage Loans is approximately 8.306%.

Net Mortgage Rates*

Range of Net Mortgage Rates (%)	Number of Mortgage Loans	Issue Date Principal Balance	Percentage by Issue Date Principal Balance	Weighted Average Mortgage Interest Rate	WAM (months)	Weighted Average Mortgage Loan Age (months)	Balance-Weighted # of Payments Last 3 Months	Balance-Weighted # of Payments Last 6 Months
5.001- 5.500.....	3	\$ 229,415	0.05%	6.000%	244	39	4.4	5.7
5.501- 6.000.....	54	4,950,329	1.11	6.494	306	38	3.2	6.0
6.001- 6.500.....	248	22,657,308	5.10	6.971	308	45	3.4	6.4
6.501- 7.000.....	186	17,454,633	3.93	7.299	315	40	3.5	6.4
7.001- 7.500.....	1,230	101,869,640	22.92	7.571	303	51	3.1	5.7
7.501- 8.000.....	1,188	88,632,047	19.95	8.063	292	57	3.1	5.7
8.001- 8.500.....	1,529	112,233,662	25.26	8.547	294	59	3.1	5.9
8.501- 9.000.....	674	44,814,433	10.09	9.019	278	74	3.2	6.1
9.001- 9.500.....	434	23,771,177	5.35	9.504	223	128	3.3	6.5
9.501-10.000.....	238	10,990,773	2.47	10.006	200	154	3.2	6.4
10.001-10.500.....	185	9,213,701	2.07	10.508	196	159	3.2	6.7
10.501-11.000.....	48	2,303,926	0.52	11.000	191	165	2.9	6.8
11.001-11.500.....	43	1,664,839	0.37	11.508	149	206	3.3	6.8
11.501-12.000.....	39	1,174,953	0.26	12.005	142	213	3.7	7.1
12.001-12.500.....	32	1,286,559	0.29	12.512	150	203	3.1	6.6
12.501-13.000.....	22	625,952	0.14	13.000	135	216	3.2	7.1
13.001-13.500.....	9	301,145	0.07	13.500	124	234	3.1	6.8
13.501-14.000.....	3	72,504	0.02	14.000	153	206	3.7	6.4
15.001-15.500.....	5	112,797	0.03	15.500	119	231	2.8	6.9
16.001-16.500.....	1	1,791	0.00	16.500	5	235	3.0	9.0
Total.....	<u>6,171</u>	<u>\$444,361,585</u>	<u>100.00%</u>					

* As of the Issue Date, the weighted average Net Mortgage Rate of the Mortgage Loans is approximately 7.848%.

Amortized Remaining Term*

Range of Amortized Remaining Term (months)	Number of Mortgage Loans	Issue Date Principal Balance	Percentage by Issue Date Principal Balance	Weighted Average Mortgage Interest Rate	WAM (months)	Weighted Average Mortgage Loan Age (months)	Balance-Weighted # of Payments Last 3 Months	Balance-Weighted # of Payments Last 6 Months
1-120	453	\$ 11,546,702	2.60%	8.700%	89	126	3.3	6.3
121-180	407	18,413,670	4.14	9.996	163	167	3.2	6.5
181-300	2,752	178,160,011	40.09	8.549	256	98	3.2	6.2
301-360	2,559	236,241,202	53.16	7.971	327	33	3.1	5.7
Total.....	<u>6,171</u>	<u>\$444,361,585</u>	<u>100.00%</u>					

* Amortized remaining term means the weighted average remaining term after giving effect to partial prepayments received and applied as of the Issue Date. As of the Issue Date, the amortized remaining term is approximately 285 months.

Mortgage Loan Age (months) *

Range of Mortgage Loan Ages (months)	Number of Mortgage Loans	Issue Date Principal Balance	Percentage by Issue Date Principal Balance	Weighted Average Mortgage Interest Rate	WAM (months)	Weighted Average Mortgage Loan Age (months)	Balance-Weighted # of Payments Last 3 Months	Balance-Weighted # of Payments Last 6 Months
1- 14	250	\$ 25,177,431	5.67%	8.419%	343	12	2.9	5.1
15- 24	522	50,933,458	11.46	8.521	335	20	3.1	5.6
25- 36	667	62,203,972	14.00	7.506	326	30	3.2	6.0
37- 60	1,345	115,051,775	25.89	7.912	309	46	3.1	5.8
61-120	2,123	133,088,750	29.95	8.248	256	88	3.1	6.1
121-180	870	44,178,568	9.94	9.593	201	152	3.3	6.6
181-240	276	11,693,643	2.63	10.671	164	192	3.2	6.6
241-320	113	2,011,018	0.45	10.477	88	270	3.4	6.6
321-360	5	22,970	0.01	8.862	33	325	3.4	5.4
Total	<u>6,171</u>	<u>\$444,361,585</u>	<u>100.00%</u>					

* As of the Issue Date, the weighted average mortgage loan age of the Mortgage Loans is approximately 67 months.

Geographical Concentrations by State

State	Number of Mortgage Loans	Issue Date Principal Balance	Percentage by Issue Date Principal Balance	Weighted Average Mortgage Interest Rate	WAM (months)	Weighted Average Mortgage Loan Age (months)	Balance-Weighted # of Payments Last 3 Months	Balance-Weighted # of Payments Last 6 Months
California	632	\$ 62,889,422	14.15%	8.187%	299	57	3.2	6.1
Texas	766	44,507,866	10.02	8.502	262	82	3.2	5.9
Florida	515	32,742,495	7.37	8.367	274	79	3.3	6.3
Illinois	243	19,835,866	4.46	8.425	295	57	3.0	5.8
New Jersey	200	19,113,159	4.30	8.740	292	62	3.0	6.0
Georgia	259	18,395,200	4.14	8.322	287	66	3.1	5.9
Pennsylvania	289	17,572,585	3.95	8.430	286	67	3.0	5.9
Maryland	175	15,396,398	3.46	8.259	277	75	3.1	5.8
Ohio	220	14,928,317	3.36	7.709	294	58	3.5	6.0
Tennessee	241	14,247,684	3.21	8.491	273	78	3.0	6.1
Other	<u>2,631</u>	<u>184,732,594</u>	<u>41.57</u>	8.254	287	66	3.2	5.9
Total	<u>6,171</u>	<u>\$444,361,585</u>	<u>100.00%</u>					

Mortgage Loan Category

Mortgage Loan Category	Number of Mortgage Loans	Issue Date Principal Balance	Percentage by Issue Date Principal Balance	Weighted Average Mortgage Interest Rate	WAM (months)	Weighted Average Mortgage Loan Age (months)	Balance-Weighted # of Payments Last 3 Months	Balance-Weighted # of Payments Last 6 Months
ARM	70	\$ 6,272,168	1.41%	7.525%	255	73	2.3	5.1
Fixed	<u>6,101</u>	<u>438,089,417</u>	<u>98.59</u>	8.317	286	67	3.2	6.0
Total	<u>6,171</u>	<u>\$444,361,585</u>	<u>100.00%</u>					

Mortgage Loan Type

Mortgage Loan Type	Number of Mortgage Loans	Issue Date Principal Balance	Percentage by Issue Date Principal Balance	Weighted Average Mortgage Interest Rate	WAM (months)	Weighted Average Mortgage Loan Age (months)	Balance-Weighted # of Payments Last 3 Months	Balance-Weighted # of Payments Last 6 Months
FHA	4,854	\$343,215,159	77.24%	8.331%	288	64	3.1	6.0
VA	1,317	101,146,426	22.76	8.219	277	77	3.2	6.0
Total	<u>6,171</u>	<u>\$444,361,585</u>	<u>100.00%</u>					

Bankruptcy Status

Bankruptcy Status	Number of Mortgage Loans	Issue Date Principal Balance	Percentage by Issue Date Principal Balance	Weighted Average Mortgage Interest Rate	WAM (months)	Weighted Average Mortgage Loan Age (months)	Balance-Weighted # of Payments Last 3 Months	Balance-Weighted # of Payments Last 6 Months
Bankruptcy	1,785	\$125,352,817	28.21%	8.515%	273	81	3.0	6.2
Other	4,386	319,008,767	71.79	8.223	290	61	3.2	5.9
Total	<u>6,171</u>	<u>\$444,361,585</u>	<u>100.00%</u>					

FHA and VA Loan Programs

FHA Loans. The FHA Loans will be insured by the Federal Housing Administration within HUD as authorized under the National Housing Act of 1934, as amended, and the United States Housing Act of 1937, as amended. No FHA Loan may have an interest rate or original principal amount exceeding the applicable FHA limits at the time of its origination.

FHA is an organizational unit within HUD. FHA was established to encourage improvement in housing standards and conditions to exert a stabilizing influence on the mortgage market. FHA provides insurance for private lenders against loss on eligible mortgages. Under the FHA mortgage insurance program, an FHA home mortgage may be made to borrowers meeting certain credit standards by an approved mortgage lender. FHA insures payment to the holder of that loan in the event of default by the borrower.

Although new FHA loans are made only to creditworthy borrowers, FHA historically has permitted a borrower to sell his or her home to a new homeowner, subject to the existing FHA loan without requiring a determination whether the new homeowner would be a creditworthy borrower. In those instances, the original borrower is not relieved of liability for the mortgage note, although no assurance can be made that the note can be enforced against the original borrower. Moreover, to the extent the new homeowner has not executed an agreement to assume the mortgage debt, the mortgage note cannot be enforced against the new homeowner. The mortgage loan, however, would remain secured by the related mortgaged property and the FHA insurance would remain in effect. The regulations governing assumptions on FHA loans have varied in many respects over the years during which the FHA Loans in the Trust were originated.

Insurance premiums for FHA loans are either paid at origination by the originator or are collected by the applicable servicer from the borrower and paid to FHA. The regulations governing FHA insured single-family mortgage insurance programs generally provide that insurance benefits are payable upon foreclosure (or other acquisition of possession) and conveyance of the mortgaged property to HUD. With respect to a defaulted FHA loan, the related servicer may be limited in its ability to initiate foreclosure proceedings. Historically, pursuant to an assignment program adopted by HUD pursuant to a consent decree in 1976 (the "Assignment Program"), HUD in certain circumstances offered qualified borrowers who had defaulted on an FHA loan an opportunity to avoid foreclosure and retain their homes. Under the Assignment Program, FHA serviced FHA insured mortgage loans that had

defaulted and been assigned to HUD under the Assignment Program. In addition, HUD gave forbearance, for a period of no longer than 36 months, to mortgagors who had demonstrated a temporary inability to make full payments due to circumstances beyond the mortgagor's control such as a reduction in income or increase in expenses. In April 1996, the Assignment Program was terminated and replaced with mandatory loss mitigation procedures, whereby the servicer of defaulted FHA insured loans must choose from a variety of tools, including special forbearance, mortgage modification, "streamline refinancing," pre-foreclosure sales, and deeds-in-lieu of foreclosure to cure a default prior to filing an FHA insurance claim. The new loss mitigation procedures also permits lenders in certain circumstances to submit partial claims for FHA Insurance benefits.

The Master Servicer or, if applicable, the related servicer will act as the "contract of insurance holder" for the benefit of the Trust and, as such, will submit all claims to HUD. Under certain circumstances, as set forth in the regulations, HUD is authorized to request or require a servicer to pursue a deficiency judgment against any defaulting borrower. In this regard, HUD may request or require (as the case may be under the regulations) the servicer to pursue a deficiency judgment in connection with the foreclosure. Under neither case would the servicer be responsible for collecting on the judgment. Further, HUD may reimburse the servicer for all additional costs of seeking the judgment. Each servicer is the mortgagee with respect to each FHA loan that it services for purposes of the FHA insurance solely to facilitate servicing. Furthermore, no holder, by virtue of holding a Certificate, will have any right against FHA or HUD with respect to the contract of mortgage insurance applicable to any FHA Loan, and each Certificateholder, by its acceptance of a Certificate, or an interest therein, will be deemed to have agreed to the foregoing.

The amount of insurance benefits generally paid by the FHA is equal to the entire unpaid principal balance of the defaulted FHA loan plus one month's interest thereon at the debenture rate specified by the FHA, and will be applied first to reimburse the servicer for certain unpaid costs, expenses and advances, and may be subject to certain additional adjustments imposed by the FHA. When entitlement to insurance benefits results from foreclosure (or other acquisition of possession) and conveyance to HUD, the servicer is generally compensated for no more than two-thirds of its foreclosure costs, attorneys' fees (which costs are evaluated based upon our guidelines), and certain other costs, and is compensated for accrued and unpaid mortgage interest for a limited period prior to the institution of foreclosure or other acquisition in general only to the extent it was allowed pursuant to a forbearance plan approved by HUD.

