

**\$600,000,000 (Approximate)**



**FannieMae®**

**Guaranteed REMIC Pass-Through Certificates  
Fannie Mae REMIC Trust 2003-W9**

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

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

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

**The Certificates**

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

**Payments to Certificateholders**

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

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

**The Fannie Mae Guaranty**

We will guarantee that

- required payments of interest and principal on the certificates are paid to investors on time, and
- the full principal balance of the A Class Certificates will be paid no later than the final distribution date in June 2033.

**The Trust and Its Assets**

The trust will own a group of fixed and adjustable rate, conventional mortgage loans made to borrowers with blemished credit histories. The mortgage loans will be secured by first liens on one- to four-family residential properties as described in this prospectus.

<i>Class</i>	<i>Original Class Balance (1)</i>	<i>Principal Type</i>	<i>Interest Rate</i>	<i>Interest Type</i>	<i>CUSIP Number</i>	<i>Final Distribution Date</i>
A .....	\$600,000,000	PT	(2)	FLT / AFC	31393B6U4	June 2033
AIO .....	600,000,000 (3)	NTL	(4)	WAC / IO	31393B6V2	June 2033
R .....	0	NPR	0%	NPR	31393B6X8	June 2033
RM .....	0	NPR	0%	NPR	31393B6Z3	June 2033
RL .....	0	NPR	0%	NPR	31393B6Y6	June 2033

(1) May vary by plus or minus 10%.

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

(3) Notional balance. This class is an interest only class.

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

The underwriters listed below will offer the A Class in negotiated transactions at varying prices. Long Beach Mortgage Company will retain the AIO, R, RM and RL Classes. We expect the settlement date to be June 5, 2003.

**Deutsche Bank Securities**

**Credit Suisse First Boston**

**RBS Greenwich Capital**

**Morgan Stanley**

**WaMu Capital Corp.**

May 16, 2003

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## AVAILABLE INFORMATION

You should purchase the certificates only if you have read and understood:

- this prospectus, and
- any Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q and Current Reports on Form 8-K that we file with the SEC during the period specified in the final paragraph of this page (the “Additional Disclosure Documents”).

The Additional Disclosure Documents contain important financial and other information about Fannie Mae which we are incorporating by reference in this prospectus. This means that we are disclosing important information to you by referring to the Additional Disclosure Documents, so you should read it together with this prospectus. You can obtain the Additional Disclosure Documents by writing or calling us at:

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

This prospectus and the Additional Disclosure Documents, together with the class factors, are available on our corporate web site located at [www.fanniemae.com](http://www.fanniemae.com) and our business to business web site at [www.efanniemae.com](http://www.efanniemae.com).

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

Deutsche Bank Securities Inc.  
Syndicate Operations  
Prospectus Department  
60 Wall Street  
New York, New York 10005  
(telephone 212-469-5000)

In the first quarter of 2003, we began filing periodic reports with the SEC under the Exchange Act. These filings will include Form 10-Ks, Form 10-Qs and Form 8-Ks. Our SEC filings are available at the SEC’s website at [www.sec.gov](http://www.sec.gov). You may also read and copy any document we file with the SEC by visiting the SEC’s Public Reference Room at 450 Fifth Street, NW, Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information about the operation of the Public Reference Room. We are providing the address of the SEC’s Internet site solely for the information of prospective investors. We do not intend the Internet address to be an active link.

Information contained in any Form 10-K, Form 10-Q and Form 8-K that we file with the SEC prior to the termination of the offering of the certificates is hereby incorporated by reference in this prospectus. In cases where we “furnish” information to the SEC on Form 8-K, as provided under the Exchange Act, that information is not incorporated by reference in this prospectus.

## REFERENCE SHEET

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

### General

- The certificates will represent ownership interests in the trust assets. The trust assets will consist of a pool of conventional mortgage loans that are secured by first liens on one- to four-family residential properties.
- The mortgage loans are first lien, fully amortizing loans that bear fixed or adjustable rates of interest. The mortgage loans have been originated in accordance with the underwriting criteria established by Long Beach Mortgage Company for borrowers with blemished credit histories.
- Approximately 59.41% of the mortgage loans provide for the payment of prepayment premiums as described in this prospectus. However, in no event will certificateholders be entitled to receive any of these prepayment premiums.

### Mortgage Loans

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

### Class Factors

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

### Settlement Date

We expect to issue the certificates on June 5, 2003.

### Distribution Dates

We will make payments on the certificates on the 25th day of each calendar month, or the next business day if the 25th day is not a business day, commencing in July 2003.

### Book-Entry Certificates

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

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

#### Fed Book-Entry

#### Physical

All Classes other than the R, RM and RL Classes

R, RM and RL Classes

### Interest Payments

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

## Notional Class

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

### Class

AIO ..... 100% of the A Class

## Principal Payments

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

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

Classes	Prepayment Assumption						
	FRPV: 0%	FRPV: 50%	FRPV: 85%	FRPV: 115%	FRPV: 150%	FRPV: 175%	FRPV: 200%
	CPR: 0%	CPR: 15%	CPR: 22%	CPR: 27%	CPR: 35%	CPR: 40%	CPR: 45%
A and AIO ...	19.4	6.4	4.3	3.4	2.6	2.2	1.9

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

Classes	Prepayment Assumption						
	FRPV: 0%	FRPV: 50%	FRPV: 85%	FRPV: 115%	FRPV: 150%	FRPV: 175%	FRPV: 200%
	CPR: 0%	CPR: 15%	CPR: 22%	CPR: 27%	CPR: 35%	CPR: 40%	CPR: 45%
A and AIO ...	19.3	5.9	3.9	3.1	2.4	2.0	1.8

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

\*\* Determined as specified under “Description of the Certificates—Weighted Average Lives of the Certificates” in this prospectus. Assumes that the optional clean-up call is exercised at the earliest possible date.

## RISK FACTORS

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

### Suitability

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

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

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

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

### Yield Considerations

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

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

- if and when the mortgage loans are liquidated due to borrower defaults, casualties or condemnations affecting the properties securing those loans;
- if and when mortgage loans are repurchased;
- if and when payments are received under the cap contract;
- if and when the optional clean-up call is exercised; and
- the actual characteristics of the mortgage loans.

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

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

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

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

We used certain assumptions concerning the mortgage loans in preparing the tabular



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

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

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

*Delay classes have lower yields and market values.* Since the AIO Class does not receive interest immediately following each interest accrual period, that class has a lower yield and lower market value than it would if there were no such delay.

*Diversion of AIO Class interest to offset A Class Shortfalls.* On any distribution date on which the pass-through rate on the A Class is subject to the net WAC cap, no interest will be payable on the AIO Class. On succeeding distribution dates, interest on the AIO Class will be reduced to the extent necessary to pay any net WAC carryover from prior distribution dates to the A Class. Any such reduction will adversely affect the yield on the AIO Class.

### **Additional Risk Factors Relating to the A Class**

*Application of net WAC cap to the A Class may adversely affect its yield.* The interest rate on the A Class is subject to an interest rate cap based on the net WAC of the mortgage loans. Because the A Class bears a floating interest rate based on one-month LIBOR while approximately 34.49% of the mortgage loans bear fixed rates of interest and approximately 65.51% of the mortgage loans bear rates of interest that adjust based on a different index and such adjustments are subject to initial fixed periods and to periodic and lifetime caps, there is a greater likelihood that the interest rate on the A Class

will be capped. In general, the holders of the A Class are entitled to receive the amount by which interest currently payable on the A Class on a distribution date has been reduced due to the net WAC cap (up to the net maximum rate cap) on that distribution date from amounts, if any, paid under the cap contract and from the cap contract reserve fund, but in no event in excess of the sum of payments attributable to the cap contract and amounts otherwise payable to the AIO Class. Because the cap contract payment amounts have been calculated using certain assumed prepayment speeds, if the mortgage loans should prepay at a rate slower than assumed, the cap contract payment amount for any distribution date and amounts in the cap contract reserve fund may not be sufficient to offset the effect of the net WAC cap. **Our guaranty does not cover payments due under the cap contract or any shortfalls not covered by the cap contract or the cap contract reserve fund.**

*Absence of correlation between one-month LIBOR and the index applicable to certain mortgage loans may adversely affect the yield on the A Class.* The interest rate on the A Class adjusts monthly and is based on one-month LIBOR. The interest rates on approximately 65.51% of the mortgage loans generally adjust semi-annually based on six-month LIBOR, which is referred to as the loan index. However, with respect to approximately 65.25% of the mortgage loans included in the mortgage pool, the interest rates are initially fixed for a period of two, three or five years before they begin to adjust based on the loan index. With respect to approximately 34.49% of the mortgage loans included in the mortgage pool, the interest rates are fixed for the term of the loans. Because the loan index may respond to different economic and market factors than one-month LIBOR and because in some instances the interest rate on a mortgage loan is fixed either for a period of time or for the life of that mortgage loan, there is not necessarily a correlation in movement between the interest rate on such mortgage loans and the interest rate on the A Class. For example, it is possible that the interest rates on certain of the adjustable-rate loans may decline while the interest rate on the A Class is stable or rising. In addition, although it is possible that both the interest rates on the adjustable-rate loans and



the interest rate on the A Class may decline or increase during the same period, because of the difference between interest rate adjustment periods for the adjustable rate loans and the monthly adjustment period for the A Class, interest rates on the adjustable-rate loans may decline or increase more slowly than the interest rate on the A Class.

### **Prepayment Considerations and Risks**

*The rate of principal payments on the certificates depends on numerous factors and thus cannot be predicted.* The rate of principal payments on the certificates generally will depend on the rate of principal payments on the mortgage loans. Principal payments on the mortgage loans may occur as a result of scheduled amortization or prepayments.

It is highly unlikely that the mortgage loans will prepay:

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

Approximately 59.41% of the mortgage loans underlying the certificates require that the borrower pay a prepayment premium if the loan is prepaid in full or in part during the period specified in the mortgage note. Generally, each mortgage loan which has a prepayment premium provision provides for a prepayment premium on certain partial prepayments and prepayments in full received during the first 36 months from the first due date of the mortgage loan in the amount described in “The Mortgage Loans—The Loans” in this prospectus.

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

The mortgage loans contain “due-on-sale” clauses which generally provide that the lender can require repayment in full if the borrower sells the property that secures the mortgage loan; however, the enforceability of such “due-on-sale” clauses may be limited by applicable

law. In this way, property sales by borrowers can affect the rate of prepayment.

In addition, borrowers often seek to refinance their loans by obtaining new loans secured by the same properties. Refinancing of loans also affects the rate of prepayment. When the level of prevailing interest rates declines relative to the interest rates on fixed-rate mortgage loans, the rate of prepayment of those loans is likely to increase, particularly in the case of borrowers who have repaired their credit standing. Because 34.49% of the mortgage loans bear fixed interest rates, they can be expected to be especially sensitive to prevailing interest rates.

Borrowers under adjustable-rate loans with delayed first adjustment dates may be more likely to refinance their loans at or about the time of the first adjustment date.

Because 54.02%, 6.99% and 5.32% of the mortgage loans are secured by mortgaged properties located in California, Colorado and Washington, respectively, general economic conditions there may affect the ability of borrowers to repay their loans on time, whether or not those conditions affect property values. In addition, declines in the residential real estate market in those states may reduce the values of properties in those states and increase loan-to-value ratios. In this case, prepayments could decrease because borrowers might find it harder to refinance their loans. Conversely, improvements in the residential real estate market in those states may increase the values of properties in those states and reduce loan-to-value ratios. In this case, borrowers could gain access to alternative financing sources at lower rates with the result that prepayments could increase.

In general, prepayment rates may be influenced by:

- the level of current interest rates relative to the rates borne by the mortgage loans,
- homeowner mobility,
- existence of any prepayment premiums,
- the general creditworthiness of borrowers, including changes in borrowers’ credit status,

- borrower sophistication regarding the benefits of refinancing,
- solicitation by competing lenders,
- repurchases of mortgage loans, and
- general economic conditions.

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

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

*Purchases due to delinquency will have the same effect as borrower prepayments.* Because Fannie Mae guarantees the payment of principal on the certificates, a default by a borrower does not reduce the amount of principal that will be paid to certificateholders. If a mortgage loan becomes delinquent by four or more consecutive monthly payments, however, Fannie Mae has the option to purchase the loan out of the trust. Fannie Mae will pass through the stated principal balance of the repurchased loan to certificateholders following the repurchase. Thus, a loan that is delinquent by four or more consecutive monthly payments can have essentially the same effect on the timing of certificate principal repayment as a borrower prepayment. Factors affecting the likelihood of a borrower default include:

- the general economic conditions;
- local, regional and national employment conditions;

- borrower creditworthiness;
- significant changes in the size of required loan payments;
- borrower death or a borrower's change in family status;
- uninsured natural disasters; and
- borrower bankruptcy or other insolvency.

*Loans to borrowers with blemished credit histories may be more likely to default and be subject to repurchase.* Because the underwriting standards applied to the borrowers were less stringent than those typically applied to borrowers with unblemished credit, the mortgage loans may be expected to experience a relatively higher rate of delinquency and default. The mortgage loans entail a greater degree of prepayment risk associated with repurchases by Fannie Mae due to delinquencies than mortgage loans made to borrowers without blemished credit histories, and such mortgage loans generally bear higher rates of interest than mortgage loans made to borrowers without blemished credit histories. The combination of these factors is likely to result in rates of delinquency, foreclosure and bankruptcy that are higher, and may be substantially higher, than those experienced by mortgage loans made to borrowers without blemished credit histories. As a result, repurchases by Fannie Mae due to delinquency may occur at a higher rate than would otherwise be the case.

*Limited availability of reliable prepayment statistics for mortgage loans made to borrowers with blemished credit histories.* The availability of reliable studies or statistics on the rate of prepayment of mortgage loans made to borrowers with blemished credit histories is limited. These mortgage loans may prepay significantly faster or slower than loans underwritten principally for borrowers without blemished credit histories in changing interest rate environments. In addition, prepayment of mortgage loans made to borrowers with blemished credit histories also may be affected by other factors including improvement in borrowers' credit status.

*Repurchases due to breaches of representations will have the same effect as borrower prepayments.* When we purchase the mortgage

loans from Long Beach Mortgage Company, Long Beach Mortgage Company will make certain representations and warranties concerning the mortgage loans. If there is a material breach of these representations and warranties, we may choose to repurchase the affected loans. If we do, we will purchase the mortgage loans at a price equal to their principal balance plus accrued interest at the applicable net mortgage interest rate. Our repurchase of mortgage loans will have the same effect on the certificateholders as borrower prepayments.

### **Reinvestment Risk**

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

### **Market and Liquidity Considerations**

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

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

- the method, frequency and complexity of calculating principal and interest;

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

*Terrorist activities and accompanying military and political actions by the U.S. government could cause reductions in investor confidence and substantial market volatility in real estate and securities markets.* It is impossible to predict the extent to which terrorist activities may occur or, if they do occur, the extent of the effect on the certificates. Moreover, it is uncertain what effects any past or future terrorist activities and/or any consequent military and/or political actions on the part of the United States government and others will have on the United States and world financial markets; local, regional and national economies; real estate markets across the United States; or particular business segments, including those that are important to the performance by the borrowers on the mortgage loans. Among other things, reduced investor confidence could result in substantial volatility in securities markets and a decline in real estate-related investments. As a result, defaults on the mortgage loans could increase, causing early payments of principal to you and, regardless of the performance of the underlying mortgage loans, the liquidity and market value of the certificates may be impaired.

### **Fannie Mae Guaranty Considerations**

*Any failure of Fannie Mae to perform its guaranty obligations will adversely affect certificateholders.* If we were unable to perform our guaranty obligations, certificateholders would receive only borrower payments and other re-

coveries on the mortgage loans. If that happened, delinquencies and defaults on the mortgage loans could directly affect the amounts that certificateholders would receive each month.

### **Limited Experience of the Subservicer**

*The limited experience of the subservicer servicing mortgage loans underwritten under the Seller's underwriting standards may result in higher delinquencies.* The Seller is the Servicer under the Sale and Servicing Agreement and has appointed a subservicer to perform, on behalf of the Servicer, the servicing functions that are required to be performed with respect to the mortgage loans. In April 2001, the Seller transferred to the subservicer substantially all of its servicing portfolio and servicing operations.

While the subservicer is an experienced mortgage loan servicer, prior to the servicing

transfer, it had no experience servicing mortgage loans similar to the mortgage loans in this pool. As a result, the subservicer has had limited experience servicing mortgage loans similar to the mortgage loans in this pool. The servicing transfer, together with the subservicer's limited experience in servicing mortgage loans similar to the mortgage loans in this pool, may have negatively affected the mortgage loans that have been serviced by the subservicer since the date of the servicing transfer.

Since the servicing transfer, mortgage loans similar to the mortgage loans in this pool serviced by the subservicer have experienced significant increases in delinquencies. The subservicer's limited experience servicing mortgage loans similar to the mortgage loans in this pool may result in higher delinquencies than would otherwise be the case.

## **GENERAL**

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

*Structure.* We, the Federal National Mortgage Association ("Fannie Mae"), a corporation organized and existing under the laws of the United States under the authority contained in Section 304(d) of the Federal National Mortgage Association Charter Act (12 U.S.C. § 1716 *et seq.*), will create the Fannie Mae REMIC Trust specified on the cover of this prospectus (the "Trust") pursuant to a trust agreement (the "Trust Agreement") dated as of June 1, 2003. We will execute the Trust Agreement in our corporate capacity and as trustee (the "Trustee"). We will issue the Guaranteed REMIC Pass-Through Certificates (the "Certificates" or "Classes") pursuant to the Trust Agreement.

Portions of the Trust (the "Upper Tier REMIC 1," the "REMIC 2" and the "Lower Tier REMIC") will each constitute a "real estate mortgage investment conduit" ("REMIC") under the Internal Revenue Code of 1986, as amended (the "Code").

- The A Class Certificates and a non-offered notional class will be, or will be backed by, the "regular interests" in Upper Tier REMIC 1.
- The R Class will be the "residual interest" in Upper Tier REMIC 1.
- The AIO Class Certificates will be, or will be backed by, the regular interests in REMIC 2.
- The RM Class will be the residual interest in REMIC 2.
- The interests in the Lower Tier REMIC other than the RL Class (the "Lower Tier Regular Interests") will be the regular interests in the Lower Tier REMIC.
- The RL Class will be the residual interest in the Lower Tier REMIC.



The assets of the Lower Tier REMIC will consist of the Mortgage Loans. The assets of REMIC 2 will consist of a non-offered notional class issued by Upper Tier REMIC 1, with a notional principal balance and interest rate equal, at all times, to the regular interest corresponding to the AIO Class. The Trust (but not any REMIC) will also include funds held on deposit in an account (the “Cap Contract Reserve Fund”). Amounts in the Cap Contract Reserve Fund will be used, to the extent available, to pay any A Class Interest Carryover Amount.

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

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

Our guaranty will *not* cover your receipt of interest carryover amounts. Investors will be entitled to receive interest carryover amounts only to the extent available from the sources specified under the heading “Description of the Certificates—Interest Payments” in this prospectus. Furthermore, our guaranty will *not* cover the receipt of amounts due to Holders of the A Class under the Cap Contract as described under the heading “Description of the Certificates—Interest Payments—*The Cap Contract*” in this prospectus.

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

*Characteristics of Certificates.* We will issue the Certificates (except the R, RM and RL Classes) in book-entry form on the book-entry system of the U.S. Federal Reserve Banks (the “Fed Book-Entry Certificates”). Entities whose names appear in the book-entry records of a Federal Reserve Bank as having had Fed Book-Entry Certificates deposited in their accounts are “Holders” or “Certificateholders.” A Holder is not necessarily the beneficial owner of a Fed Book-Entry Certificate. Beneficial owners ordinarily will hold Fed Book-Entry Certificates through one or more financial intermediaries, such as banks, brokerage firms, and securities clearing organizations.

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

The Holder of the R Class will receive the proceeds of any remaining assets of Upper Tier REMIC 1, the holder of the RM Class will receive the proceeds of any remaining assets of REMIC 2 and the Holder of the RL Class will receive the proceeds of any remaining assets of the Lower Tier REMIC, in each case only by presenting and surrendering the related Certificate at the office of the paying agent. US Bank will be the initial paying agent.

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

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

*Distribution Dates.* We will make monthly payments on the Certificates on the 25th day of each calendar month, or the next business day if the 25th is not a business day, commencing in July 2003.

We refer to such date as a “Distribution Date.” We will make the first payments to Certificateholders in the month after we issue the Certificates.

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

*Class Factors.* On or shortly after the eleventh calendar day of each month, class factors (carried to eight decimal places) will be published 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 remaining principal balance (or notional principal balance) of that Certificate after giving effect to the distribution of principal to be made on the Distribution Date in the same month.

*Optional Clean-up Call.* Subject to certain conditions and limitations described in the Sale and Servicing Agreement, Long Beach Mortgage Company (the “Servicer”), in its capacity as servicer of the Mortgage Loans, may elect to purchase from the Lower Tier REMIC all of the Mortgage Loans on or after the first Distribution Date when the aggregate principal balance of the Mortgage Loans has been reduced to 10% or less of the aggregate initial principal balance of the A Class of Certificates (such first date, the “Optional Termination Date”). If the Mortgage Loans are purchased in this way, it will have the same effect on the Certificates as a prepayment in full of the Mortgage Loans.

The applicable “Cut-off Date” with respect to any Mortgage Loan means June 1, 2003.

## THE MORTGAGE LOANS

### General

On the Settlement Date, it is expected that the Lower Tier REMIC will consist of approximately \$600,000,000 (subject to a variance of 10%) of mortgage loans (the “Mortgage Loans”).

We and Long Beach Mortgage Company, as seller and servicer (the “Seller” and “Servicer”), will enter into a sale and servicing agreement, dated as of June 1, 2003 (the “Sale and Servicing Agreement”).

Each Mortgage Loan is evidenced by a promissory note or similar evidence of indebtedness (a “Mortgage Note”) that is secured by a first 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.”

No Mortgage Loan will have had a principal balance at origination of more than \$322,700 if a one-family property (or \$484,050 if the property is located in Hawaii, the Virgin Islands, Alaska or Guam) or \$413,100, \$499,300 or \$620,500 if a two-, three- or four-family property, respectively (or \$619,650, \$748,950 or \$930,750, respectively, if the property is located in Hawaii, the Virgin Islands, Alaska or Guam).

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

## The Loans

Approximately 34.49% of the Mortgage Loans included in the Mortgage Pool (the “Fixed Rate Loans”) will have fixed interest rates and will be secured by first liens on the related Mortgaged Properties. The Fixed Rate Loans will be fully amortizing Mortgage Loans. No Mortgage Loan is a Balloon Mortgage Loan. A “Balloon Mortgage Loan” is a Mortgage Loan providing for amortization on the basis of an amortization schedule extending beyond its stated maturity with a disproportionate payment due on a stated maturity date equal to the remaining principal balance of the Mortgage Loan. See “Description of the Certificates—Maturity Considerations and Final Distribution Dates” in this prospectus.

Approximately 65.51% of the Mortgage Loans included in the Mortgage Pool (the “ARMs Loans”) will bear interest at rates that vary based generally upon the index described below, and adjust at periodic intervals as described below. Subject to any applicable maximum rate, minimum rate and adjustment caps, each mortgage interest rate at any time generally will be equal to the sum of a specified percentage and the index level then applicable to that loan. The ARMs Loans will provide for a maximum mortgage interest rate. The ARMs Loans also will provide for periodic adjustments of scheduled payments in order to fully amortize by their respective stated maturities.