FHA has the option, in most cases, to pay insurance claims in cash or in debentures issued by FHA. Presently, claims for most programs are being paid in cash and, for the most part, claims have not been paid in debentures since 1965. The debentures can have maturities of up to 20 years. If a debenture is issued by FHA, the Master Servicer will be obligated to purchase such debenture from the Trust with the proceeds of such purchase being passed through to Certificateholders. Any such purchase will be made at a price equal to the par amount of the debenture plus interest accrued on such amount at the related Net Mortgage Rate less certain advances. However, if the par amount of the debenture is less than the unpaid principal balance of the related Mortgage Loan, the deficiency will represent a Realized Loss and will be allocated to the Classes of Subordinate Certificates until the aggregate principal balance of those Certificates is reduced to zero. Any such loss occurring after the aggregate principal balance of the Classes of Subordinate Certificates has been reduced to zero will be allocated to the Mezzanine Certificates.

For each FHA Loan, the applicable debenture rate, as announced from time to time by FHA is the rate in effect at the date of the insurance commitment or endorsement for insurance, whichever rate is higher. The FHA debenture rate that applies to a particular FHA Loan generally is lower than the Mortgage Interest Rate on that loan.

VA Loans

The Veterans Administration is an Executive Branch Department of the United States headed by the Secretary of Veterans Affairs. The VA currently administers a variety of federal assistance programs on behalf of eligible veterans and their dependents and beneficiaries, including the VA loan guaranty program. Under the VA loan guaranty program, a VA Loan may be made to any eligible veteran by an approved private sector mortgage lender. With respect to any VA loan guaranteed after March 1, 1988, a borrower generally may sell the related property subject to the existing VA loan only with the prior approval of the VA. In general, the new borrower must be creditworthy and must agree to assume the loan obligation. With respect to a VA loan guaranteed before March 1, 1988, however, the borrower generally has an unrestricted right to sell the related mortgaged property subject to the existing VA loan. The existing borrower is released from liability on the mortgage note only if the new homeowner qualifies as an acceptable credit risk and agrees to assume the loan obligation. If the existing borrower is not released from liability, there can be no assurance that the mortgage note can be enforced against such mortgagor, and to the extent the new homeowner does not execute an agreement to assume the mortgage debt, the note cannot be enforced against the new homeowner. The mortgage loan, however, would remain secured by the related mortgaged property and the VA guaranty would remain in effect.

The VA Loans are partially guaranteed by the VA under the Servicemen's Readjustment Act of 1944, as amended. The Servicemen's Readjustment Act of 1944, as amended, permits a veteran (or in certain instances the spouse of a veteran) to obtain a mortgage loan guaranty by the VA covering mortgage financing of the purchase of a one-to-four family dwelling unit at interest rates permitted by the VA. The program has no mortgage loan limits, requires no down payment from the purchaser and permits the guaranty of mortgage loans of up to 30 years' duration. However, no VA Loan will have an original principal amount greater than five times the amount of the related guaranty. VA guarantees payment of a fixed percentage of the loan indebtedness to the holder of that loan, up to a maximum dollar amount, in the event of default by the veteran borrower.

With respect to a defaulted VA Loan, the servicer is, absent exceptional circumstances, authorized to announce its intention to foreclose only when the default has continued for three months. However, notwithstanding the foregoing, the regulations require the servicer to take immediate action if it determines that the property to be foreclosed upon has been abandoned by the debtor or has been or may be subject to extraordinary waste or if there exist conditions justifying the appointment of a receiver for the property. Additionally, under some circumstances, the VA may decline to accept conveyance of a mortgaged property unless the lender forgoes a portion of the outstanding indebtedness, in which case the Certificateholders may experience a Realized Loss as to the related Mortgage Loan.

When a delinquency is reported to VA and no realistic alternative to foreclosure is developed by the loan holder or through the VA's supplemental servicing of the loan, the VA determines, through an economic analysis, whether the VA will (a) authorize the holder to convey the property securing the VA loan to the Secretary of Veterans Affairs following termination or (b) pay the loan guaranty amount to the holder. The decision as to disposition of properties securing defaulted VA loans is made on a case-by-case basis using the procedures set forth in applicable statutes, regulations and guidelines. If the property is conveyed to the VA, then the VA pays the lender the full unpaid principal balance of the related VA loan plus accrued and unpaid interest and certain expenses, less certain adjustments imposed by the VA.

The amount payable under the guaranty will be the percentage (the "VA Entitlement Percentage") of the VA loan originally guaranteed applied to the indebtedness outstanding as of the applicable date of computation specified in the VA regulations, subject to any applicable caps. As of the date hereof, the maximum guaranties that may be issued by the VA under a VA loan are generally (a) as to loans with an original principal balance of \$45,000 or less, 50% of such loan, (b) as to loans with an original principal balance of greater than \$45,000, but not more than \$56,250, \$22,500; (c) as

to loans with an original principal balance of more than \$56,250, except those loans that are described in (d), below, the lesser of \$36,000 and 40% of the loan, and (d) as to loans with an original principal balance of more than \$144,000 (for loans made to purchase or construct an owner-occupied, single-family home or condominium unit), the lesser of \$50,750 and 25% of the loan. The liability on the guaranty is reduced or increased *pro rata* with any reduction or increase in the unpaid principal balance of indebtedness, but in no event will the amount payable on the guaranty exceed the amount of the original guaranty.

FHA Loan Servicing Procedures

The Master Servicer will be required to be diligent in pursuing claims or causing claims to be pursued for defaulted FHA Loans and abide by FHA collection and default timetables.

Under the FHA mortgage insurance program's loss mitigation procedures, the lender may accelerate an insured loan following a default only after the lender or its agent has contacted the borrower to discuss the reasons for the default and to seek its cure. The lender may enter into a modification agreement with the borrower that extends the maturity date of the loan term for up to ten years beyond the original maturity date and that reduces the applicable Mortgage Interest Rate. Such an extension would extend the weighted average lives of the Certificates and the weighted average Net Mortgage Rate of the Mortgage Loans. Other tools available to the lender to avoid foreclosure include special forbearance, "streamline refinancing," pre-foreclosure sales, and deeds-in-lieu of foreclosure. The loss mitigation procedures also permit lenders in certain circumstances to submit partial claims for FHA insurance benefits.

If the borrower does not cure the default and loss mitigation techniques are not effective, the lender may accelerate the loan and obtain a deed-in-lieu of foreclosure or begin a foreclosure action. The lender may rescind the acceleration of maturity after full payment is due and reinstate the loan only if the borrower brings the loan current, executes a modification agreement or agrees to an acceptable repayment plan.

Generally, an action to initiate foreclosure on any FHA insured mortgage loan must be filed with the local jurisdiction within six months after the date of default. Once the foreclosure process is complete, the lender may submit a claim to FHA. When a lender files an insurance claim with the FHA, the FHA reviews the claim, the complete loan file and documentation of the lender's efforts to obtain recourse, certification of compliance with applicable state and local laws in carrying out any foreclosure, evidence that the lender has properly filed proofs of claims, where the borrower is bankrupt or deceased, and evidence of marketable title. If the FHA has reason to believe that title is not marketable, the FHA may deny the claim. The FHA may contest any insurance claim or make a demand for a refund of payments made under a claim subject to certain limitations.

The Secretary of HUD may deny a claim for insurance in whole or in part for any violations of the regulations governing the FHA program; however, the Secretary of HUD may waive such violations if it determines that enforcement of the regulations would impose an injustice upon a lender which has substantially complied with the regulations in good faith.

VA Loan Servicing Procedures

Servicers of VA loans, including the Master Servicer, are required to service them in a manner consistent with prudent residential mortgage loan servicing standards generally accepted in the servicing industry. A servicer is required to be diligent in abiding by VA collection and default timetables. Consistent with these servicing standards, a servicer in its discretion may waive late payment charges or assumption fees and arrange with a borrower a schedule for repayment of due and unpaid principal and interest so long as, by such action, the Master Servicer does not knowingly or intentionally cause the termination of the REMIC status of the related REMIC or the imposition of an entity-level tax on the Trust.

A notice to VA of intent to begin action need not be given within any prescribed period of time. This flexibility affords a servicer time to work with a deserving borrower to avoid liquidation. Barring exceptional circumstances, the notice should not be given until a default has continued for 90 days. If the mortgaged property is in jeopardy, however, the notice should be filed as soon as the risk becomes known to the servicer. Except upon express waiver by VA, a servicer may not begin foreclosure until VA has been notified 30 days in advance of this intent to liquidate. In the case of a mortgage loan assumption, a servicer must make a good faith effort to notify the original borrower of its intention by certified mail. Failure to notify the original borrower may result in the loss of the VA guaranty with respect to that mortgaged property. The servicer must request a liquidation appraisal at least 30 days prior to the projected foreclosure sale in addition to furnishing VA with a VA “status of account” form to estimate the projected claim amount that is necessary to prepare the bid amount.

In the event that a borrower’s income has decreased such that a borrower cannot maintain payments at the current amount or make up any delinquent payments, the servicer may modify the payment terms of the related loan only if it determines that such modification will allow the borrower to keep the loan current. The servicer cannot release the borrower from personal liability, but may include accrued and unpaid interest in the mortgage loan indebtedness that is extended or reamortized. A modification is permissible to the extent that at least 80% of the loan balance extended will amortize over the remaining term of the mortgage loan.

A servicer must deliver to VA the lender’s “election to convey” within 15 days of the foreclosure sale or the servicer loses its right to transfer the related mortgaged property. Upon receipt of advice that VA elects not to specify a bid amount, the Master Servicer may waive or satisfy a portion of the indebtedness on behalf of the Trust in order to reduce the amount owing to an amount that would allow VA to specify a bid amount under applicable regulations.

Fannie Mae Mortgage Purchase Program

General

We summarize below certain aspects of our program for purchasing residential mortgage loans for inclusion in a given pool. We may grant exceptions to the requirements of the program for a particular transaction. In several instances, the characteristics of the Mortgage Loans included in the Trust do not match the criteria described below. For more specific details regarding the Mortgage Loans included in the Trust see “The Mortgage Loans—General” above.

Eligible Lenders

We purchase mortgage loans from the following types of eligible institutions:

- federally and state-chartered savings and loan associations, mutual savings banks, commercial banks and similar financial institutions whose accounts are insured by the Federal Deposit Insurance Corporation or the National Credit Union Administration;
- state-insured financial institutions; and
- financial institutions, principally mortgage bankers, and finance companies that are Fannie Mae-approved mortgage sellers.

We determine whether to approve a particular financial institution as a lender under our purchase program by applying certain criteria which generally include depth of mortgage origination experience, servicing experience and financial capacity.

We will enter into a Fannie Mae Mortgage Selling and Servicing Contract with each approved lender.

Eligible Mortgage Loans

We may include both residential property loans and cooperative share loans in a given pool. Unless we make an exception, each mortgage loan that we include in a pool will comply with the terms of our current Selling Guide and, if underwritten through Desktop Underwriter*, our Guide to Underwriting with Desktop Underwriter (or any of our multifamily guides in the case of a Mortgage Loan secured by a multifamily property). Generally, we do not include construction loans or land development loans in our pools.

A “residential property loan” is a mortgage loan that is secured by a mortgage or similar instrument on (1) a single-family residence (including a unit in a condominium project or planned unit development) or a manufactured home or (2) a multifamily project with five or more apartments. A “cooperative share loan” is a mortgage loan secured by the stock, shares, membership agreement or other contractual agreements that evidence the borrower’s ownership in the cooperative as well as the assignment of the occupancy rights to the borrower’s dwelling unit in the cooperative. Each mortgage loan will be documented by an FHA or VA mortgage or other instrument that we accept. Each mortgage loan also will comply with all applicable federal and local laws, including laws covering usury, equal credit opportunity and disclosure.

We do not require that payments on every mortgage loan that we can include in a pool be due on the first day of the month.

Generally, the mortgage loans do not have maturity dates later than 30 years after origination.

Additional Considerations

Our Selling Guide requires that each lender that sells us conventional mortgage loans under our purchase program assume responsibility for underwriting these loans using the same underwriting criteria that we apply to our portfolio purchases. (We can, however, grant exceptions to these criteria.) Using a random selection process, we review the quality of the credit and property underwriting applied to these loans.

Servicing of Mortgage Loans

Countrywide Home Loans Servicing LP

Countrywide Home Loans Servicing LP (“Countrywide Servicing” or the “Master Servicer”) will act as master servicer. The principal executive officers of Countrywide Servicing are located at 7105 Corporate Drive, Plano, TX 75024. Countrywide Servicing is a Texas limited partnership directly owned by Countrywide GP, Inc. and Countrywide LP, Inc., each a Nevada corporation and a direct wholly owned subsidiary of the Seller. The Seller is a direct wholly owned subsidiary of Countrywide Credit Industries, Inc., a Delaware corporation (“Countrywide Credit”). Countrywide GP, Inc. owns a 0.1% interest in Countrywide Servicing and is the general partner. Countrywide LP, Inc. owns a 99.9% interest in Countrywide Servicing and is a limited partner.