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

Each of the ARMs Loans will have a mortgage interest rate that is subject to adjustment. Generally, the ARMs Loans provide for semi-annual adjustment to the mortgage interest rate thereon and for corresponding adjustments to the monthly payment amount due thereon; provided, that the first adjustment will occur after an initial period of six months, in the case of approximately 0.39% of the ARMs Loans, two years, in the case of approximately 97.07% of the ARMs Loans, three years, in the case of approximately 2.47% of the ARMs Loans and five years in the case of approximately 0.07% of the ARMs Loans (each such ARMs Loan, a “Delayed First Adjustment Mortgage Loan”). On each adjustment date for each ARMs Loan, the mortgage interest rate thereon will be adjusted to equal the sum, rounded to the nearest 0.125% (or, in some cases, rounded up to the next highest 0.125%), of:

- the average of interbank offered rates for six-month U.S. dollar deposits in the London market, most recently published in *The Wall Street Journal* on the day specified in the related mortgage note (the “Mortgage Index”),

*plus*

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

*provided, however*, that the mortgage interest rate for substantially all of the ARMs Loans will not increase by more than a weighted average of 1.051% on the initial Adjustment Date or increase or decrease by more than 1.000% on any subsequent Adjustment Date (the “Periodic Rate Cap”). Substantially all of the ARMs Loans will have been originated with mortgage interest rates less than the sum of the then-current Mortgage Index and the related Gross Margin. If the rate referred to in the first bullet point above ceases to be published in *The Wall Street Journal* or becomes unavailable for any reason, then the holder of the related Mortgage Note will select a new index based on comparable information.

Substantially all of the ARMs Loans will provide that over the life of each such loan the mortgage interest rate will in no event be more than the initial mortgage interest rate plus 6.001%. Effective with the first payment due on an ARMs Loan after each related adjustment date, the monthly payment will be adjusted to an amount which will fully amortize the outstanding principal balance of the ARMs Loan over its remaining term.

Approximately 59.41% of the Mortgage Loans provide for payment by the mortgagor of a prepayment premium in limited circumstances on certain prepayments. Generally, each Mortgage Loan having a prepayment premium provision provides for payment of a prepayment premium on



certain partial prepayments and prepayments in full made during the 36 months from the first due date of such Mortgage Loan. The amount of such prepayment premium is generally equal to: (a) 3% of the original principal balance of the Mortgage Loan if the prepayment is received on or before the first anniversary of the first due date of the Mortgage Loan; (b) 2% of the original principal balance of the Mortgage Loan if the prepayment is received after the first anniversary of the first due date of the Mortgage Loan but on or before the second anniversary of the first due date of the Mortgage Loan; and (c) 1% of the original principal balance of the Mortgage Loan if the prepayment is received after the second anniversary of the first due date of the Mortgage Loan but on or before the third anniversary of the first due date of the Mortgage Loan. After the expiration of the applicable prepayment period, however, borrowers may prepay the mortgage loans at anytime without paying a premium. In no event will Certificateholders be entitled to any portion of any prepayment premiums paid by borrowers.

The sums of the numbers in the principal balance and percentage columns in the following tables may not equal the totals listed at the bottom of those columns due to rounding.

### Loan Programs

<u>Loan Program</u>	<u>Number of Mortgage Loans</u>	<u>Aggregate Principal Balance Outstanding</u>	<u>Percent of Mortgage Loans</u>
Fixed-10 Year .....	2	\$ 51,229.28	0.01%
Fixed-15 Year .....	181	23,110,078.58	3.85
Fixed-20 Year .....	6	551,109.05	0.09
Fixed-30 Year .....	1,118	183,227,839.03	30.54
ARMs-6 Month .....	9	1,543,879.03	0.26
ARMs-2 Year/6 Month .....	2,172	381,551,391.07	63.59
ARMs-3 Year/6 Month .....	61	9,695,416.99	1.62
ARMs-5 Year/6 Month .....	2	269,068.48	0.04
Total .....	<u>3,551</u>	<u>\$600,000,011.51</u>	<u>100.00%</u>

### Loan Types

<u>Loan Types</u>	<u>Number of Mortgage Loans</u>	<u>Aggregate Principal Balance Outstanding</u>	<u>Percent of Mortgage Loans</u>
Fixed Rate .....	1,307	\$206,940,255.94	34.49%
ARMs .....	<u>2,244</u>	<u>393,059,755.57</u>	<u>65.51</u>
Total .....	<u>3,551</u>	<u>\$600,000,011.51</u>	<u>100.00%</u>

### Current Mortgage Loan Principal Balances (1)

<u>Current Mortgage Loan Principal Balances</u>	<u>Number of Mortgage Loans</u>	<u>Aggregate Principal Balance Outstanding</u>	<u>Percent of Mortgage Loans</u>
\$ 1-\$ 50,000 .....	111	\$ 4,445,120.53	0.74%
\$ 50,001-\$100,000 .....	652	50,132,046.81	8.36
\$100,001-\$150,000 .....	817	102,199,513.63	17.03
\$150,001-\$200,000 .....	744	129,252,163.45	21.54
\$200,001-\$250,000 .....	607	135,573,498.69	22.60
\$250,001-\$300,000 .....	433	118,448,770.62	19.74
\$300,001-\$350,000 .....	171	53,509,942.27	8.92
\$350,001-\$400,000 .....	9	3,392,499.02	0.57
\$400,001-\$450,000 .....	5	2,088,775.04	0.35
\$450,001-\$500,000 .....	2	957,681.45	0.16
Total .....	<u>3,551</u>	<u>\$600,000,011.51</u>	<u>100.00%</u>

(1) As of the Cut-off Date, the average current principal balance for the Mortgage Loans is expected to be approximately \$168,966.49.

### Current Mortgage Interest Rates (1)

<u>Current Mortgage Interest Rates (%)</u>	<u>Number of Mortgage Loans</u>	<u>Aggregate Principal Balance Outstanding</u>	<u>Percent of Mortgage Loans</u>
4.001- 5.000 .....	2	\$ 365,211.91	0.06%
5.001- 6.000 .....	368	68,754,849.53	11.46
6.001- 7.000 .....	1,643	309,415,178.32	51.57
7.001- 8.000 .....	1,104	174,032,400.09	29.01
8.001- 9.000 .....	334	38,654,953.24	6.44
9.001-10.000 .....	60	5,725,653.74	0.95
10.001-11.000 .....	22	1,519,706.24	0.25
11.001-12.000 .....	14	1,014,487.93	0.17
12.001-13.000 .....	4	517,570.51	0.09
Total .....	<u>3,551</u>	<u>\$600,000,011.51</u>	<u>100.00%</u>

(1) As of the Cut-off Date, the weighted average mortgage interest rate of the Mortgage Loans is expected to be approximately 6.929% per annum.

### Original Terms to Stated Maturity (1)

<u>Original Terms to Stated Maturity (months)</u>	<u>Number of Mortgage Loans</u>	<u>Aggregate Principal Balance Outstanding</u>	<u>Percent of Mortgage Loans</u>
120 .....	2	\$ 51,229.28	0.01%
180 .....	181	23,110,078.58	3.85
240 .....	6	551,109.05	0.09
360 .....	<u>3,362</u>	<u>576,287,594.60</u>	<u>96.05</u>
Total .....	<u>3,551</u>	<u>\$600,000,011.51</u>	<u>100.00%</u>

(1) The weighted average original term to stated maturity of the Mortgage Loans is expected to be approximately 353 months.

### Remaining Terms to Stated Maturity (1)

Remaining Terms to Stated Maturity (months)	Number of Mortgage Loans	Aggregate Principal Balance Outstanding	Percent of Mortgage Loans
111 – 120 .....	2	\$ 51,229.28	0.01%
171 – 180 .....	181	23,110,078.58	3.85
231 – 240 .....	6	551,109.05	0.09
351 – 360 .....	3,362	576,287,594.60	96.05
Total .....	<u>3,551</u>	<u>\$600,000,011.51</u>	<u>100.00%</u>

(1) As of the Cut-off Date, the weighted average remaining term to stated maturity of the Mortgage Loans is expected to be approximately 351 months.

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

Original Loan-to-Value Ratios (%)	Number of Mortgage Loans	Aggregate Principal Balance Outstanding	Percent of Mortgage Loans
0.01 – 5.00 .....	1	\$ 59,784.74	0.01%
5.01 – 10.00 .....	1	26,982.47	0.00
10.01 – 15.00 .....	1	59,866.02	0.01
15.01 – 20.00 .....	2	75,101.82	0.01
20.01 – 25.00 .....	5	455,757.35	0.08
25.01 – 30.00 .....	6	614,841.57	0.10
30.01 – 35.00 .....	9	847,088.70	0.14
35.01 – 40.00 .....	20	2,412,148.88	0.40
40.01 – 45.00 .....	41	5,404,001.77	0.90
45.01 – 50.00 .....	42	5,545,310.79	0.92
50.01 – 55.00 .....	34	5,131,556.54	0.86
55.01 – 60.00 .....	55	9,248,412.92	1.54
60.01 – 65.00 .....	67	9,609,840.04	1.60
65.01 – 70.00 .....	96	15,557,966.36	2.59
70.01 – 75.00 .....	179	29,908,820.61	4.98
75.01 – 80.00 .....	2,076	361,118,236.73	60.19
80.01 – 85.00 .....	273	44,487,927.57	7.41
85.01 – 90.00 .....	494	84,498,832.83	14.08
90.01 – 95.00 .....	149	24,937,533.80	4.16
Total .....	<u>3,551</u>	<u>\$600,000,011.51</u>	<u>100.00%</u>

(1) The weighted average original loan-to-value ratio of the Mortgage Loans is expected to be approximately 79.77%.

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

### Documentation Program for Mortgage Loans (1)

<u>Type of Program</u>	<u>Number of Mortgage Loans</u>	<u>Aggregate Principal Balance Outstanding</u>	<u>Percent of Mortgage Loans</u>
Stated Documentation .....	1,808	\$326,717,251.96	54.45%
Full Documentation .....	1,732	271,601,640.97	45.27
Limited Documentation .....	11	1,681,118.58	0.28
Total .....	<u>3,551</u>	<u>\$600,000,011.51</u>	<u>100.00%</u>

(1) For a description of Long Beach's documentation programs, see "—Long Beach's Underwriting Standards for the Mortgage Loans" below.

### Types of Mortgaged Properties

<u>Property Type</u>	<u>Number of Mortgage Loans</u>	<u>Aggregate Principal Balance Outstanding</u>	<u>Percent of Mortgage Loans</u>
Single Family Detached .....	2,555	\$432,815,592.12	72.14%
2-4 Family .....	267	53,022,322.66	8.84
PUD .....	289	51,940,090.91	8.66
Condominium .....	260	42,568,649.01	7.09
Manufactured Housing .....	170	18,197,606.07	3.03
Townhouse .....	10	1,455,750.74	0.24
Total .....	<u>3,551</u>	<u>\$600,000,011.51</u>	<u>100.00%</u>

### Purpose of Mortgage Loans

<u>Loan Purpose</u>	<u>Number of Mortgage Loans</u>	<u>Aggregate Principal Balance Outstanding</u>	<u>Percent of Mortgage Loans</u>
Purchase .....	1,883	\$325,703,384.27	54.28%
Refinance—Cashout .....	1,410	232,404,967.36	38.73
Refinance—Rate Term .....	258	41,891,659.88	6.98
Total .....	<u>3,551</u>	<u>\$600,000,011.51</u>	<u>100.00%</u>

### Occupancy Types (1)

<u>Occupancy Type</u>	<u>Number of Mortgage Loans</u>	<u>Aggregate Principal Balance Outstanding</u>	<u>Percent of Mortgage Loans</u>
Primary .....	3,196	\$555,187,474.99	92.53%
Non-Owner Occupied .....	320	39,242,646.41	6.54
Second Home .....	35	5,569,890.11	0.93
Total .....	<u>3,551</u>	<u>\$600,000,011.51</u>	<u>100.00%</u>

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

### Geographic Distribution of Mortgaged Properties

<u>State</u>	<u>Number of Mortgage Loans</u>	<u>Aggregate Principal Balance Outstanding</u>	<u>Percent of Mortgage Loans</u>
Alabama .....	35	\$ 3,676,032.59	0.61%
Alaska .....	11	2,089,113.56	0.35
Arizona .....	70	9,737,991.04	1.62
Arkansas .....	8	549,572.58	0.09
California .....	1,590	324,116,410.59	54.02
Colorado .....	247	41,918,198.96	6.99
Connecticut .....	12	1,870,020.06	0.31
Delaware .....	1	63,360.34	0.01
Florida .....	146	18,828,916.03	3.14
Georgia .....	53	7,545,532.89	1.26
Idaho .....	11	1,568,438.14	0.26
Illinois .....	164	25,846,749.01	4.31
Indiana .....	23	1,914,646.87	0.32
Iowa .....	15	1,335,760.80	0.22
Kansas .....	1	29,378.59	0.00
Kentucky .....	14	1,562,458.99	0.26
Louisiana .....	19	2,257,417.46	0.38
Maine .....	1	155,760.67	0.03
Maryland .....	18	2,846,148.74	0.47
Massachusetts .....	18	3,663,013.56	0.61
Michigan .....	63	7,031,069.16	1.17
Minnesota .....	20	2,528,261.99	0.42
Missouri .....	25	2,034,933.38	0.34
Montana .....	30	4,637,422.31	0.77
Nebraska .....	24	2,374,302.54	0.40
Nevada .....	49	7,699,515.87	1.28
New Hampshire .....	1	120,471.99	0.02
New Jersey .....	16	3,023,345.91	0.50
New Mexico .....	10	1,046,931.57	0.17
New York .....	92	19,199,020.18	3.20
North Carolina .....	46	4,863,676.42	0.81
North Dakota .....	2	75,207.33	0.01
Ohio .....	47	4,580,025.70	0.76
Oklahoma .....	9	831,625.42	0.14
Oregon .....	94	14,219,362.53	2.37