The Seller established Countrywide Servicing in February 2000 to service Countrywide originated mortgage loans that would otherwise have been serviced by Countrywide Home Loans. In January and February 2001, the Seller transferred to Countrywide Servicing all of its rights and obligations relating to mortgage loans serviced on behalf of Fannie Mae and Freddie Mac, respectively. The Seller is currently in the process of transferring to Countrywide Servicing all of its rights and obligations to the bulk of its non-agency loan servicing portfolio. While the Seller expects to continue to directly service a portion of its loan portfolio, it is expected that the servicing rights for most of the Seller’s newly originated mortgage loans will be transferred to Countrywide Servicing upon sale or securitization of the related mortgage loans. Countrywide Servicing is engaged in the business of servicing mortgage

* Desktop Underwriter® is our automated underwriting software application.

loans and will not originate or acquire loans, an activity that will continue to be performed by the Seller. In addition to acquiring mortgage servicing rights from the Seller, it is expected that Countrywide Servicing will service mortgage loans for non-Countrywide affiliated parties as well as subservice mortgage loans on behalf of other master servicers.

In connection with the establishment of Countrywide Servicing, certain employees of the Seller became employees of Countrywide Servicing. Countrywide Servicing has engaged the Seller as a sub-servicer to perform certain loan servicing activities on its behalf.

Countrywide Servicing is an approved mortgage loan servicer for Fannie Mae, Freddie Mac, Ginnie Mae, the U.S. Department of Housing and Urban Development (“HUD”) and VA and is licensed to service mortgage loans in each state where a license is required. Its loan servicing activities are guaranteed by Countrywide Credit Industries and the Seller (when required by the owner of the mortgage loans). As of October 1, 2001, Countrywide Servicing had a net worth of approximately \$4.0 billion.

In its capacity as Master Servicer, Countrywide Servicing will be responsible for servicing the Mortgage Loans in accordance with the terms set forth in the Sale and Servicing Agreement. Countrywide Servicing will be the primary servicer for approximately 77.53% of the Mortgage Loans and the Master Servicer for the remainder, which are primarily serviced by various other third party servicers. Notwithstanding any sub-servicing arrangement, Countrywide Servicing will remain liable for its servicing duties and obligations under the Sale and Servicing Agreement as if Countrywide Servicing alone were servicing the Mortgage Loans.

The Seller

The Seller is engaged primarily in the mortgage banking business, and as such, originates, purchases, sells and services (either directly or through subsidiaries) mortgage loans. Countrywide Home Loans originates mortgage loans through a retail branch system and through mortgage loan brokers and correspondents nationwide. The Seller’s mortgage loans are principally first-lien, fixed or adjustable rate mortgage loans secured by single-family residences. References in the remainder of this prospectus to Countrywide or the Seller should be read to include the Seller and its consolidated subsidiaries, including Countrywide Servicing.

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

The Seller services substantially all of the mortgage loans it originates or acquires. In addition, the Seller has purchased in bulk the rights to service mortgage loans originated by other lenders. The Seller has in the past and may in the future sell to other mortgage bankers a portion of its portfolio of loan servicing rights. As of September 30, 2001, the Seller provided servicing for approximately \$318.6 billion aggregate principal amount of mortgage loans, substantially all of which are being serviced for unaffiliated persons.

Foreclosure and Delinquency Experience

The following table summarizes the delinquency and foreclosure experience of FHA insured and VA guaranteed mortgage loans that the Master Servicer either serviced or master serviced. The delinquency and foreclosure percentages may be affected by the size and relative lack of seasoning of the servicing portfolio, which increased from approximately \$44.1 billion at February 28, 1997, to approximately \$52.1 billion at February 28, 1998, to approximately \$54.2 billion at February 29, 1999, to approximately \$59.0 billion at February 28, 2000, to approximately \$63.7 billion at February 25, 2001, and to approximately \$62.5 billion at August 31, 2001. Accordingly, you should not use this information to assess the likelihood, amount or severity of delinquency or losses on the Mortgage Loans. We cannot promise you that the foreclosure and delinquency experience on the Mortgage Loans will be similar to the figures in the table. Furthermore, the foreclosure and delinquency

experience reflected in the table may not be representative of the foreclosure and delinquency experience of the Mortgage Loans, each of which was repurchased out of Ginnie Mae pools for reasons of uncured delinquency in accordance with Ginnie Mae guidelines.

	At February 28 (29),					At
	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>August 31,</u>
Delinquent Mortgage Loans and Pending Foreclosures at Period End(1):						
30-59 days	3.67%	4.48%	4.98%	4.95%	5.73%	5.83%
60-89 days	0.91%	1.03%	1.18%	1.45%	1.88%	2.12%
90 days or more (excluding foreclosures pending)	<u>1.31%</u>	<u>1.63%</u>	<u>1.98%</u>	<u>1.97%</u>	<u>2.47%</u>	<u>3.13%</u>
Total of delinquencies	<u>5.89%</u>	<u>7.14%</u>	<u>8.14%</u>	<u>8.37%</u>	<u>10.08%</u>	<u>11.08%</u>
Foreclosures pending	<u>1.18%</u>	<u>1.13%</u>	<u>1.15%</u>	<u>1.15%</u>	<u>1.23%</u>	<u>1.19%</u>
Total delinquencies and foreclosures pending	<u>7.07%</u>	<u>8.27%</u>	<u>9.29%</u>	<u>9.52%</u>	<u>11.31%</u>	<u>12.27%</u>

(1) As a percentage of the total number of loans serviced.

DESCRIPTION OF THE SENIOR AND MEZZANINE CERTIFICATES

General

The REMIC Pass-Through Certificates for the Trust will consist of:

- three classes of guaranteed senior certificates designated as the A-R Class (the “Residual Class”), the A Class and the A-IO Class (collectively, the “Senior Classes”),
- three classes of mezzanine certificates designated as the M, B-1 and B-2 Classes (the “Mezzanine Classes”), and
- three classes of subordinate certificates designated as the B-3, B-4 and B-5 Classes (the “Subordinate Certificates” or “Subordinate Classes”).

We refer to the Mezzanine and Subordinate Classes or Certificates together as the “Non-Senior Classes” or “Non-Senior Certificates,” respectively. Fannie Mae does not guarantee the Mezzanine Classes or the Subordinate Classes. The Senior Classes, the Mezzanine Classes and the Subordinate Classes (collectively, the “Classes” or the “Certificates”) in the aggregate represent the entire beneficial ownership interest in the Trust.

The initial aggregate principal balance of the Senior Classes will be approximately \$427,698,000 and will initially evidence an undivided ownership interest of approximately 96.25% in the Mortgage Loans. The initial aggregate principal balance of the Mezzanine Classes will be approximately \$8,887,000 and will initially evidence an undivided ownership interest of approximately 2.00% in the Mortgage Loans. The initial aggregate principal balance of the Subordinate Classes will be approximately \$7,776,585 and will initially evidence an undivided ownership interest of approximately 1.75% in the Mortgage Loans. Only the Senior and Mezzanine Classes are being offered by this prospectus and, in the case of the Senior Classes, the Senior Supplement. On the Settlement Date, we will issue the Subordinate Classes to the Dealers, which may sell them at any time thereafter in limited private offerings.

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. Initially, we will act as paying agent for the DTC Certificates. We will also perform certain administrative functions in connection with the DTC Certificates.

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 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, depositary and custodial arrangements among these systems and DTC, either directly or indirectly through custodians and depositaries, 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.

Certificated Class

We will issue the A-R Class in fully registered, certificated form and not in book-entry form. The "Holder" or "Certificateholder" of the A-R Class is its registered owner. The A-R Certificate can be

transferred at the corporate trust office of our transfer agent. We may impose a service charge for any registration of transfer of an A-R Certificate and may require payment to cover any tax or other governmental charge.

Payments on the Senior and Mezzanine Certificates

This section describes the payments of interest and principal that we will make on the Certificates. We define certain capitalized terms used in this section under the heading “—Certain Definitions Relating to Payments on the Certificates” below. See also “Index to Defined Terms” in this prospectus.

Categories of Classes—Interest. For the purpose of interest payments, the Senior and Mezzanine Classes will be categorized as follows:

<u>Interest Type*</u>	<u>Classes</u>
Fixed Rate/Available Funds	A, A-R, M, B-1 and B-2
Weighted Average Coupon/Interest Only	A-IO

* See “—Class Definitions and Abbreviations” below.

Interest Calculation. We will pay interest on the Senior and Mezzanine Certificates at the applicable annual rates shown on the cover or described in this prospectus. We calculate interest based on a 360-day year consisting of twelve 30-day months. We pay interest monthly, on each Distribution Date, beginning in the month after the Settlement Date specified in the Reference Sheet.

During the initial Interest Accrual Period, the A, A-R, M, B-1 and B-2 Classes will bear interest at the annual rate of 7.00%. During each subsequent Interest Accrual Period, the A, A-R, M, B-1 and B-2 Classes each will bear interest at an annual rate equal to the *lesser* of 7.00% and the weighted average of the Net Mortgage Rates of the Mortgage Loans during that period, weighted on the basis of their Stated Principal Balances at the beginning of that period (the “Net Pool WAC”).

During the initial Interest Accrual Period, the A-IO Class is expected to bear interest at the approximate annual rate of 0.84840%. During each subsequent Interest Accrual Period, the A-IO Class will bear interest at an annual rate equal to the Net Pool WAC *minus* 7.00% (but not less than 0%). Our determination of the interest rate for the A-IO Class for the related Interest Accrual Period will be final and binding in the absence of manifest error. You may obtain each such interest rate by telephoning us at 1-800-237-8627 or 1-202-752-6547.

The “Net Mortgage Rate” for any Mortgage Loan is the Mortgage Interest Rate for that loan less the applicable Servicing Fee Rate and guaranty fee rate.

The “Stated Principal Balance” of any Mortgage Loan as of any date of determination is the unpaid principal balance of that loan (or, if delinquent, its scheduled unpaid principal balance) as of the Issue Date, reduced by all amounts representing principal received or advanced by or on behalf of the Master Servicer and previously paid to Certificateholders with respect to that loan.

As a result of the above calculations, a disproportionately high rate of prepayments of Mortgage Loans with Net Mortgage Rates higher than the Net Pool WAC relative to Mortgage Loans with Net Mortgage Rates below the Net Pool WAC will have the effect of reducing the rate at which interest accrues on the A-IO Class during each related Interest Accrual Period. Further, Uncovered Prepayment Interest Shortfalls or reductions in the amount of interest payable on the A-IO Class due to reductions in the Mortgage Interest Rates as a result of loan modifications or the application of the Soldiers’ and Sailors’ Civil Relief Act of 1940 will reduce the yield to investors in the A-IO Class. In certain cases, these reductions in yield could be substantial.

When we use the term “Senior Interest Distribution Amount,” we mean the interest that we will pay on the Classes of Senior Certificates on each Distribution Date. When we use the term “Interest Distribution Amount,” we mean the interest that we will pay on the Classes of Non-Senior Certificates

on each Distribution Date. We will allocate Uncovered Prepayment Interest Shortfalls, pro rata, among all Classes of Certificates, based on the amount of interest that would have been payable on those Classes from Available Funds without giving effect to the Uncovered Prepayment Interest Shortfalls. We describe the Senior Interest Distribution Amount and the Interest Distribution Amount under the heading “—Certain Definitions Relating to Payments on the Certificates” below.

Interest Accrual Period. Interest to be paid on each Distribution Date will accrue on the interest bearing Classes of Certificates during the calendar month preceding the month in which the Distribution Date occurs (the “Interest Accrual Period”). See “Risk Factors—*Delay classes have lower yields and market values*” in this prospectus.

Notional Class. The A-IO Class will be a Notional Class. The Notional Class will have no principal balance. During each Interest Accrual Period, the Notional Class will bear interest on its notional balance at the annual rate described in this prospectus. The notional principal balance of the Notional Class will equal 100% of the aggregate Stated Principal Balance of the Mortgage Loans.

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

Categories of Classes—Principal. For the purpose of principal payments, the Senior and Mezzanine Classes will be categorized as follows:

<u>Principal Type*</u>	<u>Classes</u>
Sequential Pay	A and A-R
Notional	A-IO

* See “—Class Definitions and Abbreviations.”