<u>State</u>	<u>Number of Mortgage Loans</u>	<u>Aggregate Principal Balance Outstanding</u>	<u>Percent of Mortgage Loans</u>
Pennsylvania .....	22	\$ 2,718,030.72	0.45%
Rhode Island .....	21	3,017,212.81	0.50
South Carolina .....	8	607,575.71	0.10
South Dakota .....	2	233,153.81	0.04
Tennessee .....	21	1,595,899.38	0.27
Texas .....	195	20,690,861.60	3.45
Utah .....	61	8,373,570.98	1.40
Virginia .....	17	2,440,120.90	0.41
Washington .....	197	31,902,980.19	5.32
Wisconsin .....	16	1,818,823.48	0.30
Wyoming .....	6	761,688.16	0.13
Total: .....	3,551	\$600,000,011.51	100.00%

### Credit Score (1)

<u>Credit Score</u>	<u>Number of Mortgage Loans</u>	<u>Aggregate Principal Balance Outstanding</u>	<u>Percent of Mortgage Loans</u>
441-460 .....	2	\$ 144,384.80	0.02%
461-480 .....	1	119,959.04	0.02
481-500 .....	10	1,175,422.61	0.20
501-520 .....	6	877,600.51	0.15
521-540 .....	8	542,602.54	0.09
541-560 .....	14	1,408,975.81	0.23
561-580 .....	92	13,079,902.20	2.18
581-600 .....	156	21,861,042.68	3.64
601-620 .....	312	49,686,382.94	8.28
621-640 .....	448	73,351,601.20	12.23
641-660 .....	715	120,889,098.84	20.15
661-680 .....	641	111,380,731.81	18.56
681-700 .....	427	76,200,866.79	12.70
701-720 .....	265	48,345,486.73	8.06
721-740 .....	208	36,949,015.07	6.16
741-760 .....	127	23,017,513.02	3.84
761-780 .....	83	14,900,837.73	2.48
781-800 .....	33	5,567,962.90	0.93
801-805 .....	3	500,624.29	0.08
Total .....	3,551	\$600,000,011.51	100.00%

(1) The weighted average Credit Score of the Mortgage Loans at origination is expected to be approximately 667.

### Amortization Type of Mortgage Loans

<u>Amortization Type</u>	<u>Number of Mortgage Loans</u>	<u>Aggregate Principal Balance Outstanding</u>	<u>Percent of Mortgage Loans</u>
Fully Amortizing .....	3,551	\$600,000,011.51	100.00%
Total: .....	<u>3,551</u>	<u>\$600,000,011.51</u>	<u>100.00%</u>

### Lien Position for Mortgage Loans

<u>Lien Position</u>	<u>Number of Mortgage Loans</u>	<u>Aggregate Principal Balance Outstanding</u>	<u>Percent of Mortgage Loans</u>
1st Lien .....	3,551	\$600,000,011.51	100.00%
Total: .....	<u>3,551</u>	<u>\$600,000,011.51</u>	<u>100.00%</u>

### Prepayment Terms of Mortgage Loans

<u>Prepayment Terms</u>	<u>Number of Mortgage Loans</u>	<u>Aggregate Principal Balance Outstanding</u>	<u>Percent of Mortgage Loans</u>
No Prepayment Penalty .....	1,434	\$243,536,382.53	40.59%
12 Months Prepayment Penalty .....	104	19,431,895.33	3.24
24 Months Prepayment Penalty .....	1,180	217,154,473.57	36.19
36 Months Prepayment Penalty .....	833	119,877,260.08	19.98
Total .....	<u>3,551</u>	<u>\$600,000,011.51</u>	<u>100.00%</u>

(1) The weighted average prepayment terms of the Mortgage Loans with prepayment penalties is expected to be approximately 27 months.

### Mortgage Interest Rate Life Cap of ARMs Loans (1)

<u>Mortgage Interest Rate Life Cap ( % )</u>	<u>Number of Mortgage Loans</u>	<u>Aggregate Principal Balance Outstanding</u>	<u>Percent of ARMs Loans</u>
11.001-12.000 .....	197	\$ 41,084,398.86	10.45%
12.001-13.000 .....	1,020	200,485,389.06	51.01
13.001-14.000 .....	761	120,577,565.61	30.68
14.001-15.000 .....	201	24,354,221.74	6.20
15.001-16.000 .....	39	4,333,806.57	1.10
16.001-17.000 .....	12	838,452.15	0.21
17.001-18.000 .....	10	868,351.07	0.22
18.001-19.000 .....	4	517,570.51	0.13
Total: .....	<u>2,244</u>	<u>\$393,059,755.57</u>	<u>100.00%</u>

(1) The weighted average mortgage interest rate life cap of the ARMs Loans is expected to be approximately 12.954% per annum.



### Mortgage Interest Rate Life Floor of ARMs Loans (1)

<u>Mortgage Interest Rate Life Floor ( % )</u>	<u>Number of Mortgage Loans</u>	<u>Aggregate Principal Balance Outstanding</u>	<u>Percent of ARMs Loans</u>
5.001- 6.000 .....	197	\$ 41,084,398.86	10.45%
6.001- 7.000 .....	1,020	200,485,389.06	51.01
7.001- 8.000 .....	762	120,692,951.57	30.71
8.001- 9.000 .....	200	24,238,835.78	6.17
9.001-10.000 .....	39	4,333,806.57	1.10
10.001-11.000 .....	12	838,452.15	0.21
11.001-12.000 .....	10	868,351.07	0.22
12.001-13.000 .....	4	517,570.51	0.13
Total: .....	<u>2,244</u>	<u>\$393,059,755.57</u>	<u>100.00%</u>

(1) The weighted average mortgage interest rate life floor of the ARMs Loans is expected to be approximately 6.954% per annum.

### Mortgage Interest Rate Margin of ARMs Loans (1)

<u>Mortgage Interest Rate Margin ( % )</u>	<u>Number of Mortgage Loans</u>	<u>Aggregate Principal Balance Outstanding</u>	<u>Percent of ARMs Loans</u>
4.001-5.000 .....	2,032	\$362,128,560.44	92.13%
5.001-6.000 .....	123	17,886,986.72	4.55
6.001-7.000 .....	89	13,044,208.41	3.32
Total: .....	<u>2,244</u>	<u>\$393,059,755.57</u>	<u>100.00%</u>

(1) The weighted average mortgage interest rate margin of the ARMs Loans is expected to be approximately 4.961% per annum.

### Initial Periodic Mortgage Interest Rate Cap of ARMs Loans (1)

<u>Initial Periodic Mortgage Interest Rate Cap ( % )</u>	<u>Number of Mortgage Loans</u>	<u>Aggregate Principal Balance Outstanding</u>	<u>Percent of ARMs Loans</u>
1.000 .....	2,181	\$383,095,270.10	97.46%
3.000 .....	63	9,964,485.47	2.54
Total: .....	<u>2,244</u>	<u>\$393,059,755.57</u>	<u>100.00%</u>

(1) The weighted average initial periodic mortgage interest rate cap of the ARMs Loans is expected to be approximately 1.051% per annum.

### Subsequent Periodic Mortgage Interest Rate Cap of ARMs Loans

<u>Subsequent Periodic Mortgage Interest Rate Cap ( % )</u>	<u>Number of Mortgage Loans</u>	<u>Aggregate Principal Balance Outstanding</u>	<u>Percent of ARMs Loans</u>
1.000 .....	<u>2,244</u>	<u>\$393,059,755.57</u>	<u>100.00%</u>
Total: .....	<u>2,244</u>	<u>\$393,059,755.57</u>	<u>100.00%</u>

### Next Interest Rate Adjustment of ARMs Loans

<u>Next Interest Rate Adjustment Date</u>	<u>Number of Mortgage Loans</u>	<u>Aggregate Principal Balance Outstanding</u>	<u>Percent of ARMs Loans</u>
August 2003 .....	1	\$ 135,505.86	0.03%
September 2003 .....	1	134,588.60	0.03
October 2003 .....	6	1,129,901.45	0.29
November 2003 .....	1	143,883.12	0.04
September 2004 .....	1	156,475.92	0.04
October 2004 .....	3	337,624.62	0.09
November 2004 .....	7	1,360,763.14	0.35
December 2004 .....	20	3,234,414.34	0.82
January 2005 .....	31	4,911,386.15	1.25
February 2005 .....	65	11,437,937.97	2.91
March 2005 .....	328	62,261,659.73	15.84
April 2005 .....	1,171	209,256,707.15	53.24
May 2005 .....	546	88,594,422.05	22.54
January 2006 .....	3	403,880.45	0.10
February 2006 .....	2	550,469.21	0.14
March 2006 .....	10	1,562,678.30	0.40
April 2006 .....	30	5,366,696.99	1.37
May 2006 .....	16	1,811,692.04	0.46
March 2008 .....	1	141,249.75	0.04
April 2008 .....	1	127,818.73	0.03
Total .....	<u>2,244</u>	<u>\$393,059,755.57</u>	<u>100.00%</u>

### Anti-Predatory Lending Guidelines

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

### Long Beach Mortgage Company

The information set forth in the following paragraphs has been provided by the Seller (referred to in this section as "Long Beach").

Long Beach, a Delaware corporation, is a specialty finance company engaged in the business of originating, purchasing, selling and, through Washington Mutual Bank, FA ("WMBFA"), servicing mortgage loans secured by one- to four-family residences principally made to borrowers with blemished credit histories.

Effective April 9, 2001, Long Beach transferred to WMBFA substantially all of its servicing portfolio and servicing operations. WMBFA will perform, on behalf of Long Beach, the servicing functions that are required to be performed with respect to the mortgage loans. WMBFA is an affiliate of Long Beach. Long Beach or WMBFA has serviced the mortgage loans since origination or acquisition by Long Beach. Long Beach and WMBFA are each approved as a seller/servicer for Fannie Mae and as a servicer for Freddie Mac. Long Beach is also approved as a non-supervised mortgagee by the U.S. Department of Housing and Urban Development.

## **Long Beach's Underwriting Standards for the Mortgage Loans**

The information in this section was provided by the Seller.

All of the Mortgage Loans were, or will be, originated, acquired or re-underwritten upon acquisition by the Seller generally in accordance with the underwriting criteria described below.

The underwriting guidelines of Long Beach generally do not conform to the underwriting guidelines typically applied by banks and other primary lending institutions, particularly with respect to a prospective borrower's credit history and debt-to-income ratio. Borrowers who qualify under Long Beach's underwriting guidelines generally have equity in their property and repayment ability but may have a record of major derogatory credit items such as outstanding judgments or prior bankruptcies. Long Beach originates mortgage loans based on its underwriting guidelines and does not determine whether such mortgage loans would be acceptable for purchase by Fannie Mae. Long Beach began originating mortgage loans in 1988.

The Mortgage Loans were, or will be, originated or re-underwritten, in the case of Mortgage Loans acquired by Long Beach from WMBFA, Washington Mutual Bank ("WMB") or Washington Mutual Bank fsb ("WMB fsb") (the "WAMU Loans"), generally in accordance with guidelines established by Long Beach under its Full Documentation ("Full Doc"), Limited Documentation ("Limited Doc") or Stated Income Documentation ("Stated Income") residential loan programs. Long Beach's underwriting guidelines are primarily intended to evaluate the value and adequacy of the mortgaged property as collateral and to consider the mortgagor's credit standing and repayment ability. On a case-by-case basis and only with the approval of a lending officer with appropriate risk level authority, Long Beach may determine that, based upon compensating factors, a prospective mortgagor not strictly qualifying under its underwriting risk category guidelines warrants an underwriting exception. Compensating factors may include, but are not limited to, low loan-to-value ratio, low debt-to-income ratio, good credit history, stable employment and time in residence at the applicant's current address. It is expected that a substantial number of the Mortgage Loans to be included in the mortgage pool will represent exceptions to the underwriting guidelines.

Under Long Beach's programs, during the underwriting or re-underwriting process, Long Beach reviews and verifies the loan applicant's sources of income (only under the Full Doc residential loan program), calculates the amount of income from all such sources indicated on the loan application, reviews the credit history of the applicant and calculates the debt-to-income ratio to determine the applicant's ability to repay the loan, and reviews the mortgaged property for compliance with Long Beach's underwriting guidelines. Long Beach applies its underwriting guidelines in accordance with a procedure which complies with applicable federal and state laws and regulations and requires (i) an appraisal of the mortgaged property which generally conforms to Fannie Mae standards and (ii) a review of that appraisal. The appraisal review may be conducted by a representative of Long Beach or WMBFA and, depending upon the original principal balance and loan-to-value ratio of the mortgaged property, may include a desk review of the original appraisal or a drive-by review appraisal of the mortgaged property. In re-underwriting the WAMU loans under its underwriting guidelines, Long Beach did not obtain a new appraisal for the mortgaged properties securing the WAMU Loans but completed a desk review of the original appraisals for each of such mortgaged properties.

Long Beach's underwriting guidelines permit loans with loan-to-value ratios at origination of up to 95%. The maximum allowable loan-to-value ratio varies based upon the residential loan program, income documentation, property type, creditworthiness, debt service-to-income ratio of the mortgagor and the overall risks associated with the loan decision. Under the residential loan programs, the maximum combined loan-to-value ratio, including any second liens subordinate to Long Beach's first lien, is generally 100% for owner occupied mortgaged properties and 90% for non-owner occupied mortgaged properties.

All of the Mortgage Loans are either originated under Long Beach's underwriting programs based on loan application packages submitted through mortgage brokerage companies, purchased from

approved originators or purchased from WMBFA, WMB or WMB fsb. Loan application packages submitted through mortgage brokerage companies, containing relevant credit, property and underwriting information on the loan request, are compiled by the mortgage brokerage company and submitted to Long Beach for approval and funding. The mortgage brokerage companies receive a portion of the loan origination fee charged to the mortgagor at the time the loan is made. No single mortgage brokerage company accounts for more than 5%, measured by outstanding principal balance, of the mortgage loans originated by Long Beach.

Each prospective mortgagor completes an application which includes information with respect to the applicant's liabilities, income, credit history and employment history, as well as certain other personal information. Long Beach obtains a credit report on each applicant from a credit reporting company or, in the case of the WAMU Loans, reviews the credit report on the mortgagor obtained when the mortgage loan was originated. The report typically contains information relating to such matters as credit history with local and national merchants and lenders, installment debt payments and any record of defaults, bankruptcy, repossession, suits or judgments. The applicant must generally provide to Long Beach or the originator a letter explaining all late payments on mortgage debt and, generally, non-mortgage consumer debt. Under the Full Doc residential loan program, self-employed individuals are generally required to submit their most recent federal income tax return. As part of its quality control system, Long Beach re-verifies information with respect to the foregoing matters that has been provided by the mortgage brokerage company prior to funding a loan and WMBFA, as subservicer, periodically audits files based on a random sample of closed loans. In the course of its pre-funding audit, Long Beach re-verifies the income of each mortgagor or, for a self-employed individual, reviews the income documentation obtained (only under the Full Doc residential loan program). Long Beach generally verifies the source of funds for the down payment. In the course of its re-underwriting of the WAMU Loans, Long Beach reviews the mortgagor's application completed in connection with the origination of the mortgage loan but does not re-verify any of the information included in such application.

The mortgaged properties are appraised by qualified independent appraisers who are approved through WMBFA's approved appraiser process. In most cases, properties in below average condition, including properties requiring major deferred maintenance, are not acceptable under the Long Beach underwriting programs. Each appraisal includes a market data analysis based on recent sales of comparable homes in the area and, where deemed appropriate, replacement cost analysis based on the current cost of constructing a similar home. Every independent appraisal is reviewed by a representative of Long Beach or WMBFA before the loan is funded or re-underwritten.

Long Beach uses a credit scoring system as part of its underwriting and re-underwriting process. The credit scoring system assesses a prospective borrower's ability to repay a mortgage loan based upon predetermined mortgage loan characteristics and credit risk factors. The credit scoring model generates a credit score (also known as a FICO score) ranging from around 250 to 900, with a higher score indicating a borrower with a relatively more favorable credit history. The credit score is based upon such factors as the prospective borrower's payment history, delinquencies on accounts, levels of outstanding debt, length of credit history, types of credit and bankruptcy experience.

Long Beach originates or acquires mortgage loans that generally do not conform to the underwriting guidelines typically applied by banks and other primary lending institutions, particularly with respect to a prospective borrower's credit history and debt-to-income ratio. Borrowers who qualify under Long Beach's underwriting guidelines generally have equity in their property and repayment ability but may have a record of major derogatory credit items such as outstanding judgments or prior bankruptcies. Long Beach originates mortgage loans based on its underwriting guidelines and does not determine whether such mortgage loans would be acceptable for purchase by Fannie Mae. Long Beach's underwriting guidelines establish the maximum permitted loan-to-value ratio for each loan type based upon these and other risk factors.

Under the Limited Doc and Stated Income residential loan programs, the mortgagor's employment and income sources must be stated on the mortgagor's application. The mortgagor's income as stated must be reasonable for the related occupation and such determination as to reasonableness is subject to the loan underwriter's discretion. However, the mortgagor's income as stated on the application is not independently verified. Verification of employment is required for salaried mortgagors only in mortgage loans underwritten by Long Beach but not in re-underwritten mortgage loans. Maximum loan-to-value ratios are generally lower under the Limited Doc and Stated Income residential loan programs than those permitted under the Full Doc residential loan program. Except as otherwise stated above, the same mortgage credit, consumer credit and collateral property underwriting guidelines that apply to the Full Doc residential loan program apply to the Limited Doc and Stated Income residential loan programs.

Long Beach requires that all mortgage loans in its underwriting programs have title insurance and be secured by liens on real property. Long Beach also requires that fire and extended coverage casualty insurance be maintained on the secured property in an amount at least equal to the principal balance of the mortgage loan or the replacement cost of the property, whichever is less. Long Beach does not require that the mortgage loans originated or re-underwritten under its underwriting programs be covered by a primary mortgage insurance policy.

Under Long Beach's underwriting programs, various risk categories are used to grade the likelihood that the mortgagor will satisfy the repayment conditions of the mortgage loan. These risk categories establish the maximum permitted loan-to-value ratio and loan amount, given the occupancy status of the mortgaged property and the mortgagor's credit history and debt ratio. In general, higher credit risk mortgage loans are graded in categories which permit higher debt ratios and more (or more recent) major derogatory credit items such as outstanding judgments or prior bankruptcies; however, Long Beach's underwriting programs establish lower maximum loan-to-value ratios and maximum loan amounts for loans graded in such categories.

Long Beach's underwriting guidelines have the following categories and criteria for grading the potential likelihood that an applicant will satisfy the repayment obligations of a mortgage loan:

*Credit Grade: "AA".* Under the "AA" risk categories, the applicant must generally have repaid installment or revolving debt according to its terms. Open or unpaid collections, charge-offs, judgments, garnishments, liens or derogatory public records in the last two years are permitted provided there are no more than two such accounts with an aggregate balance of \$1,000. Minor credit derogatory items are acceptable. The borrower must have a credit report reflecting a two year credit history and a prior mortgage or rental history evidencing no 30-day late payments during the last 24 months. First time home buyers are acceptable. No bankruptcy filings may have occurred and no discharge may have occurred during the previous four years (two years for medical-related bankruptcies with proper documentation). There must be a minimum of four years between the cure date of any foreclosure and the loan application date and credit must have been satisfactorily re-established. No open lawsuits in the prior two years are permitted, however, the borrower may be a plaintiff in a lawsuit if a reasonable explanation is provided. For loans with principal balances that conform to the Fannie Mae loan limits there is no limit on the number of properties owned by the borrower as a primary residence, second home and non-owner occupied properties. Where the borrower owns more than eight financed properties the borrower must have verified cash reserves equal to at least six months PITI for each new loan for a non-owner occupied property financed by Long Beach. For loans with principal balances that do not conform to the Fannie Mae loan limits the borrower may finance no more than eight other properties consisting of one-to-four units. Maximum qualifying debt service-to-income ratio is 47/47. A maximum loan-to-value ratio of 95% is permitted for owner occupied mortgaged property and a maximum loan-to-value ratio of 90% is permitted for second home and non-owner occupied mortgaged property.

*Credit Grade: "A".* Under the "A" risk category, the applicant generally must have repaid installment or revolving debt according to its terms. Some non-consumer credit, collections or



judgments may be disregarded on a case-by-case basis. Any and all delinquent payments made within the past 12 months may not represent more than 35% of the credit reported during that period. Minor derogatory items are permitted on a case-by-case basis as to non-mortgage credit when the majority of the consumer credit is good. No bankruptcy filings may have occurred during the preceding year and no discharge or notice of default filings may have occurred during the preceding two years. The mortgaged property must be in at least average condition. A maximum loan-to-value ratio of 90% is permitted for owner occupied purchase money and/or refinance mortgage loans on single-family, two-unit and condominium properties, and a maximum loan-to-value ratio of 85% is permitted on an owner occupied mortgaged property consisting of three-to-four units or second homes. A maximum loan-to-value ratio of 80% is permitted for non-owner occupied purchase money and/or refinance mortgage loans on single-family, two-unit and condominium properties, and a maximum loan-to-value ratio of 75% is permitted on a non-owner occupied mortgaged property consisting of three-to-four units. Generally, the debt service-to-income ratio maximum may be 55% based on the mortgagor's net disposable income and if the loan-to-value ratio is less than or equal to 90%. In addition, the applicant must have a credit score of 600 or higher.

*Credit Grade: "A1".* Under the "A1" risk sub-category, in addition to the characteristics described under the "A" risk category above, no late payments are permitted during the previous twelve months on an existing mortgage loan, on either the property which is being made subject to Long Beach's lien or any mortgage on any other property for which the applicant is listed as borrower. In addition, the applicant must have a credit score of 640 or higher and a debt service-to-income ratio of 45% or less.

*Credit Grade: "A2".* Under the "A2" risk sub-category, in addition to the characteristics described under the "A" risk category above, no late payments are permitted during the previous twelve months on an existing mortgage loan, on either the property which is being made subject to Long Beach's lien or any mortgage on any other property for which the applicant is listed as borrower. In addition, the applicant must have a credit score of 620 or higher and a debt service-to-income ratio of 50% or less.

*Credit Grade: "A3".* Under the "A3" risk sub-category, in addition to the characteristics described under the "A" risk category above, no late payments are permitted during the previous twelve months on an existing mortgage loan, on either the property which is being made subject to Long Beach's lien or any mortgage on any other property for which the applicant is listed as borrower. In addition, the applicant must have a credit score of 600 or higher and a debt service-to-income ratio of 55% or less.

*Credit Grade: "A-".* Under the "A-" risk category, the applicant generally must have repaid installment or revolving debt according to its terms. Some non-consumer credit, collections or judgments may be disregarded on a case-by-case basis. Any and all delinquent payments made within the past 12 months may not represent more than 35% of the credit reported during that period. Minor derogatory items are permitted on a case-by-case basis as to non-mortgage credit when the majority of the consumer credit is good. No bankruptcy filings may have occurred during the preceding one year and no discharge or notice of default filings may have occurred during the preceding two years. The mortgaged property must be in at least average condition. A maximum loan-to-value ratio of 90% is permitted for owner occupied purchase money and/or refinance mortgage loans on a single-family, two-unit and condominium properties, and a maximum loan-to-value ratio of 85% is permitted on an owner occupied mortgaged property consisting of three-to-four units or second homes. A maximum loan-to-value ratio of 80% is permitted for non-owner occupied purchase money and/or refinance mortgage loans on single-family, two-unit and condominium properties, and a maximum loan-to-value ratio of 75% is permitted on a non-owner occupied mortgaged property consisting of three-to-four units. Generally, the debt service-to-income ratio maximum may be 55% based on the mortgagor's net disposable income and if the loan-to-value ratio is less than or equal to 90%.