Principal Calculation. The outstanding principal balance of any Certificate at any time is the maximum amount that the Holder will be entitled to receive thereafter as principal from the cash flow on the Mortgage Loans. When we use the term “Non-Senior Principal Distribution Amount,” we mean the principal that is to be paid on the Classes of Non-Senior Certificates on each Distribution Date. The outstanding principal balance of any Certificate as of any date of determination is equal to the initial outstanding principal balance of that Certificate, reduced by (a) all amounts previously paid as principal on that Certificate and (b) in the case of any Non-Senior Certificate, all amounts relating to Realized Losses on the Mortgage Loans that were allocated to principal of that Certificate, as described in this prospectus. See “—Certain Definitions Relating to Payments on the Certificates” below.

Payment Priorities. First, we will use Available Funds to pay interest on the Certificates and principal of the Senior Certificates. We then will use Remaining Available Funds to pay principal of the Non-Senior Certificates. On each Distribution Date, we will make payments relating to the Certificates in the following order of priority:

- (a) from Available Funds:
 - (i) to the Senior Classes, the Senior Interest Distribution Amount for that Distribution Date;
 - (ii) to the M Class, its Interest Distribution Amount for that Distribution Date;
 - (iii) to the B-1 Class, its Interest Distribution Amount for that Distribution Date;
 - (iv) to the B-2 Class, its Interest Distribution Amount for that Distribution Date;
 - (v) to the B-3 Class, its Interest Distribution Amount for that Distribution Date;

- (vi) to the B-4 Class, its Interest Distribution Amount for that Distribution Date;
- (vii) to the B-5 Class, its Interest Distribution Amount for that Distribution Date;
- (viii) sequentially, to the A-R and A Classes, in that order, the Senior Principal Distribution Amount for that Distribution Date, until their respective Class balances are reduced to zero; and
- (ix) to pay certain expenses and taxes imposed on the Trust or its assets and certain other tax-related expenses of the Trust, and to reimburse us for any guaranty payments that we made previously in respect of the Senior Certificates; and
- (b) from Remaining Available Funds:
 - (i) to the M Class, its Principal Distribution Amount for that Distribution Date, until its Class balance is reduced to zero;
 - (ii) to the B-1 Class, its Principal Distribution Amount for that Distribution Date, until its Class balance is reduced to zero;
 - (iii) to the B-2 Class, its Principal Distribution Amount for that Distribution Date, until its Class balance is reduced to zero;
 - (iv) to the B-3 Class, its Principal Distribution Amount for that Distribution Date, until its Class balance is reduced to zero;
 - (v) to the B-4 Class, its Principal Distribution Amount for that Distribution Date, until its Class balance is reduced to zero;
 - (vi) to the B-5 Class, its Principal Distribution Amount for that Distribution Date, until its Class balance is reduced to zero; and
 - (vii) to the A-R Class, any remaining amounts.

We will pay principal prepayments (including net liquidation proceeds) on each Distribution Date, as long as the Master Servicer gives us information about them in time for the published class factors to reflect these payments. See “Reference Sheet—*Class Factors*” in this prospectus. If we do not receive the information on time, we will pay the prepayments on the next Distribution Date. For purposes of payments, we consider a Mortgage Loan to be a “Liquidated Loan” if the Master Servicer concludes that the full amount finally recoverable on account of that Mortgage Loan has been received, whether or not this amount is equal to the principal balance of the Mortgage Loan.

Certain Definitions Relating to Payments on the Certificates

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

- (i) all scheduled payments on the Mortgage Loans due during the related Due Period and received by the 15th day of the month of such Distribution Date (or if such 15th day is not a business day, the next business day), **plus**
- (ii) prepayments, net liquidation proceeds (i.e., after giving effect to payment of unreimbursed liquidation expenses and payment in full of any outstanding arrearages in connection with the related Mortgage Loan) and other unscheduled collections received on the Mortgage Loans during the immediately preceding Prepayment Period, **plus**
- (iii) any Delinquency Advances the Master Servicer makes for that Distribution Date with respect to late payments that the Master Servicer believes it will be able to recover from the related borrowers, **minus**
- (iv) certain amounts, including Servicing Advances, Delinquency Advances and amounts received or recovered in respect of outstanding arrearages, reimbursable to the Master Servicer.

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

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

Deficient Valuation—For any Mortgage Loan, a valuation of the related Mortgaged Property in an amount less than the then outstanding principal balance of that loan, issued by a court of competent jurisdiction in a proceeding under the Bankruptcy Code. We will not determine the Deficient Valuation or apply it as a Realized Loss until the court renders a final, non-appealable decision with respect to the valuation.

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

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

Interest Distribution Amount—For any Distribution Date, the interest we will pay on the Classes of Non-Senior Certificates, which will equal the sum of:

- (i) one month's interest at the applicable rate on the outstanding principal balances of those Classes less the Uncovered Prepayment Interest Shortfalls allocated to those Classes, **plus**
- (ii) any interest remaining unpaid from previous Distribution Dates with respect to those Classes (excluding any additional interest on the unpaid amount).

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

- (i) the Subordinate Percentage of all monthly payments of principal due on each Mortgage Loan during the related Due Period, **plus**
- (ii) the Subordinate Prepayment Percentage of the principal portion of the purchase price of each Mortgage Loan that the Seller repurchases with respect to that Distribution Date, **plus**
- (iii) the Subordinate Prepayment Percentage of the Substitution Adjustment Amount in connection with each Mortgage Loan received with respect to that Distribution Date, **plus**
- (iv) the Subordinate Prepayment Percentage of any insurance proceeds or net liquidation proceeds received during the related Prepayment Period that are allocable to recoveries of principal of Mortgage Loans that are not yet Liquidated Loans, **plus**
- (v) for each Mortgage Loan that became a Liquidated Loan during the related Prepayment Period, the related Subordinate Prepayment Percentage of the Stated Principal Balance of that Mortgage Loan, **plus**
- (vi) the related Subordinate Prepayment Percentage of all partial and full principal prepayments that we receive during the related Prepayment Period from the borrowers on each Mortgage Loan.

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

Prepayment Interest Shortfall—For any Mortgage Loan with respect to which the related borrower made a prepayment of principal to the Master Servicer during a calendar month, an amount equal to:

- (i) one full month's interest on the principal balance of that Mortgage Loan (before applying the prepayment), **minus**
- (ii) the interest that the related borrower paid on that Mortgage Loan in respect of that calendar month.

Prepayment Period—For any Distribution Date, the calendar month preceding the month in which such Distribution Date occurs.

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

- (a) that Class's pro rata portion (based on the ratio of the principal balance of that Class to the aggregate principal balance of all the Non-Senior Classes immediately before that Distribution Date) of the Non-Senior Principal Distribution Amount for that Distribution Date, **or**
- (b) the portion of Remaining Available Funds available for payment to the Non-Senior Certificates, using the distribution priority described under “—Payments on the Senior and Mezzanine Certificates—*Payment Priorities*” above, in the order of their numerical Class designations (beginning with the Class of outstanding Non-Senior Certificates with the lowest numerical Class designation), in each case until the principal balance of that Class is reduced to zero.

Realized Loss—In general:

- (i) as to any Liquidated Loan, its Stated Principal Balance as of the date of liquidation *minus* the principal portion of net liquidation proceeds (i.e. after giving effect to payment of unreimbursed liquidation expenses and payment in full of any outstanding arrearages in connection with the related Mortgage Loan) realized on it,
- (ii) for each Mortgage Loan that has received a Deficient Valuation, the difference between the Stated Principal Balance of the Mortgage Loan immediately before the Deficient Valuation and the outstanding principal balance of the Mortgage Loan as reduced by the Deficient Valuation, and
- (iii) for each Mortgage Loan that has received a Debt Service Reduction, the reduction in monthly principal attributable to the court-ordered reduction of the monthly mortgage payment, calculated on a month to month basis.

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

- (i) we have paid interest on the Senior Certificates,
- (ii) we have paid interest on the Non-Senior Certificates,
- (iii) we have paid principal of the Senior Certificates, and
- (iv) we have been reimbursed for certain unreimbursed guaranty payments on the Senior Certificates, as well as for any expenses we have incurred in connection with a legal action or proceeding relating to the Trust Agreement.

Senior Interest Distribution Amount—Interest we will pay on the Senior Classes on each Distribution Date. This interest will consist of one month's interest at the applicable rate on the outstanding principal balances of those Classes, less the Uncovered Prepayment Interest Shortfalls allocated to those Classes.

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

(i) 100%, and

(ii) the percentage equivalent of a fraction, the numerator of which is the aggregate principal balance of the Senior Classes immediately before that Distribution Date, and the denominator of which is the sum of the Stated Principal Balance of each Mortgage Loan as of the Due Date in the month of that Distribution Date.

Senior Prepayment Percentage—For any Distribution Date on which Senior Certificates remain outstanding, we will determine it as follows (except as described below):

<u>Distribution Date</u>	<u>Senior Prepayment Percentage</u>
November 2001 through October 2006	100%
November 2006 through October 2007	the Senior Percentage plus 70% of the Subordinate Percentage
November 2007 through October 2008	the Senior Percentage plus 60% of the Subordinate Percentage
November 2008 through October 2009	the Senior Percentage plus 40% of the Subordinate Percentage
November 2009 through October 2010	the Senior Percentage plus 20% of the Subordinate Percentage
November 2010 and thereafter	the Senior Percentage

If no Senior Certificates are outstanding, the Senior Prepayment Percentage will be 0%.

Exceptions:

(A) If on any Distribution Date the Senior Percentage exceeds the initial Senior Percentage, the Senior Prepayment Percentage for that Distribution Date will equal 100%.

(B) In addition, the Senior Prepayment Percentage will not decrease unless cumulative Realized Losses with respect to the Mortgage Loans do not exceed:

(i) with respect to the Distribution Date falling on or after the fifth anniversary of the first Distribution Date, 30% of the Original Non-Senior Principal Balance,

(ii) with respect to the Distribution Date falling on or after the sixth anniversary of the first Distribution Date, 35% of the Original Non-Senior Principal Balance,

(iii) with respect to the Distribution Date falling on or after the seventh anniversary of the first Distribution Date, 40% of the Original Non-Senior Principal Balance,

(iv) with respect to the Distribution Date falling on or after the eighth anniversary of the first Distribution Date, 45% of the Original Non-Senior Principal Balance, and

(v) with respect to the Distribution Date falling on or after the ninth anniversary of the first Distribution Date, 50% of the Original Non-Senior Principal Balance.

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

(i) the Senior Percentage of all monthly payments of principal due on each Mortgage Loan during the related Due Period, **plus**

(ii) the Senior Prepayment Percentage of the principal portion of the purchase price of each Mortgage Loan that the Seller repurchases with respect to that Distribution Date, **plus**

(iii) the Senior Prepayment Percentage of the Substitution Adjustment Amount received in connection with any Mortgage Loan with respect to that Distribution Date, **plus**

(iv) the Senior Prepayment Percentage of any insurance proceeds or net liquidation proceeds received during the related Prepayment Period that are allocable to recoveries of principal of Mortgage Loans that are not yet Liquidated Loans, **plus**

(v) for each Mortgage Loan that became a Liquidated Loan during the related Prepayment Period, the Senior Prepayment Percentage of the Stated Principal Balance of that Mortgage Loan, **plus**

(vi) the Senior Prepayment Percentage of all partial and full principal prepayments that we receive during the related Prepayment Period from the borrowers on each Mortgage Loan, **plus**

(vii) the amount of Realized Losses allocated to the Senior Classes for that Distribution Date.

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

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

Uncovered Prepayment Interest Shortfall—For any Distribution Date:

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

(ii) one-half of the aggregate servicing fee (calculated at the Servicing Fee Rate) for that Distribution Date.

Allocation of Losses

On each Distribution Date, we will allocate the Realized Loss in the following order of priority:

(i) to the Non-Senior Certificates, in the reverse order of their numerical Class designations (beginning with the Class of Non-Senior Certificates with the highest numerical Class designation), in each case until the principal balance of that Class is reduced to zero; and

(ii) to the Senior Classes.

We will deem the Class M Certificates to have a lower numerical designation (and to be of higher payment priority) than the other Classes of Non-Senior Certificates.