*Credit Grade: "A-1".* Under the "A-1" risk sub-category, in addition to the characteristics described under the "A—" risk category above, no late payments are permitted during the previous twelve months on an existing mortgage loan, on either the property which is being made subject to Long Beach's lien or any mortgage on any other property for which the applicant is listed as borrower. In addition, the applicant must have a credit score of 620 or higher and a debt service-to-income ratio of 45% or less.

*Credit Grade: "A-2".* Under the "A-2" risk sub-category, in addition to the characteristics described under the "A—" risk category above, no late payments are permitted during the previous twelve months on an existing mortgage loan, on either the property which is being made subject to Long Beach's lien or any mortgage on any other property for which the applicant is listed as borrower.

*Credit Grade: "A-3".* Under the "A-3" risk sub-category, in addition to the characteristics described under the "A—" risk category above, no late payments are permitted during the previous twelve months on an existing mortgage loan on the property which is being made subject to Long Beach's lien.

*Credit Grade: "A-4".* Under the "A-4" risk sub-category, in addition to the characteristics described under the "A—" risk category above, a maximum of one 30-day late payment and no 60-day late payments during the previous twelve months are permitted on an existing mortgage loan, on either the property which is being made subject to Long Beach's lien or any mortgage on any other property for which the applicant is listed as mortgagor.

*Credit Grade: "A-5".* Under the "A-5" risk sub-category, in addition to the characteristics described under the "A—" risk category above, a maximum of two 30-day late payments and no 60-day late payments during the previous twelve months are permitted on an existing mortgage loan, on either the property which is being made subject to Long Beach's lien or any mortgage on any other property for which the applicant is listed as mortgagor.

*Credit Grade: "B".* Under the "B" risk category, the applicant must have generally repaid installment or revolving debt according to its terms. Certain non-consumer credit, collections or judgments may be disregarded on a case-by-case basis. Any and all delinquent payments within the past 12 months may not represent more than 50% of the credit reported during that period. No bankruptcy filings may have occurred during the preceding one year and no discharge or notice of default filings may have occurred during the preceding three years. The mortgaged property must be in at least average condition. A maximum loan-to-value ratio of 85% is permitted for owner occupied purchase money and/or refinance mortgage loans on single-family, two-unit and condominium properties, and a maximum loan-to-value ratio of 80% is permitted on an owner occupied mortgaged property consisting of three-to-four units or second homes. A maximum loan-to-value ratio of 80% is permitted for non-owner occupied purchase money and/or refinance mortgage loans on single-family, two-unit and condominium properties, and a maximum loan-to-value ratio of 70% is permitted on a non-owner occupied mortgaged property consisting of three-to-four units or second homes. Generally, the debt service-to-income ratio must be 55% or less on the mortgagor's net disposable income and/or loan-to-value ratio.

*Credit Grade: "B1".* Under the "B1" risk sub-category, in addition to the characteristics described under the "B" risk category described above, no late payments are permitted during the previous twelve months on an existing mortgage loan, on either the property which is being made subject to Long Beach's lien or any mortgage on any other property for which the applicant is listed as mortgagor.

*Credit Grade: "B2".* Under the "B2" risk sub-category, in addition to the characteristics described under the "B" risk category described above, a maximum of one 30-day late payment and no 60-day late payments are permitted during the previous twelve months on an existing mortgage loan, on either the property which is being made subject to Long Beach's lien or any mortgage on any other property for which the applicant is listed as mortgagor.



*Credit Grade: “B3”.* Under the “B3” risk sub-category, in addition to the characteristics described under the “B” risk category described above, a maximum of two 30-day late payments and no 60-day late payments are permitted during the previous twelve months on an existing mortgage loan, on either the property which is being made subject to Long Beach’s lien or any mortgage on any other property for which the applicant is listed as mortgagor.

*Credit Grade: “B4”.* Under the “B4” risk sub-category, in addition to the characteristics described under the “B” risk category described above, a maximum of three 30-day late payments and generally no 60-day late payments during the previous twelve months are permitted on an existing mortgage loan, on either the property which is being made subject to Long Beach’s lien or any mortgage on any other property for which the applicant is listed as mortgagor.

*Credit Grade: “B–”.* Under the “B–” risk category, the borrower’s consumer credit history is generally not considered in lieu of a strong mortgage or rental payment history. No payment delinquent more than 30 days at the time of application is permitted on an existing mortgage loan. Certain collections or judgments may be disregarded on a case-by-case basis. No bankruptcy filings may have occurred during the preceding twelve months and no discharge or notice default filings may have occurred during the preceding eighteen months. The mortgaged property must be in at least average condition. A maximum loan-to-value ratio of 85% is permitted for owner occupied purchase money and/or refinance mortgage loans on single-family, two-unit and condominium properties, and a maximum loan-to-value ratio of 75% is permitted on an owner occupied mortgaged property consisting of three-to-four units or second homes. A maximum loan-to-value ratio of 75% is permitted for non-owner occupied purchase money and/or refinance mortgage loans on single-family, two-unit and condominium properties, and a maximum loan-to-value ratio of 70% is permitted on a non-owner occupied mortgaged property consisting of three-to-four units or second homes. Generally, the debt service-to-income ratio must not exceed 55%.

*Credit Grade: “B-1”.* Under the “B-1” risk sub-category, in addition to the characteristics described under the “B–” risk category described above, no late payments are permitted during the previous twelve months on an existing mortgage loan, on either the property which is being made subject to Long Beach’s lien or any mortgage on any other property for which the applicant is listed as mortgagor.

*Credit Grade: “B-2”.* Under the “B-2” risk sub-category, in addition to the characteristics described under the “B–” risk category described above, a maximum of one 30-day late payment and no 60-day late payments are permitted during the previous twelve months on an existing mortgage loan, on either the property which is being made subject to Long Beach’s lien or any mortgage on any other property for which the applicant is listed as mortgagor.

*Credit Grade: “B-3”.* Under the “B-3” risk sub-category, in addition to the characteristics described under the “B–” risk category described above, a maximum of two 30-day late payments and no 60-day late payments are permitted during the previous twelve months on an existing mortgage loan, on either the property which is being made subject to Long Beach’s lien or any mortgage on any other property which the applicant is listed as mortgagor.

*Credit Grade: “B-4”.* Under the “B-4” risk sub-category, in addition to the characteristics described under the “B–” risk category described above, a maximum of three 30-day late payments and generally no 60-day late payments during the previous twelve months are permitted on an existing mortgage loan, on either the property which is being made subject to Long Beach’s lien or any mortgage on any other property for which the applicant is listed as mortgagor.

*Credit Grade: “B-5”.* Under the “B-5” risk sub-category, in addition to the characteristics described under the “B–” risk category described above, a maximum of one 60-day late payment during the previous twelve months is permitted on an existing mortgage loan, on either the property which is being made subject to Long Beach’s lien or any mortgage on any other property for which the applicant is listed as mortgagor.

*Credit Grade: "C".* Under the "C" risk category, the applicant may have experienced significant credit problems in the past. A maximum of four 60-day late payments and no 90-day late payments, or three 60-day late payments and one 90-day late payment, within the last 12 months is permitted on an existing mortgage loan. An existing mortgage loan is not required to be current at the time the application is submitted, but cannot be more than 60 days delinquent at funding. Consumer credit derogatory items will be considered on a case-by-case basis. No bankruptcy, discharge or notice of default filings may have occurred during the preceding twelve months. The mortgaged property must be in at least average condition. A maximum loan-to-value ratio of 75% (80% with no cash out to the borrower) is permitted for owner occupied purchase money and/or refinance mortgage loans on single-family, two-unit and condominium properties, and a maximum loan-to-value ratio of 70% is permitted on an owner occupied mortgaged property consisting of three-to-four units or second homes. A maximum loan-to-value ratio of 70% is permitted for non-owner occupied purchase money and/or refinance mortgage loans on single-family, two-unit and condominium properties, and a maximum loan-to-value ratio of 65% is permitted on a non-owner occupied mortgaged property consisting of three-to-four units or second homes. Generally, the debt service-to-income ratio must not exceed 55%; however, a debt service-to-income ratio of 55% to 60% will be considered on a case-by-case basis.

*Credit Grade: "D".* Under the "D" risk category, the applicant may have experienced significant credit problems in the past. The applicant may be in bankruptcy or have a notice of default or foreclosure, and in any such case must provide a reasonable explanation including why the problem no longer exists. All debts in bankruptcy must be paid off or discharged or the proceeding dismissed prior to the funding of the mortgage loan. The mortgaged property must be in at least average condition. A maximum loan-to-value ratio of 65% is permitted for owner occupied purchase money and/or refinance mortgage loans on single-family, two-unit and condominium properties, and a maximum loan-to-value ratio of 60% is permitted on an owner occupied mortgaged property consisting of three-to-four units or second homes. A maximum loan-to-value ratio of 60% is permitted for non-owner occupied purchase money and/or refinance mortgage loans on single-family, two-unit and condominium properties, and a maximum loan-to-value ratio of 50% is permitted on a non-owner occupied mortgaged property consisting of three-to-four units or second homes. Generally, the debt service-to-income ratio must not exceed 55%; however, a debt service-to-income ratio of 55% to 60% will be considered on a case-by-case basis.

The table below identifies the Mortgage Loans which were originated pursuant to each of the foregoing credit risk categories.

<u>Credit Grade</u>	<u>Number of Mortgage Loans</u>	<u>Aggregate Principal Balance Outstanding</u>	<u>Percent of Mortgage Loans</u>
A1 .....	1,011	\$176,365,854.51	29.39%
A2 .....	773	130,404,682.79	21.73
A3 .....	365	60,544,646.11	10.09
AA .....	1,149	199,088,015.36	33.18
A-1 .....	15	1,962,466.65	0.33
A-2 .....	100	13,942,837.14	2.32
A-3 .....	2	261,534.79	0.04
A-4 .....	37	5,811,147.60	0.97
A-5 .....	27	4,355,221.57	0.73
B1 .....	13	1,180,415.72	0.20
B2 .....	1	69,852.31	0.01
B3 .....	1	104,889.56	0.02
B4 .....	6	862,552.21	0.14
B-1 .....	34	3,449,221.46	0.57
B-2 .....	7	613,602.31	0.10
B-3 .....	2	108,199.68	0.02
B-4 .....	1	55,732.18	0.01
C .....	4	260,461.95	0.04
D .....	3	558,677.61	0.09
Total.....	<u>3,551</u>	<u>\$600,000,011.51</u>	<u>100.00%</u>

## DESCRIPTION OF THE CERTIFICATES

### Book-Entry Procedures

*General.* The Fed Book-Entry Certificates will be issued and maintained only on the book-entry system of the Federal Reserve Banks. The Fed Book-Entry Certificates may be held of record only by entities eligible to maintain book-entry accounts with the Federal Reserve Banks. Beneficial owners ordinarily will hold Fed Book-Entry Certificates through one or more financial intermediaries, such as banks, brokerage firms and securities clearing organizations. A Holder that is not the beneficial owner of a Fed Book-Entry Certificate, and each other financial intermediary in the chain to the beneficial owner, will have to establish and maintain accounts for their respective customers. A beneficial owner's rights with respect to us and the Federal Reserve Banks may be exercised only through the Holder of the related Fed Book-Entry Certificate. Neither we nor the Federal Reserve Banks will have any direct obligation to a beneficial owner of a Fed Book-Entry Certificate that is not the Holder of that Certificate. The Federal Reserve Banks will act only upon the instructions of the Holder in recording transfers of a Fed Book-Entry Certificate.

We have a fiscal agency agreement in effect with the Federal Reserve Bank of New York. Under this agreement, the regulations (found at 24 C.F.R. Part 81, Subpart E) that govern our use of the book-entry system and the pledging and transfer of interests apply to the Fed Book-Entry Certificates. These regulations may be modified, amended, supplemented, superseded, eliminated or otherwise altered without the consent of any Certificateholder. The Federal Reserve Banks' operating circulars and letters also apply. The Fed Book-Entry Certificates are freely transferable on the records of any Federal Reserve Bank but are not convertible to physical certificates. Fed Book-Entry Certificates maintained on the book-entry system of a Federal Reserve Bank can be separately traded and owned.