Subordination

General. Before we make any payment of interest to holders of Non-Senior Certificates on any Distribution Date, we are obligated to pay holders of the Senior Certificates the interest to which they are entitled out of funds available for payments on the Mortgage Loans on that Distribution Date. Before we make any payment of principal to holders of Non-Senior Certificates on any Distribution Date, we are obligated to pay holders of the Senior Certificates the principal to which they are entitled out of funds available for payments on the Mortgage Loans on that Distribution Date. In addition, the rights of holders of the B-1 and B-2 Classes to receive interest payments will be subordinate to the rights of holders of the M Class to receive payments of interest and the rights of the holders of the B-1 and B-2 Classes to receive principal payments will be subordinate to the rights of holders of the M Class to receive payments of principal. Further, the rights of holders of the B-2 Class to receive interest will be further subordinate to the rights of holders of the B-1 Class to receive payments of interest and the rights of the holders of the B-2 Class to receive payments of principal will be further

subordinate to the rights of the holders of the B-1 Class to receive payments of principal. See “—Distribution Priorities” above.

Class Definitions and Abbreviations

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

<u>Abbreviation</u>	<u>Category of Class</u>	<u>Definition</u>
PRINCIPAL TYPES		
NTL	Notional	Has no principal balance and bears interest on its notional principal balance. The notional principal balance is used to determine interest payments on an Interest Only Class that is not entitled to principal.
SEQ	Sequential Pay	Receives principal payments in a prescribed sequence but without a predetermined schedule. In most cases, it receives payments of principal continuously from the first Distribution Date until the class is retired. A single class that receives principal payments before or after all other classes in the same series of Certificates may be identified as a Sequential Pay Class.
INTEREST TYPES		
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.
IO	Interest Only	Receives some or all of the interest payments made on the Mortgage Loans or other assets of the trust but little or no principal. Interest Only Classes have either a notional or a nominal principal balance. A notional principal balance is the amount used as a reference to calculate the amount of interest due on an Interest Only Class. A nominal principal balance represents actual principal that will be paid on the Class. It is referred to as nominal since it is extremely small compared to other classes.
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 Residual Certificate

In addition to paying principal and interest on the A-R Class, if any assets of the Trust remain after the principal balances of all Classes are reduced to zero, we will pay the Holder of the A-R Class the proceeds from those assets. We do not expect that any material assets will remain in such case.

No Residual Certificate may be transferred to a “disqualified organization” or to anyone acting on behalf of a disqualified organization. The term “transfer” can include any transfer of record ownership or of beneficial ownership, whether as a result of a sale, gift, pledge, default or otherwise. The term “disqualified organization” includes the United States, any State or other political subdivision, any

foreign government, any international organization, or any agency or instrumentality of any of them (other than certain taxable instrumentalities), any cooperative organization furnishing electric energy or providing telephone service to persons in rural areas, or any organization (other than a farmers' cooperative) that is exempt from federal income tax, unless such organization is subject to a tax on unrelated business income. Each person or entity to which a Residual Certificate is transferred will be required to execute an affidavit, acceptable to us, stating that:

- the transferee is not a disqualified organization,
- it is not acquiring the Residual 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 Residual Certificate will not be owned directly or indirectly by a disqualified organization,
- it is not acquiring the Residual 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 Residual Certificate,
- it intends to pay taxes on the Residual Certificate as they become due, and
- it will not transfer the Residual Certificate unless it has received from the new transferee an affidavit containing these same seven 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 Certificate*—Sales and other Dispositions of Residual Certificate—*Residual Certificates Transferred to or Held by Disqualified Organizations*.” The transferee also must deliver a properly executed Internal Revenue Service Form W-9 (or, if applicable, a Form W-8ECI) in which the transferee provides its taxpayer identification number.

The affidavit must also state that the transferee is a “U.S. Person” or a foreign person subject to United States income taxation on a net basis on income derived from that certificate and that, if the transferee is a partnership for U.S. federal income tax purposes, each person or entity that holds an interest (directly, or indirectly through a pass-through entity) in the partnership is a “U.S. Person” or a foreign person subject to United States income taxation on a net basis on income derived from that certificate.

No Residual Certificate may be transferred to any person that is not a “U.S. Person” or a foreign person subject to United States income taxation on a net basis on income derived from that certificate without our written consent. The term “U.S. Person” means

- a citizen or resident of the United States,
- a corporation, partnership or other entity created under the laws of the United States or any of its political subdivisions,
- an estate the income of which is subject to U.S. federal income tax regardless of the source of its income or
- a trust if a court within the United States can exercise primary supervision over its administration and one or more United States persons have the authority to control all substantial decisions of the trust.

In addition, the transferee must receive an affidavit containing these same representations from any new transferee. Transferors of the A-R Certificate should consult with their own tax advisors for further information regarding such transfers.

Treasury Department regulations (the “Regulations”) provide that a transfer of a “noneconomic residual interest” will be disregarded for all federal tax purposes unless no significant purpose of the transfer is to impede the assessment or collection of tax. The A-R Class may constitute a noneconomic residual interest under the Regulations. Having a significant purpose to impede the assessment or collection of tax means that the transferor of a Residual Certificate knew or should have known that the transferee would be unwilling or unable to pay taxes due on its share of the taxable income of the REMIC trust (that is, the transferor had “improper knowledge”).

The Regulations presume that a transferor does not have improper knowledge if two conditions are met. 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 Residual Certificate would be presumed not to have improper knowledge only if the present value of the anticipated tax liabilities associated with holding the Residual Certificate is less than or equal to the present value of the sum of (i) any consideration given to the transferee to acquire the Residual Certificate, (ii) expected future distributions on the Residual Certificate, and (iii) anticipated tax savings associated with holding the Residual Certificate as the related REMIC trust generates losses. The 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 Residual Certificate.

The IRS has since issued a Revenue Procedure creating a safe harbor that may be used for transfers of noneconomic residual interests pending the finalization of the proposed amendment. Under this safe harbor, a transferor of a noneconomic 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 the Revenue Procedure to an actual transfer of the Residual Certificate.

The Holder of the A-R Class will be considered to be the holder of the “residual interest” in the REMIC constituted by the Trust. See “Certain Federal Income Tax Consequences—REMIC Election and Special Tax Attributes.” Pursuant to the Trust Agreement we will be obligated to provide to the Holder of the A-R Class (i) information that it needs to prepare its federal income tax returns and (ii) any reports regarding the A-R Class that may be required under the Code.

Structuring Assumptions

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

- payments on all Mortgage Loans are due and received on the first day of each month;
- each year consists of twelve 30-day months;
- the Mortgage Loans prepay at the constant percentages of the Prepayment Assumption specified in the related tables;
- there are no Uncovered Prepayment Interest Shortfalls;
- there are no defaults, losses, delinquencies or liquidations with respect to the Mortgage Loans;
- there are no substitutions of the Mortgage Loans after the Issue Date;

- there are no modifications of the terms of any Mortgage Loans;
- no exercise of Fannie Mae's or the Master Servicer's optional termination rights occurs; and
- the settlement date for the sale of the Certificates is October 30, 2001.

Prepayment Assumption. Prepayments of mortgage loans commonly are measured relative to a prepayment standard or model. The model used here assumes a constant prepayment rate ("CPR"). *This model does not predict the prepayment experience of the Mortgage Loans or describe the historic performance of any particular pool of mortgage loans, including the Mortgage Loans.*

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 CPR. 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 such assumed streams of cash flows to equal the assumed aggregate purchase prices of such Classes, and
- converting such monthly rates to corporate bond equivalent rates.

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

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 Certificates are likely to differ from those assumed. This would be the case even if all Mortgage Loans prepay at the indicated constant percentages of CPR. Moreover, it is unlikely that:

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

***The A-IO Class.* The yield to investors in the A-IO Class will be very sensitive to the rate of principal payments (including prepayments) of the Mortgage Loans. The Mortgage Loans can be prepaid by the related borrowers with no prepayment penalty. On the basis of the assumptions described below, the yield to maturity and the yield to call on the A-IO Class would be 0% if prepayments were to occur at a constant rate of approximately 26% CPR or 25% CPR, respectively. If the actual prepayment rate of the Mortgage Loans were to exceed that level for as little as one month while equaling such level for the remaining months, the investors in the A-IO Class would lose money on their initial investments.**

We cannot assure you that:

- the Mortgage Loans will prepay at any of the rates assumed in this prospectus or at any other particular rate;
- the pre-tax yields on the A-IO Class will correspond to any of the pre-tax yields shown in this prospectus; or

- the aggregate purchase price of the A-IO Class will be the price assumed below.

Further, Uncovered Prepayment Interest Shortfalls or reductions in the amount of interest payable on the A-IO Class due to reductions in the Mortgage Interest Rates as a result of loan modifications or the application of the Soldiers' and Sailors' Civil Relief Act of 1940 will reduce the yield to investors in the A-IO Class. In certain cases, these reductions in yield could be substantial.

The information shown in the following yield table has been prepared on the basis of the Pricing Assumptions and the assumption that the aggregate purchase price of the A-IO Class (expressed as a percentage of the original notional principal balance) is as follows:

<u>Class</u>	<u>Price*</u>
A-IO	2.59375%

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

Sensitivity of the A-IO Class to Prepayments (Pre-Tax Yields to Maturity)

<u>Class</u>	<u>CPR Prepayment Assumption</u>						
	<u>0%</u>	<u>9%</u>	<u>12%</u>	<u>15%</u>	<u>18%</u>	<u>24%</u>	<u>30%</u>
A-IO	31.3%	20.9%	17.3%	13.7%	10.0%	2.3%	(5.7)%

Sensitivity of the A-IO Class to Prepayments (Pre-Tax Yields to Call*)

<u>Class</u>	<u>CPR Prepayment Assumption</u>						
	<u>0%</u>	<u>9%</u>	<u>12%</u>	<u>15%</u>	<u>18%</u>	<u>24%</u>	<u>30%</u>
A-IO	31.3%	20.9%	17.3%	13.5%	9.6%	1.2%	(8.2)%

* 5% optional termination.

Weighted Average Lives of the Senior and Mezzanine Certificates

The weighted average life of a class of Certificates refers to the average length of time, weighted by principal, that will elapse from the time we issue the Certificates 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 such Certificate from one Distribution Date to the next Distribution Date by the number of years from the Settlement Date to the second such Distribution Date,
- (b) summing the results, and
- (c) dividing the sum by the aggregate amount of the reductions in principal balance of such Certificate referred to in clause (a).

The weighted average life of each Class of Senior and Mezzanine Certificates will be influenced by, among other factors, the rate at which principal payments are made on the Mortgage Loans. For the purpose of the preceding sentence, principal payments include scheduled payments, principal prepayments, liquidations due to default, casualty and condemnation and payments made pursuant to either the Master Servicer's or Fannie Mae's option to repurchase. We will apply prepayments on the Mortgage Loans to principal payments on the Certificates, as described in this prospectus. The effect of these factors may differ as to various Classes of Senior and Mezzanine Certificates and the effects on any Class may vary at different times during the life of that Class. Accordingly, we can give no assurance as to the weighted average life of any Class.

Maturity Considerations and Last Scheduled Distribution Date

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

The last scheduled Distribution Date for each Class of Mezzanine Certificates is the Distribution Date in September 2041 (ten years after the month of the latest scheduled maturity date for any of the Mortgage Loans).

Decrement Tables

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

It is unlikely:

- that all the Mortgage Loans will have the interest rates or remaining terms to maturity assumed or
- that the Mortgage Loans will prepay at any constant percentage of the related Prepayment Assumption.

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

Percent of Original Principal Balances Outstanding

Date	A Class							A-IO*** Class						
	CPR Prepayment Assumption							CPR Prepayment Assumption						
	0%	9%	12%	15%	18%	24%	30%	0%	9%	12%	15%	18%	24%	30%
Initial Percent	100	100	100	100	100	100	100	100	100	100	100	100	100	100
October 2002	99	89	86	83	80	74	68	99	90	87	84	81	75	69
October 2003	97	80	74	69	64	54	46	97	80	75	70	65	56	48
October 2004	95	71	64	57	51	40	30	95	72	65	58	53	42	33
October 2005	93	63	55	47	40	29	20	93	64	56	49	42	31	22
October 2006	91	56	46	39	32	20	12	91	57	48	41	34	23	15
October 2007	89	49	40	32	25	15	8	89	51	41	34	27	17	10
October 2008	87	43	34	26	19	10	5	87	45	35	28	22	13	7
October 2009	84	38	29	21	15	7	3	84	39	30	23	17	9	5
October 2010	81	33	24	17	12	5	2	81	35	26	19	14	7	3
October 2011	78	29	21	14	9	4	1	78	30	22	15	11	5	2
October 2012	75	25	17	11	7	3	1	75	26	18	12	8	4	1
October 2013	71	22	14	9	6	2	1	71	23	15	10	7	3	1
October 2014	67	19	12	7	4	1	*	67	20	13	8	5	2	1
October 2015	62	16	10	6	3	1	*	62	17	10	6	4	1	*
October 2016	58	14	8	5	3	1	*	58	14	8	5	3	1	*
October 2017	53	11	6	4	2	1	*	53	12	7	4	2	1	*
October 2018	48	9	5	3	1	*	*	48	10	5	3	2	*	*
October 2019	43	8	4	2	1	*	*	43	8	4	2	1	*	*
October 2020	37	6	3	2	1	*	*	37	6	3	2	1	*	*
October 2021	31	5	2	1	1	*	*	31	5	2	1	1	*	*
October 2022	25	3	2	1	*	*	*	25	4	2	1	*	*	*
October 2023	19	2	1	*	*	*	*	19	2	1	1	*	*	*
October 2024	12	1	1	*	*	*	*	12	1	1	*	*	*	*
October 2025	5	1	*	*	*	*	*	5	1	*	*	*	*	*
October 2026	*	*	*	*	*	*	*	2	*	*	*	*	*	*
October 2027	*	*	*	*	*	*	*	*	*	*	*	*	*	*
October 2028	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Weighted Average Life (years)**	15.5	7.5	6.1	5.1	4.3	3.2	2.5	15.5	7.6	6.3	5.3	4.5	3.4	2.7

Date	A-R Class							M, B-1 and B-2 Classes						
	CPR Prepayment Assumption							CPR Prepayment Assumption						
	0%	9%	12%	15%	18%	24%	30%	0%	9%	12%	15%	18%	24%	30%
Initial Percent	100	100	100	100	100	100	100	100	100	100	100	100	100	100
October 2002	0	0	0	0	0	0	0	99	99	99	99	99	99	99
October 2003	0	0	0	0	0	0	0	97	97	97	97	97	97	97
October 2004	0	0	0	0	0	0	0	95	95	95	95	95	95	95
October 2005	0	0	0	0	0	0	0	93	93	93	93	93	93	93
October 2006	0	0	0	0	0	0	0	91	91	91	91	91	91	91
October 2007	0	0	0	0	0	0	0	89	87	86	85	84	82	80
October 2008	0	0	0	0	0	0	0	87	81	79	77	75	72	68
October 2009	0	0	0	0	0	0	0	84	74	71	68	65	59	53
October 2010	0	0	0	0	0	0	0	81	67	62	58	54	46	39
October 2011	0	0	0	0	0	0	0	78	58	53	47	42	33	26
October 2012	0	0	0	0	0	0	0	75	51	44	38	33	24	17
October 2013	0	0	0	0	0	0	0	71	44	37	31	26	18	12
October 2014	0	0	0	0	0	0	0	67	38	31	25	20	13	8
October 2015	0	0	0	0	0	0	0	62	32	25	20	15	9	5
October 2016	0	0	0	0	0	0	0	58	27	20	15	12	6	3
October 2017	0	0	0	0	0	0	0	53	22	16	12	9	4	2
October 2018	0	0	0	0	0	0	0	48	18	13	9	6	3	1
October 2019	0	0	0	0	0	0	0	43	15	10	7	5	2	1
October 2020	0	0	0	0	0	0	0	37	12	8	5	3	1	*
October 2021	0	0	0	0	0	0	0	31	9	6	4	2	1	*
October 2022	0	0	0	0	0	0	0	25	7	4	3	2	1	*
October 2023	0	0	0	0	0	0	0	19	5	3	2	1	*	*
October 2024	0	0	0	0	0	0	0	12	3	2	1	*	*	*
October 2025	0	0	0	0	0	0	0	5	1	1	*	*	*	*
October 2026	0	0	0	0	0	0	0	2	*	*	*	*	*	*
October 2027	0	0	0	0	0	0	0	*	*	*	*	*	*	*
October 2028	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Weighted Average Life (years)**	0.1	0.1	0.1	0.1	0.1	0.1	0.1	15.5	11.8	11.0	10.3	9.8	9.0	8.4

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

** Determined as specified under “—Weighted Average Lives of the Senior and Mezzanine Certificates” in this prospectus.

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

THE AGREEMENTS

We summarize below certain provisions of the Sale and Servicing Agreement and the Trust Agreement (together, the “Agreements”) that are not discussed elsewhere in this prospectus. Certain capitalized terms that we use in these summaries are defined in the Agreements. 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 Agreements, the terms of the Agreements will prevail.

Transfer of Mortgage Loans to the Trust

The Trust Agreement will contain a mortgage loan schedule that will identify the Mortgage Loans that are being transferred to the Trust. 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. 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 affect on the interests of Certificateholders.

At our option, we may choose to maintain the documents described above with one or more custodian institutions supervised and regulated by the Comptroller of the Currency, the Board of Governors of the Federal Reserve System, the Office of Thrift Supervision, the Federal Deposit Insurance Corporation or the National Credit Union Administration. We will review the mortgage loan schedule before we issue the Certificates and will conduct random spot checks after issuing the Certificates to confirm that we have all the documents we need.

If a liquidation, reorganization, or similar proceeding involving our assets or the assets of the Seller 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 the Mortgage Loans in the event of a proceeding of this type.

Servicing of Mortgage Loans

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

Except as otherwise specified in this prospectus, the Master Servicer will be obligated to perform diligently all services and duties customary to servicing mortgages, as well as those specifically prescribed in the Sale and Servicing Agreement. Under the Sale and Servicing Agreement, we will monitor the Master Servicer’s performance and have the right to remove the Master Servicer for cause at any time, if we consider such removal to be in the best interest of Certificateholders. The Master Servicer’s duties include general loan servicing, collecting and remitting principal and interest payments, administering mortgage escrow accounts, collecting insurance claims, and, if necessary, foreclosing on properties and administering and disposing of foreclosed properties.

Each month, the Master Servicer will receive a fee as compensation for its servicing activities. The fee will be calculated at an annual rate of 0.44% in the case of Mortgage Loans directly serviced by the Master Servicer and 0.46% in the case of Mortgage Loans directly serviced by other parties (as applicable, the “Servicing Fee Rate”), in each case calculated on the Stated Principal Balance of each Mortgage Loan. The Master Servicer is also entitled to retain prepayment fees, late charges, assumption fees, and similar charges if they are collected from borrowers. In addition, the Master Servicer is entitled to retain any amount by which the proceeds of a liquidated Mortgage Loan exceed (i) the Stated Principal Balance of that Mortgage Loan and (ii) interest thereon at the Mortgage Interest Rate, starting from the month in which the Master Servicer determined that it could no longer recover any advances with respect to that Mortgage Loan, through the end of the month of the liquidation. The Master Servicer may *not* retain the amounts described in the preceding sentence to the extent we have to pay such amounts to the holders of the Mezzanine and Subordinate Certificates to offset previously allocated Realized Losses with respect to such Mortgage Loan. The Master

Servicer will pay all expenses it incurs in connection with its servicing activities and will not be reimbursed for them (except for Delinquency Advances and Servicing Advances) out of the assets of the Trust.

In addition, as compensation for our guaranty of the Senior Certificates, we will receive a fee from amounts collected on the Mortgage Loans.

Payments on Mortgage Loans; Deposits in the Certificate Account

On each Remittance Date, the Master Servicer will remit to one or more accounts (collectively, the “Certificate Account”) an amount equal to the sum of

- scheduled principal and interest received on the Mortgage Loans during the related Due Period, plus
- unscheduled collections received on the Mortgage Loans (*i.e.*, voluntary prepayments, as well as principal and interest on the Mortgage Loans in the form of net liquidation proceeds or similar proceeds) during the related Prepayment Period, plus
- any advance that the Master Servicer must make in respect of delinquent payments of principal and interest on the Mortgage Loans with respect to the related Distribution Date.

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

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

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

Amounts received and applied by the Master Servicer as reimbursements for Servicing Advances or Delinquency Advances or as recoveries of outstanding arrearages will not be required for deposit in the Certificate Account.

Reports to Certificateholders

We will publish the class factor for each class of Certificates on or shortly after the 21st calendar day of each month. If you multiply the class factor for a class of Certificates by the original principal balance (or notional balance) of that class of Certificates, you will obtain the current principal balance (or notional balance) of that class of Certificates, after giving effect to the current month’s principal payment.

We will provide each Holder of Certificates 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

The Master Servicer is responsible for servicing the Mortgage Loans. In this capacity, it has full power and authority to do or cause to be done anything it considers necessary or appropriate, including the foreclosure or comparable conversion of a defaulted Mortgage Loan.

The Master Servicer must make advances to the Trust for delinquent payments of principal of and interest on the Mortgage Loans. It must make these advances until the earlier of (i) the date of conveyance of the related Mortgaged Property to HUD or VA, as applicable, and (ii) final liquidation of the related Mortgaged Property. Before we make any payments on the Senior and Mezzanine Certificates, we will reimburse all these advances to the Master Servicer from late collections, insurance proceeds and liquidation proceeds from the related Mortgage Loans. We call these advances “Delinquency Advances.” In addition, we may use funds allocable to any of the Mortgage Loans to reimburse the Master Servicer for Delinquency Advances that it made previously, but deems that it cannot recover from related late collections, insurance proceeds or liquidation proceeds.

The Master Servicer will have to pay all “out of pocket” costs and expenses incurred in performing its servicing obligations, if it deems that it will be able to recover these costs and expenses. These expenses include:

- expenditures in connection with a foreclosed Mortgage Loan prior to liquidation (including real estate property taxes, hazard insurance premiums and property restoration or preservation),
- the cost of enforcement or judicial proceedings, including foreclosures, and
- the cost of managing and liquidating a Mortgaged Property acquired in satisfaction of the related Mortgage Loan.

We call these costs and expenses “Servicing Advances.” The Master Servicer may recover a Servicing Advance to the extent permitted by the related Mortgage Loan. If the Master Servicer does not recover the Servicing Advance from the borrower on whose behalf the advance was made, it may recover the Servicing Advance from net liquidation proceeds realized upon the liquidation of the related Mortgage Loan, or from funds that would otherwise be paid on the Mezzanine and Subordinate Certificates.

Certain of the Mortgage Loans to be transferred to the Trust are subject to arrearages arising from unreimbursed interest, principal and servicing advances made prior to the Issue Date. These arrearages will not be the property of the Trust and any collections of such arrearage amounts will be paid to the advancing party. Additionally, any arrearage amounts not paid as described above will be paid out of recoveries (including collections, insurance proceeds and liquidation proceeds from the Mortgage Loans) prior to the deposit of any such recoveries into the Trust.

Upon receipt by the Master Servicer or other servicer of liquidation proceeds, the Master Servicer will remit such liquidation proceeds (net of Servicing Advances, Delinquency Advances and any unpaid arrearages in respect of the related Mortgage Loan) to the Trust.

The Seller will make certain warranties to us with respect to each Mortgage Loan, concerning such matters as (i) the recordation of the original Mortgage, (ii) the validity of the Mortgage Loan as a first lien on the Mortgaged Property and (iii) compliance by the Mortgage Loan with applicable state and federal laws. If the Seller materially breaches any such warranty, or if there is a material defect in the Mortgage Loan documentation, we may cause the Seller to repurchase that Mortgage Loan from the Trust at a price equal to its outstanding principal balance, plus interest at its Net Mortgage Rate. The Seller may instead, at its 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 90 days after we issue the Certificates. We call the amount by which the Stated Principal Balance of the defective Mortgage Loan exceeds the principal balance of the

substitute Mortgage Loan the “Substitution Adjustment Amount.” We will pass this amount through to Certificateholders. The Sale and Servicing Agreement will not provide for the repurchase by the Master Servicer of any Mortgage Loan due solely to delinquency.

Subject to the limitations discussed below, the Master 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, however, any modification that would:

- cause the Trust to fail to qualify as a REMIC under the Code,
- cause any Mortgage Loan to cease to be a “qualified mortgage” within the meaning of section 860G(a)(3) of the Code, or
- result in the imposition of any tax on “prohibited transactions” or “contributions” as discussed under “Certain Federal Income Tax Consequences—Taxes on the Trust.”

The Sale and Servicing Agreement will provide that the Master Servicer will service the Mortgage Loans in accordance with FHA and VA guidelines. In accordance with FHA and VA guidelines and the terms of the Sale and Servicing Agreement, the Master Servicer is permitted to make certain other modifications, such as reducing the mortgage interest rate or principal amount or extending the term of a Mortgage Loan. The Master Servicer may waive any prepayment charge, assumption fee, or late payment charge, or may exercise or refrain from exercising any “call option rider.” If the Master Servicer decides to take or refrain from taking any of the actions discussed above, its decision must be consistent with the then-current policies or practices that it follows for comparable mortgage loans held in its own portfolio. In making its decisions, the Master Servicer may not take into account the ownership status of the related Mortgage Loan.