*Method of Payment.* Our fiscal agent for the Fed Book-Entry Certificates is the Federal Reserve Bank of New York. On each Distribution Date, the Federal Reserve Banks, acting on our behalf, will

make payments on the Fed Book-Entry Certificates by crediting Holders' accounts at the Federal Reserve Banks.

## Interest Payments

### *Categories of Classes*

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

<u>Interest Type*</u>	<u>Classes</u>
Floating Rate	A
Available Funds	A
Weighted Average Coupon	AIO
Interest Only	AIO
No Payment Residual	R, RM and RL

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

*General.* We will pay interest on the Certificates at the applicable interest rates or in the applicable amounts described in this prospectus subject to the limitations specified below. We will calculate interest, in the case of the A Class, on the basis of an assumed 360-day year and the actual number of days elapsed in the applicable Interest Accrual Period and, in the case of the AIO Class, on the basis of an assumed 360-day year consisting of twelve 30-day months. We will pay interest monthly on each Distribution Date, beginning in July 2003.

Subject to the limitations specified below, interest to be paid on each Certificate on a Distribution Date will consist of the interest accrued during the related Interest Accrual Period on the related Certificate's outstanding principal balance (or notional principal balance) immediately prior to that Distribution Date; provided, however, that in the case of the first Interest Accrual Period, we will pay 50 days' interest on the A Class.

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

<u>Classes</u>	<u>Interest Accrual Period</u>
The AIO Class (the “Delay Class”)	Calendar month preceding the month in which the Distribution Date occurs
The A Class	Period beginning on the 25th day of the month preceding the month in which the Distribution Date occurs and ending on the 24th day of the month in which the Distribution Date occurs (other than the initial Interest Accrual Period, which is the period beginning on the Settlement Date and ending on the 24th day of July 2003)

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

*Notional Class.* The AIO Class is a Notional Class and, accordingly, will not have a principal balance. During each Interest Accrual Period, the Notional Class will be entitled to receive interest on its notional principal balance in the amounts described under “—*The AIO Class*” below.

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

*The A Class.* On each Distribution Date, we will pay interest on the A Class in an amount equal to interest accrued during the related Interest Accrual Period at the annual rate described below (the “A Class Current Interest Amount”).

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

- during each Interest Accrual Period on or prior to the Optional Termination Date, the *lesser* of (i) One-Month LIBOR (calculated as described below under “—Calculation of One-Month LIBOR”) plus 12 basis points and (ii) the Net WAC of the Mortgage Loans for the related Distribution Date

**and**

- during each Interest Accrual Period after the Optional Termination Date, the *lesser* of (i) One-Month LIBOR plus 24 basis points and (ii) the Net WAC of the Mortgage Loans for the related Distribution Date.

The “Net WAC” of the Mortgage Loans for any Distribution Date means the weighted average of the Net Mortgage Rates of the Mortgage Loans in effect on, and weighted on the basis of the principal balances of the Mortgage Loans as of the first day of the month immediately preceding the month in which that Distribution Date occurs (after giving effect to scheduled payments of principal due on or before that date). The “Net Mortgage Rate” of a Mortgage Loan for any date means the mortgage interest rate for that loan in effect on that date *reduced* by the applicable Trust Expense Rate (defined herein) and adjusted, in the case of the A Class, to reflect the accrual of interest on an actual/360 basis. The weighted average Trust Expense Rate with respect to the Mortgage Loans in the Mortgage Pool for the initial Distribution Date is expected to be approximately 2.343%.

In addition, on each Distribution Date, to the extent of any Cap Contract Payment Amount (defined below) for that Distribution Date and amounts on deposit in the Cap Contract Reserve Fund, we will pay to the A Class the A Class Interest Carryover Amount (defined below) for that Distribution Date. On each Distribution Date we will also pay to the A Class the A Class Interest Carryover Amount for that Distribution Date (after giving effect to any payments thereto under the Cap Contract and to amounts on deposit in the Cap Contract Reserve Fund) to the extent of amounts that would otherwise have been payable as interest on the AIO Class on that Distribution Date if there had been no A Class Interest Carryover Amount on that Distribution Date.

The “A Class Interest Carryover Amount” means, for any Distribution Date, the *sum* of

- the *excess*, if any, of the amount of interest that the A Class would have been entitled to receive had the interest rate for that Class not been calculated based on the Net WAC of the Mortgage Loans for that Distribution Date (but not in excess of the Net Maximum Rate of the Mortgage Loans for that Distribution Date) *over* the A Class Current Interest Amount for that Distribution Date

*plus*

- any A Class Interest Carryover Amount remaining unpaid from the prior Distribution Date (and interest thereon for the most recently ended Interest Accrual Period at the then current interest rate for the A Class, without giving effect to the Net WAC of the Mortgage Loans for that Distribution Date, but not in excess of the Net Maximum Rate of the Mortgage Loans for that Distribution Date).

The “Net Maximum Rate” of the Mortgage Loans for any Distribution Date means the weighted average of the maximum mortgage interest rates (or the mortgage interest rates, in the case of the Fixed Rate Loans) of the Mortgage Loans, weighted on the basis of the principal balances of the Mortgage Loans as of the first day of the month immediately preceding the month in which that Distribution Date occurs (after giving effect to scheduled payments of principal due on that date),



reduced by the weighted average Trust Expense Rate for the Mortgage Loans and adjusted, in the case of the A Class, to reflect the accrual of interest on an actual/360 basis.

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

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

over

- the interest actually paid on the A Class on that Distribution Date (including for this purpose any A Class Interest Carryover Amount to the extent not covered by the Cap Contract).

*The Cap Contract*

The Seller has entered into an interest rate cap contract with WestLB AG, New York Branch (the “Cap Contract Counterparty”). On the Settlement Date, the Seller will assign its rights under the cap contract to the Trust, and the Trustee, on behalf of the Trust, will enter into an assignment agreement with the Cap Contract Counterparty and the Seller (the assignment agreement, taken together with the cap contract, the “Cap Contract”) for the benefit of the A Class. On or prior to the Cap Contract Termination Date (defined below), amounts received by the Trust under the Cap Contract will be paid as described below.

For any Distribution Date on or prior to the Cap Contract Termination Date (other than with respect to the Distribution Date in July 2003) the amount payable by the Cap Contract Counterparty under the Cap Contract (the “Cap Contract Payment Amount”) will equal the product of (i) the excess, if any, of (x) One-Month LIBOR (as determined by the Cap Contract Counterparty), subject to a maximum of 9.50% over (y) the strike price for such Distribution Date (as shown in the table below), and (ii) an amount equal to the Projected Principal Balance for such Distribution Date (as shown in the table below) and (iii) a fraction, the numerator of which is the number of days in the period beginning on the previous Distribution Date and ending on the day prior to the current Distribution Date and the denominator of which is 360.

The strike price and the “Projected Principal Balance” for the Class A Certificates under the Cap Contract on any Distribution Date is as described in the following table:

<u>Distribution Date</u>	<u>Projected Principal Balance</u>	<u>Strike Price</u>
August 25, 2003	\$587,864,165	4.90%
September 25, 2003	575,705,757	4.90
October 25, 2003	563,520,520	5.04
November 25, 2003	551,305,786	4.90
December 25, 2003	539,060,298	5.04
January 25, 2004	526,784,263	4.90
February 25, 2004	514,479,445	4.90
March 25, 2004	502,149,071	5.20
April 25, 2004	489,797,799	4.90
May 25, 2004	477,432,887	5.04
June 25, 2004	465,377,937	4.90
July 25, 2004	453,626,112	5.05
August 25, 2004	442,169,799	4.90
September 25, 2004	431,001,575	4.90
October 25, 2004	420,114,202	5.05
November 25, 2004	409,500,669	4.90
December 25, 2004	399,154,086	5.05
January 25, 2005	389,067,714	4.90

<u>Distribution Date</u>	<u>Projected Principal Balance</u>	<u>Strike Price</u>
February 25, 2005	\$379,235,019	4.90%
March 25, 2005	369,649,627	5.37
April 25, 2005	360,305,365	4.90
May 25, 2005	351,196,178	5.65
June 25, 2005	342,349,896	5.49
July 25, 2005	333,725,396	5.65
August 25, 2005	325,317,025	5.49
September 25, 2005	317,119,377	5.49
October 25, 2005	309,127,205	5.65
November 25, 2005	301,335,366	6.06
December 25, 2005	293,763,553	6.24
January 25, 2006	286,381,003	6.06
February 25, 2006	279,182,919	6.05
March 25, 2006	272,164,700	6.65
April 25, 2006	265,321,879	6.05
May 25, 2006	258,650,079	6.86
June 25, 2006	252,164,977	6.66
July 25, 2006	245,841,538	6.86
August 25, 2006	239,675,685	6.65
September 25, 2006	233,663,498	6.65
October 25, 2006	227,801,170	6.85
November 25, 2006	222,084,959	7.22
December 25, 2006	216,525,268	7.44
January 25, 2007	211,103,886	7.22
February 25, 2007	205,817,339	7.21
March 25, 2007	200,662,279	7.93
April 25, 2007	195,635,455	7.21
May 25, 2007	190,733,672	8.02
June 25, 2007	185,964,326	7.77

On or prior to the Cap Contract Termination Date, amounts received by the Trustee under the Cap Contract on any Distribution Date will be paid in the following priority:

*first*, to the Holders of the A Class, in an amount up to the A Class Interest Carryover Amount for the A Class for that Distribution Date; and

*second*, any remaining amounts, to the Cap Contract Reserve Fund.

Any *excess* of the A Class Interest Carryover Amount for the A Class for that Distribution Date over the Cap Contract Payment Amount for that date and amounts on deposit in the Cap Contract Reserve Fund will be paid on that date only from amounts otherwise distributable to the AIO Class and therefore amounts distributable to the AIO Class could be subject to reduction.

The Cap Contract is scheduled to remain in effect until the Distribution Date in June 2007 (the “Cap Contract Termination Date”) and will only be subject to early termination in limited circumstances. These circumstances include certain insolvency or bankruptcy events in relation to the Cap Contract Counterparty or the Trust, the failure by the Cap Contract Counterparty (after a grace period of three Local Business Days (as defined in the Cap Contract) after notice of such failure is received by the Cap Contract Counterparty) to make a payment due under the Cap Contract, the failure by the Cap Contract Counterparty or the Trustee (after a cure period of 20 days after notice of such failure is received) to perform any other agreement made by it under the Cap Contract and the Cap Contract becoming illegal.



If the Cap Contract is terminated, future payments on the A Class could be subject to reductions in interest payments. However, if an early termination occurs, the Cap Contract Counterparty will owe a termination payment to the Trustee, payable in a lump sum, which sum will be applied to the extent available to pay to Holders of the A Class amounts that would have been payable to them under the Cap Contract had it not been terminated.

After the date on which the principal balance of the A Class Certificates is reduced to zero, any amounts remaining in the Cap Contract Reserve Fund will be paid to the Trustee.

As noted under “General—*Fannie Mae Guaranty*” in this prospectus, our guaranty will *not* cover any amounts due under the Cap Contract.

The A Class does not represent an obligation of the Cap Contract Counterparty. Holders of the A Class will not have any right to proceed directly against the Cap Contract Counterparty in respect of its obligations under the Cap Contract.

### Calculation of One-Month LIBOR

*General.* The “Index Determination Date” for the A Class means the second business day before the first day of each Interest Accrual Period (or, in the case of the initial Interest Accrual Period, June 3, 2003). For purposes of calculating One-Month LIBOR, the term “business day” means a day on which banks are open for dealing in foreign currency and exchange in London and New York City.

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

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

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

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

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

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

## Principal Payments

### *Categories of Classes*

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

<u>Principal Type*</u>	<u>Classes</u>
Pass-Through	A
Notional	AIO
No Payment Residual	R, RM and RL

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

### *Principal Distribution Amount*

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

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

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

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

On each Distribution Date, we will pay the Principal Distribution Amount as principal of the A Class, until its principal balance is reduced to zero.