Each Mortgage Loan either will contain a standard “due-on-sale” clause or will be assumable upon the sale of the related Mortgaged Property, subject generally to the purchaser’s compliance with credit and underwriting guidelines. In connection with the transfer or prospective transfer of title to a Mortgaged Property securing any Mortgage Loan, the Master Servicer must 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). FHA and VA, however, historically permitted borrowers to sell their homes subject to the existing FHA loan or VA loan, without requiring the new homeowner to assume the mortgage debt, and, in some cases, without requiring the lender to determine whether the new homeowner was creditworthy. In those instances, the original borrower is not relieved of the obligation under the Mortgage Loan.

If for any reason the Master 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 Master Servicer may enter into a transaction which releases the borrower from liability on the related Mortgage Loan and imposes such liability on the transferee. According to the Fannie Mae Servicing Guide, no such transaction shall provide for reduction of the mortgage interest rate.

Certain Fannie Mae Matters

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 with respect to the Senior Certificates. Even if our other duties under the Trust Agreement should terminate, we would still be obligated under that guaranty.

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

The Trust Agreement also provides that we are free to refuse to initiate or participate 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 initiate legal actions if we think any such action would be in the interests of the Certificateholders. In this case, we will pay the legal expenses and costs associated with such action.

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 a 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 with respect to the Senior Certificates 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 Trust. Holders of Mezzanine Certificates and Subordinate Certificates will have no right to terminate our obligations and duties unless and until the Senior Certificates have been paid in full.

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; and
- to modify the Trust Agreement to maintain the legal status of the Trust as a REMIC.

If Certificateholders who own at least 66% of each class give their consent, we may amend the Trust Agreement to eliminate, change or add to its terms or to waive our compliance with any of those terms. Nevertheless, we may not terminate or change our guaranty obligations with respect to the

Senior Certificates, 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 Residual Certificates give their consent, no amendment may adversely affect their rights.

Voting Rights

Certain actions specified in the Trust Agreement that may be taken by holders of Certificates evidencing a specified percentage of all undivided interests in the Trust may be taken by holders of Certificates entitled in the aggregate to such percentage of voting rights. The percentage of the voting rights allocated among holders of the A-IO Class will be 1.5%; the percentage of the voting rights allocated among holders of all other Classes in the aggregate will be 98.5%. The voting rights allocated to each Class of Certificates will be allocated among all holders of each such Class in proportion to the outstanding Class balance of such Certificates.

Termination

The Trust Agreement will terminate when the last Mortgage Loan remaining in the Trust has been paid off or liquidated, and the proceeds of that loan have been paid to Certificateholders. The Trust Agreement also will terminate if either Fannie Mae or the Master Servicer exercises its option to repurchase all remaining Mortgage Loans (other than Mortgage Loans that have been converted to REO Property) and REO Property in the Trust. An “REO Property” is a Mortgaged Property that the Master Servicer acquired through foreclosure or deed-in-lieu-of-foreclosure in connection with a defaulted Mortgage Loan. The purchase price for such optional repurchase will equal the outstanding principal balance of each Mortgage Loan (including one month’s interest at the Net Mortgage Rate), plus the fair market value of each REO Property.

We may not exercise our option to repurchase unless the aggregate Stated Principal Balance of the remaining Mortgage Loans is less than one percent of the aggregate Stated Principal Balance of all the Mortgage Loans as of the Issue Date. The Master Servicer may not exercise its option to repurchase unless the aggregate Stated Principal Balance of the remaining Mortgage Loans is less than five percent of the aggregate Stated Principal Balance of all the Mortgage Loans as of the Issue Date. In addition, if the Master Servicer’s repurchase would require us to make any payment on the Senior Certificates under our guaranty, the Master Servicer will have to obtain our written consent before exercising its option.

If either we or the Master Servicer exercise our respective options to repurchase, we will have to retire all the Certificates. In no event, however, will the Trust continue beyond the expiration of 21 years from the death of the last survivor of the persons named in the Trust Agreement. We will notify each affected Certificateholder in writing of the termination of the Trust Agreement, and will make the final payment to each person entitled to it.

CERTAIN FEDERAL INCOME TAX CONSEQUENCES

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

- This discussion is based on federal tax laws in effect as of the date of this prospectus. Changes to any of these laws after the date of this prospectus may affect the tax consequences discussed below.

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

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

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

- REMIC Election and Special Tax Attributes
- Taxation of Beneficial Owners of Regular Certificates
- Taxation of Beneficial Owners of the Residual Certificate
- Taxes on the Trust
- Reporting and Other Administrative Matters
- Backup Withholding
- Foreign Investors

REMIC Election and Special Tax Attributes

We will elect to treat the Trust as a REMIC under the Internal Revenue Code of 1986, as amended (the “Code”). Qualification as a REMIC requires ongoing compliance with certain conditions. Dewey Ballantine LLP, special tax counsel to Fannie Mae, will deliver its opinion to Fannie Mae that, assuming compliance with the Trust Agreement, the Trust will be treated as a REMIC for federal income tax purposes. The Senior, Mezzanine, and Subordinate Certificates (other than the A-R Class) will be designated as the “regular interests” in the Trust (each a “Regular Certificate” and, together, the “Regular Certificates”) and the A-R Class will be designated as the “residual interest” in the Trust (the “Residual Certificate”).

Because the Trust will qualify as a REMIC, 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 percent of the assets of the Trust consist of “qualified mortgages,” then the portion of the Regular and Residual Certificates that are qualifying assets under those sections during the calendar year may be limited to the portion of the assets of the Trust that are “qualified mortgages.” Similarly, income on the Regular and Residual Certificates will be treated as “interest on obligations secured by mortgages on real property” within the meaning of section 856(c)(3)(B) of the Code, subject to the same limitation as set forth in the preceding sentence. In general, a Mortgage Loan will be a “qualified mortgage” 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 assets of the Trust will include, in addition to the Mortgage Loans, payments on the Mortgage Loans held pending distribution on the Regular and Residual Certificates and any reinvestment income thereon.

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

meaning of section 860L(c)(1) of the Code with respect to financial asset securitization investment trusts.

Taxation of Beneficial Owners of Regular Certificates

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

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

Treatment of Original Issue Discount

The A-IO Class will be, and the A Class, Mezzanine Classes and Subordinate Classes may be, issued with “original issue discount” (“OID”) within the meaning of section 1273(a) of the Code. A Regular Owner must include in gross income the sum of the “daily portions” of 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 original issue discount accruing on the Regular Certificates. We will supply this information at the time and in the manner required by the Internal Revenue Service (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 offering price to the public (excluding bond houses and brokers) 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 of a Regular Certificate of a Notional class, however, is equal to the sum of all distributions to be made under 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 percent 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 backing the related underlying securities prepay at a specified rate by (ii) a fraction, the numerator of which is the amount of such distribution and the denominator of which is the Regular Certificate's stated redemption price at maturity. If OID is treated as zero under this rule, the actual amount of OID must be allocated to the principal distributions on the Regular Certificate and, when each principal distribution is received, gain equal to the discount allocated to that distribution will be recognized. The prepayment assumption applicable to the Mortgage Loans is 15% of CPR. See "Description of the Senior and Mezzanine Certificates—Structuring Assumptions—*Prepayment Assumption*" in this prospectus.

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 Certificate during the accrual period of amounts included in the stated redemption price at maturity, over
- (ii) the adjusted issue price of the 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, and
- the prepayment assumption.

The adjusted issue price of a Regular Certificate at any time will equal the issue price of the Certificate, increased by the aggregate amount of previously accrued OID with respect to the Certificate, and reduced by the amount of any distributions made on the 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 the rate reflected in the prepayment assumption described above or at any other rate. Each investor must make its own decision as to the appropriate prepayment assumption to be used in deciding whether or not to purchase any of the

Certificates. See “Description of the Senior and Mezzanine Certificates—Maturity Considerations and Last Scheduled Distribution Date” and “—Decrement Tables” in this prospectus.

Subsequent Holders’ Treatment of Original Issue Discount

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

Regular Certificates Purchased at a Premium

If a Regular Owner purchases a 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 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 will be recognized. Any tax benefit from the premium not previously recognized will be taken into account in computing gain or loss upon the sale or disposition of the Premium Certificate.

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 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 percent 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 Certificates of a Notional class.

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

The gain or loss, if any, will be capital gain or loss, provided the 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 percent of the “applicable Federal rate” (generally, an average of current yields on Treasury securities) as of the date of purchase over (ii) the amount actually includible in 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 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 Trust.

Taxation of Beneficial Owners of the Residual Certificate

Daily Portions

Except as indicated below, a beneficial owner of the Residual Certificate (a “Residual Owner”) generally will be required to report its daily portion of the taxable income or net loss of the Trust for each day during a calendar quarter that the Residual Owner owns the Residual Certificate. For this purpose, 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 Trust for the quarter and then allocating that amount among the Residual Owners 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 Trust until no 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 Trust

The taxable income or net loss of the Trust will be the income from the “qualified mortgages” it holds and any reinvestment earnings less deductions allowed to the Trust. In general, a Mortgage Loan will be a “qualified mortgage” 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 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 Regular Certificates (but not the Residual Certificate).
- Market discount equal to any excess of the total Stated Principal Balances of the qualified mortgages over the Trust’s basis in these mortgages generally will be included in income by the Trust as it accrues under a constant yield method, taking into account the prepayment assumption described above.
- If the Trust 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 Trust*—Prohibited Transactions” below) will be taken into account.
- The Trust generally may not deduct any item that would not be allowed in calculating the taxable income of a partnership by virtue of section 703(a)(2) of the Code.

- The limitation on miscellaneous itemized deductions imposed on individuals by section 67 of the Code will not be applied at the Trust level to any administrative fees, such as servicing and guaranty fees. (See, however, “—Pass-Through of Servicing and Guaranty Fees to Individuals” below.)
- No deduction is allowed for any expenses incurred in connection with the formation of the Trust and the issuance of the Regular and Residual Certificates.
- Any gain or loss to the Trust from the disposition of any asset, including a qualified mortgage or “permitted investment” as defined in section 860G(a)(5) of the Code, will be treated as ordinary gain or loss.

The Trust’s basis in qualified mortgages is the aggregate of the issue prices of all the Regular and Residual Certificates in the REMIC constituted by the Trust on the Settlement Date. If, however, the amount sold to the public of any class of Regular or Residual Certificates is not substantial, then the fair market value of all the Regular or Residual Certificates in that class as of the date of this prospectus should be substituted for the issue price. If the deductions allowed to the Trust exceed its gross income for a calendar quarter, the excess will be a net loss for the Trust for that calendar quarter.

A Residual Owner may be required to recognize taxable income without being entitled to receive a corresponding amount of cash. This could occur, for example, if the Mortgage Loans are considered to be purchased by the Trust at a discount, some or all of the Regular Certificates are issued at a discount, and the discount included as a result of a prepayment on a Mortgage Loan that is used to pay principal on the Regular Certificates exceeds the Trust’s deduction for unaccrued original issue discount relating to the Regular Certificates. Taxable income may also be greater in earlier years because interest expense deductions, expressed as a percentage of the outstanding principal amount of the Regular Certificates, may increase over time as the earlier classes of Regular Certificates are paid, whereas interest income of the Trust 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 the 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 the 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 the Residual Certificate.

Treatment of Excess Inclusions

Any excess inclusions with respect to the Residual Certificate are subject to certain special tax rules. With respect to a Residual Owner, the excess inclusion for any calendar quarter is defined as the excess (if any) of the daily portions of taxable income over the sum of the “daily accruals” for each day during the quarter that the Residual Certificate was held by the Residual Owner. (The determination of daily accruals is discussed below.) The Treasury Department has the authority to issue regulations that would treat all taxable income of a REMIC as excess inclusions if the Residual

Certificate does not have “significant value.” The Treasury Department has not yet exercised this authority, but may do so in the future.

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

If the 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 the Residual Certificate.

Determination of Daily Accruals

The daily accruals are determined by allocating to each day during a calendar quarter its ratable portion of the product of the “adjusted issue price” of the Residual Certificate at the beginning of the calendar quarter and 120 percent of the “Federal long-term rate” in effect on the Settlement Date, based on quarterly compounding and properly adjusted for the length of the quarter. The Federal long-term rate is a blend of current yields on Treasury securities having a maturity of more than nine years computed and published monthly by the IRS. One hundred and twenty percent of the Federal long-term rate in effect on the Settlement Date is 6.33%.

The adjusted issue price of the Residual Certificate as of the beginning of any calendar quarter is equal to the issue price of the Residual Certificate, increased by the amount of daily accruals for all prior quarters and decreased by any distributions made with respect to the Residual Certificate before the beginning of the quarter. The issue price of the Residual Certificate generally is the initial offering price to the public (excluding bond houses and brokers) of the Residual Certificate.

Pass-Through of Servicing and Guaranty Fees to Individuals

A Residual Owner who is an individual will be required to include in income a share of the administrative fees of the Trust, including the servicing and guaranty fees imposed at the level of the Mortgage Loans. See, for example, “Description of Certificates—Servicing Through Lenders” and “Certain Federal Income Tax Consequences” in our MBS prospectus. A deduction for such fees generally will be allowed to such a Residual Owner only to the extent that such fees, along with certain of the Residual Owner’s other miscellaneous itemized deductions, exceed 2 percent of the Residual Owner’s adjusted gross income. 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 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 the 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 Certificate

Upon the sale, exchange or other disposition of the 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 the 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 the 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 Certificate 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 the 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 Residual Certificate.” 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 the 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 Certificate

A transfer of the 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 the Residual Certificate has tax avoidance potential unless, at the time of the transfer, the transferor reasonably expects that, for each excess inclusion, the Trust will pay to the transferee an amount that

will equal at least 30 percent 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 Residual Certificate” for a discussion of additional provisions applicable to transfers of the Residual Certificate.

Amounts Paid to a Transferee of the Residual Certificate

The federal income tax consequences of any consideration paid to a transferee on the transfer of the 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 Trust terminates by virtue of the final payment or liquidation of the last Mortgage Loan remaining in the Trust 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 Trust

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

Prohibited Transactions

The Code imposes a tax on a REMIC equal to 100 percent 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 percent of the value of any property contributed to the REMIC after the “startup day” (generally the same as the Settlement Date). Exceptions are provided for cash contributions to a REMIC 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 Trust will be treated as a partnership and the Residual Owners will be treated as partners. We will prepare, sign and file federal income tax returns for the Trust, which returns are subject to audit by the IRS. We do not intend to register the Trust as a tax shelter pursuant to section 6111 of the Code. We will also act as the tax matters partner for the Trust, either as a beneficial owner of the Residual Certificate or as a fiduciary for the Residual Owner. Each Residual Owner, by the acceptance of the 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 the 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 Certificate, information necessary to compute the daily portions of the taxable income (or net loss) of the Trust for each day during that year.

If 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 Trust, unless the Residual Owner either files a statement identifying the inconsistency or establishes that the inconsistency resulted from incorrect information received from the Trust. The IRS may assert a deficiency resulting from a failure to comply with the consistency requirement without instituting an administrative proceeding at the Trust level.

Backup Withholding

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

Regular Certificates

Distributions made on a Regular Certificate to, or on behalf of, a Regular Owner that is a Non-U.S. Person generally will be exempt from U.S. federal income and withholding taxes, provided (a) the Regular Owner is not subject to U.S. tax as a result of a connection to the United States other than ownership of the Certificate, (b) the Regular Owner signs a statement under penalties of perjury

that certifies that the Regular Owner is a Non-U.S. Person, and provides the name and address of the Regular Owner, and (c) the last U.S. Person in the chain of payment to the Regular Owner receives the statement from the Regular 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 Regular Owner that also owns 10 percent or more of the Residual Certificates or of the voting stock of Fannie Mae, or to a Regular Owner that is a “controlled foreign corporation” described in section 881(c)(3)(C) of the Code.

Residual Certificate

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

LEGAL INVESTMENT CONSIDERATIONS

General

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

Senior Certificates

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 Senior 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 Federal Deposit Insurance Corporation, the Office of Thrift Supervision, the National Credit Union Administration, the Department of the Treasury or other federal or state agencies with similar authority, you should review the rules, guidelines and regulations that apply to you prior to purchasing or pledging any Senior Certificates. In addition, if you are a financial institution, you should consult your regulators concerning the risk-based capital treatment of any Senior Certificate.

Mezzanine Certificates

There are significant interpretive uncertainties regarding the characterization of the Mezzanine Certificates under various legal investment restrictions. Accordingly, we cannot determine whether investors that are subject to these restrictions are able to purchase Mezzanine Certificates.

We make no representations regarding:

- the characterization of the Mezzanine Certificates for legal investment or other purposes,
- whether particular investors can purchase the Mezzanine Certificates under any applicable legal investment restrictions, or
- the regulatory capital requirements that apply to the Mezzanine Certificates.

These uncertainties may impair the liquidity of the Mezzanine Certificates. Accordingly, all institutions whose investment activities are subject to legal investment laws and regulations, regulatory capital requirements or review by regulatory authorities should consult with their own legal advisors in determining whether and to what extent the Mezzanine Certificates constitute legal investments or are subject to investment, capital or other restrictions. See “Ratings” below.

LEGAL OPINION

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

General

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

On November 13, 1986, 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 in this prospectus” 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 Senior Certificates did not exist. However, we have been advised by our counsel, Sidley Austin Brown & Wood LLP, that the Senior Certificates qualify under the definition of “guaranteed governmental mortgage pool certificates” and, as a result, the purchase and holding of Senior 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.

Mezzanine Certificates

Under current law, the purchase and holding of Mezzanine Certificates by or on behalf of any Plan may result in a prohibited transaction under ERISA and the Code and, further, may cause the assets of the Trust to be treated as assets of the Plan, so that transactions involving assets of the Trust also would be subject to the fiduciary responsibility provisions of ERISA and the prohibited transaction provisions of the Code. Prohibited Transaction Class Exemption 83-1 (“PTCE 83-1”) provides an exemption for certain transactions involving the creation, maintenance and termination of certain residential mortgage pools and the acquisition and holding of certain residential mortgage

pool pass-through certificates by Plans, whether or not such transactions would otherwise be prohibited under ERISA and the Code. However, because the Mezzanine Certificates evidence interests to which Realized Losses are allocated prior to any such allocation to the Senior Certificates, the Mezzanine Certificates would be considered subordinated certificates for purposes of PTCE 83-1, and would not be entitled to exemption under PTCE 83-1.

Because the acquisition and disposition of Mezzanine Certificates do not qualify for the foregoing exemption (or any similar exemption that might be available), the Trust Agreement provides that no transfer of a Mezzanine Certificate or any interest in a Mezzanine Certificate shall be made to

- any Plan, or
- any person who is directly or indirectly purchasing a Mezzanine Certificate or an interest in a Mezzanine Certificate on behalf of, as named fiduciary of, as trustee of, or with assets of, a Plan (including any insurance company using funds in its general or separate account that may constitute “plan assets”),

unless the Trustee and the Transfer Agent are provided with a certification of facts or an opinion of counsel which establishes to the satisfaction of each that the transfer will not result in a violation of Section 406 of ERISA or Section 4975 of the Code or cause the Trustee, the Transfer Agent or the Master Servicer to be deemed a fiduciary of the Plan or result in the imposition of an excise tax under Section 4975 of the Code.

In the absence of its having received the certification of facts or opinion of counsel contemplated by the preceding paragraph, the Trustee and the Transfer Agent shall require the prospective transferee of any Mezzanine Certificate to certify that either

- it is not a Plan and
- it is not a person who is directly or indirectly purchasing the Mezzanine Certificate on behalf of, as named fiduciary of, as trustee of, or with assets of a Plan (including any insurance company using funds in its general or separate account that may constitute “plan assets”), or
- it is an insurance company, and either (i) all of the funds to be used by it to purchase the Mezzanine Certificates are held in its general account and all of the policies held by Plans and supported by assets in such general account are “guaranteed benefit policies,” within the meaning of section 401(b)(2) of ERISA and its purchase of such Mezzanine Certificates will not result in a violation of Section 406 of ERISA or Section 4975 of the Code, or (ii) it is purchasing such Mezzanine Certificates with funds contained in an “insurance company general account” (as such term is defined in Section V(e) of the Prohibited Transaction Class Exemption 95-60 (“PTE 95-60”)) and the purchase and holding of such Mezzanine Certificates are covered under Sections I and III of PTE 95-60.

Such representation described above shall be deemed to have been made to the Trustee by the transferee’s acceptance of an interest in a Mezzanine Class. In the event that such representation is violated, or any attempt to transfer to a Plan or person acting on behalf of a Plan or using such Plan’s assets is attempted without such opinion of counsel, such attempted transfer or acquisition shall be void and of no effect.

Any Plan fiduciary that proposes to cause a Plan to purchase a Mezzanine Certificate should consult with its counsel regarding the applicability of the fiduciary responsibility and prohibited transaction provisions (with respect to the Subordinate Certificates) of ERISA and the Code.

PLAN OF DISTRIBUTION

Pursuant to the Sale and Servicing Agreement, we will acquire the Mortgage Loans from the Seller in exchange for the Certificates. The Seller has retained Nomura Securities International, Inc. and Countrywide Securities Corporation (the “Dealers”), which propose to offer the Senior and Mezzanine Certificates directly to the public from time to time in negotiated transactions at varying

prices to be determined at the time of sale. The Dealers may effect these transactions to or through other dealers.

RATINGS

We will not issue the Certificates unless the M, B-1 and B-2 Classes are rated at least Aa2, A2 and Baa2, respectively, by Moody's Investors Service, Inc. (the "Rating Agency").

The ratings that the Rating Agency assigns to mortgage pass-through certificates reflect the likelihood that certificateholders will receive all distributions to which they are entitled under the transaction. The Rating Agency analyzes the riskiness of the mortgage loans and the structure of the transaction as described in the operative documents. The ratings do not address how prepayments or recoveries on the underlying mortgage loans may affect the yields on the certificates. In particular, the ratings do not address the possibility that principal prepayments may cause certificateholders to receive a lower yield than they expect.

You should evaluate the ratings assigned to the Mezzanine Classes independently of similar ratings on other types of securities. A security rating is not a recommendation to buy, sell or hold securities. The Rating Agency may revise or withdraw its rating at any time.

We have not requested ratings of the Mezzanine Classes by any rating agency other than the Rating Agency. We cannot assure you that any other rating agency will rate the Mezzanine Classes or, if it does, what ratings it would assign. If another rating agency rates the Mezzanine Classes, it could assign them lower ratings than the ratings assigned by the Rating Agency.

LEGAL MATTERS

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

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(Alphabetical Listing)**

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Exhibit A

The table below summarizes certain characteristics of the Mortgage Loans as of the Issue Date. The information in the table is presented in aggregated form, on the basis of the characteristics specified in the table, and does not reflect actual or assumed characteristics of any individual Mortgage Loan. The adjustable-rate Mortgage Loans are included in the following table using each related Mortgage Interest Rate as of the Issue Date. The information in the table does not give effect to prepayments received on the Mortgage Loans on or after the Issue Date.

Certain Assumed Characteristics of the Mortgage Loans (As of October 1, 2001)

<u>Mortgage Interest Rates (%)</u>	<u>Issue Date Principal Balance</u>	<u>Weighted Average Mortgage Interest Rate</u>	<u>Weighted Average Net Mortgage Rate</u>	<u>WAM (months)</u>	<u>Weighted Average Mortgage Loan Age (months)</u>
5.751 – 7.000	\$27,837,052	6.878%	6.307%	307	44
7.001 – 7.250	11,101,596	7.249	6.684	315	40
7.251 – 7.500	83,324,501	7.491	7.043	300	53
7.501 – 7.750	15,391,026	7.735	7.287	313	43
7.751 – 8.000	77,896,599	7.985	7.538	289	60
8.001 – 8.250	14,199,006	8.237	7.785	316	39
8.251 – 8.500	98,595,466	8.492	8.048	289	63
8.501 – 8.750	14,823,156	8.736	8.291	322	34
8.751 – 9.000	46,569,301	8.987	8.541	281	72
9.001 – 9.500	26,462,029	9.474	9.029	234	117
Greater than or equal to 9.501	28,161,852	10.671	10.225	188	166

No one is authorized to give any information or to make any representation in connection with this offering other than those contained in this Senior Supplement, the prospectus or any other Disclosure Document referred to in the prospectus. You must not rely on any unauthorized information or representation. This Senior Supplement, the prospectus, and any other Disclosure Document referred to in the prospectus do not constitute an offer or solicitation with regard to any securities other than the certificates or an offer or solicitation with regard to the certificates if it is illegal to make such an offer or solicitation to you under state law. By delivering this Senior Supplement, the prospectus and the other Disclosure Documents at any time, no one implies that the information contained in this Senior Supplement, the prospectus or the other Disclosure Documents is correct after the date of this Senior Supplement, the prospectus or the applicable other Disclosure Document.

The Securities and Exchange Commission has not approved or disapproved the certificates or determined if the Senior Supplement or the prospectus is truthful and complete. Any representation to the contrary is a criminal offense.

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\$427,698,000
(Approximate)



FannieMae®

**Guaranteed REMIC
Pass-Through Certificates
REMIC Trust 2001-W3**

SENIOR SUPPLEMENT

NOMURA



October 24, 2001