## Class Definitions and Abbreviations

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

<u>Abbreviation</u>	<u>Category of Class</u>	<u>Definition</u>
<b>PRINCIPAL TYPES</b>		
NTL	Notional	Has no principal balance and bears interest on its notional principal balance. The notional principal balance is used to determine interest payments on an Interest Only Class that is not entitled to principal.
NPR	No Payment Residual	Receives no payments of principal.
PT	Pass-Through	Receives principal payments in direct relation to scheduled payments on the underlying Mortgage Loans.
<b>INTEREST TYPES</b>		
AFC	Available Funds	Receives as interest all or a portion of the scheduled interest payments made on the Mortgage Loans. However, this amount may be insufficient on any Distribution Date to cover fully the accrued and unpaid interest on the Certificates of this Class at its specified interest rate for the related Interest Accrual Period.
FLT	Floating Rate	Has an interest rate that resets periodically based upon a designated index and that varies directly with changes in the index.
IO	Interest Only	Receives some of the scheduled interest payments made on the Mortgage Loans but no principal. Interest Only Classes have a notional principal balance. A notional principal balance is the amount used as a reference to calculate the amount of interest due on an Interest Only Class.
NPR	No Payment Residual	Receives no payments of interest.
WAC	Weighted Average Coupon	Has an interest rate that represents an effective weighted average interest rate that may change from period to period.

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

The R, RM and RL Classes will not have a principal balance and will not bear interest. If any assets of Upper Tier REMIC 1, REMIC 2 or the Lower Tier REMIC remain after the principal balance of the A Class is reduced to zero, we will pay the Holder of the R Class Certificate the proceeds from Upper Tier REMIC 1, we will pay the Holder of the RM Class Certificate the proceeds from REMIC 2, and we will pay the Holder of the RL Class Certificate the proceeds from the Lower Tier REMIC. We do not expect that any material assets will remain in Upper Tier REMIC 1, REMIC 2 or the Lower Tier REMIC.

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

- the transferee is a “U.S. Person” (as defined below) or a foreign person subject to United States income taxation on a net basis on income derived from that Certificate;
- if the transferee is a partnership for U.S. federal income tax purposes, each person or entity that holds an interest (directly, or indirectly through a pass-through entity) in the partnership

is a U.S. Person or a foreign person subject to United States income taxation on a net basis on income derived from that Certificate;

- the transferee is not a disqualified organization,
- it is not acquiring the R, RM or RL Class Certificate for the account of a disqualified organization,
- it consents to any amendment of the Trust Agreement that we deem necessary (upon the advice of our counsel) to ensure that the R, RM or RL Class Certificate will not be owned directly or indirectly by a disqualified organization,
- it is not acquiring the R, RM or RL Class Certificate to avoid or impede the assessment or collection of tax,
- it understands that it may incur tax liabilities in excess of any cash that it will receive on the R Class Certificate,
- it intends to pay taxes on the R, RM or RL Class Certificate as they become due,
- it will not cause income from the R, RM or RL Class Certificate to be attributed to a foreign permanent establishment or fixed base of the transferee or another taxpayer, and
- it will not transfer the R, RM or RL Class Certificate unless it has received from the new transferee an affidavit containing these same representations and it does not have actual knowledge that this other affidavit is false.

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

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

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

Under regulations issued by the Treasury Department (the “Regulations”), if a “noneconomic residual interest” is transferred, the transfer will be disregarded for all federal tax purposes unless no significant purpose of the transfer is to impede the assessment or collection of tax. The R, RM and RL Classes will constitute noneconomic residual interests under the Regulations.

Under the Regulations, the phrase “a significant purpose of the transfer to impede the assessment or collection of tax” means that the transferor of the R, RM or RL Class Certificate had “improper knowledge” at the time of the transfer. In other words, the transferor knew, or should have known, that the transferee would be unwilling or unable to pay taxes due on its share of the taxable income of the related REMIC. A transferor is presumed not to have improper knowledge if three conditions are

met. First, the transferor conducts, at the time of the transfer, a reasonable investigation of the financial condition of the transferee and, based on the results, finds that the transferee has historically paid its debts as they come due and finds no significant evidence to indicate that the transferee will not continue to pay its debts as they come due in the future. Second, the transferee makes certain representations to the transferor in the affidavit relating to disqualified organizations discussed above. Third, the transfer satisfies either the “asset test” or the “formula test.”

A transfer satisfies the asset test if (i) the transferee’s gross assets exceed \$100 million and its net assets exceed \$10 million (in each case, at the time of the transfer and at the close of each of the transferee’s two fiscal years preceding the year of transfer), (ii) the transferee is an “eligible corporation” and it 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 satisfy the asset test, and (iii) the facts and circumstances known to the transferor do not reasonably indicate that the taxes associated with the residual interest will not be paid. A transfer satisfies the formula test if the present value of the anticipated tax liabilities associated with holding the R, RM or RL Class Certificate is less than or equal to the present value of the sum of (i) any consideration given to the transferee to acquire that Certificate, (ii) expected future distributions on that Certificate, and (iii) anticipated tax savings associated with holding that Certificate as the related REMIC trust generates losses. The Regulations contain additional details regarding their application and you should consult your own tax advisor regarding the application of the Regulations to an actual transfer of the R, RM or RL Class Certificate.

The Holder of the R Class Certificate will be considered to be the holder of the “residual interest” in the REMIC constituted by Upper Tier REMIC 1, the holder of the RM Class Certificate will be considered to be the holder of the “residual interest” in the REMIC constituted by REMIC 2 and the Holder of the RL Class Certificate will be considered to be the holder of the “residual interest” in the REMIC constituted by the Lower Tier REMIC. See “Certain Federal Income Tax Consequences—*REMIC Elections and Special Tax Attributes*” below. Pursuant to the Trust Agreement we will be obligated to provide to the Holders of the R, RM and RL Class Certificates (i) information needed to prepare federal income tax returns and (ii) any reports regarding the R, RM or RL Class Certificate that may be required under the Code.

## **Structuring Assumptions**

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

- the Mortgage Loans prepay at the percentages of the related prepayment vector specified in the related tables;
- the scheduled amortization for all Mortgage Loans is based upon their gross interest rates;
- none of the Mortgage Loans ever becomes a delinquent Mortgage Loan;
- the settlement date for the sale of the Certificates occurs on June 5, 2003;
- each Distribution Date for the Certificates occurs on the 25th day of the related month, commencing in July 2003;
- the Servicer does not exercise its optional clean-up call unless specified in the related table;
- the Trust Expense Rate for each Mortgage Loan is 2.343%;
- the assumed value for Six-Month LIBOR is 1.25%;



- the assumed value for One-Month LIBOR is 1.31813%;
- the assumed initial interest rate for the A Class is 1.43813%; and
- the Original Class Balance of each of the A and AIO Classes is \$600,000,011.

*Prepayment Assumptions.* Prepayments of mortgage loans commonly are measured relative to a prepayment standard or model. The model used in this prospectus (“PPC”) assumes a prepayment rate for the fixed-rate Mortgage Loans of 115% of the Fixed-Rate Prepayment Vector. A “Fixed Rate Prepayment Vector” (“FRPV”) assumes a constant prepayment rate of 4% per annum of the then unpaid principal balance of such mortgage loans in the first month of the life of such mortgage loans and an additional approximately 1.4545% (precisely  $\frac{16}{11}\%$ ) per annum in each month thereafter until the twelfth month. Beginning in the twelfth month and in each month thereafter during the life of such mortgage loans, FRPV assumes a constant prepayment rate of 20%. The PPC assumes a prepayment rate for the adjustable rate Mortgage Loans of 27% CPR.

“CPR” is a prepayment assumption which represents a constant assumed rate of prepayment each month relative of the then outstanding principal balance of a pool of mortgage loans for the life of such loans. For example, 30% CPR assumes a constant prepayment rate of 30% per annum.

*This model does not purport to be a historical description of the prepayment experience of any pool of mortgage loans or a prediction of the anticipated rate of prepayment of any pool of mortgage loans, including the Mortgage Loans. It is highly unlikely that the Mortgage Loans will prepay at a rate consistent with the assumptions made in this prospectus until maturity or that all of the Mortgage Loans will prepay at the same rate.*

## **Yield Table**

*General.* The table below illustrates the sensitivity of the pre-tax corporate bond equivalent yield to maturity of the AIO Class to various prepayment scenarios and to various assumed purchase prices. We calculated the yields set forth in the table by

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

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

We cannot assure you that

- the pre-tax yields will correspond to any of the pre-tax yields shown here or
- the aggregate purchase price of the AIO Class will be as assumed.

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

- the Mortgage Loans will prepay at the indicated percentages of the related prepayment vector, until maturity,
- all of the Mortgage Loans will prepay at the same rate, or
- the level of One-Month LIBOR will remain constant.



*The AIO Class.* The yield on the AIO Class will be very sensitive to the rate of principal payments (including liquidations and prepayments) of the Mortgage Loans. The Mortgage Loans generally require the payment of a prepayment premium as described in this prospectus. On the basis of the assumptions described above and an assumed purchase price of 7.5%, the yield to maturity on the AIO Class would be 0% if prepayments of the Mortgage Loans were to occur at a constant level of 33% CPR, assuming no optional clean-up call is exercised. If the actual prepayment rate of the Mortgage Loans were to exceed the level specified for as little as one month while equaling that level for the remaining months, the investors in the AIO Class would lose money on their initial investments.

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

### Sensitivity of the AIO Class to Prepayments

Price <sup>†</sup>	Yield to Call* Prepayment Assumption				
	FRPV: 0% CPR: 0%	FRPV: 50% CPR: 15%	FRPV: 115% CPR: 27%	FRPV: 175% CPR: 40%	FRPV: 200% CPR: 45%
7.0% .....	45.5%	30.0%	13.0%	(8.5)%	(18.2)%
7.5% .....	42.2%	26.8%	9.7%	(12.1)%	(21.8)%
8.0% .....	39.3%	24.0%	6.8%	(15.2)%	(25.0)%

  

Price <sup>†</sup>	Yield to Maturity** Prepayment Assumption				
	FRPV: 0% CPR: 0%	FRPV: 50% CPR: 15%	FRPV: 115% CPR: 27%	FRPV: 175% CPR: 40%	FRPV: 200% CPR: 45%
7.0% .....	45.5%	30.1%	14.7%	(2.5)%	(9.7)%
7.5% .....	42.2%	26.9%	11.6%	(5.4)%	(12.6)%
8.0% .....	39.3%	24.2%	9.0%	(7.9)%	(15.0)%

\* Assumes that the optional clean-up call is exercised at the earliest possible date.

\*\* Assumes that the optional clean-up call is not exercised.

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

### Weighted Average Lives of the Certificates

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

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

The weighted average lives of the Certificates will be influenced by, among other factors, the rate at which principal payments are made on the Mortgage Loans. For the purpose of the preceding sentence, principal payments include scheduled payments, principal prepayments, liquidations due to default, casualty and condemnation, payments made pursuant to optional repurchases of delinquent Mortgage Loans or pursuant to the optional clean-up call and payments made pursuant to our guaranty of payment. It is currently our intention to exercise our option to repurchase Mortgage Loans that are delinquent, in whole or in part, with respect to three consecutive installments of

principal and interest as described below. We cannot give any assurance that we will not change this policy. The interaction of the above factors may result in differing principal prepayment speeds and the effects on any Class may vary at different times during the life of that Class. Accordingly, we cannot give any assurance as to the weighted average life of any Class.

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

We expect the original maturities of substantially all of the Mortgage Loans to be between 10 and 30 years. 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 “Final Distribution Date” for the A Class Certificates (*i.e.*, the date by which the principal balance is required to be fully paid) is the Distribution Date in June 2033. The Final Distribution Date of the A Class Certificates will be determined so that distributions on the Mortgage Loans will be sufficient to retire the A Class Certificates on or before their Final Distribution Date without the necessity of any call on our guaranty.

### **Decrement Tables**

The following tables indicate the percentages of the original principal balances or notional amounts of the specified Classes that would be outstanding after each of the dates shown at the indicated percentages of the related prepayment vector (FRPV for the Fixed Rate loans and CPR for the ARMs loans), and the corresponding weighted average lives of the specified 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
- will prepay at any *constant* prepayment level.

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

## Percent of Original Principal Balances Outstanding

A and AIO† Classes***							
Prepayment Assumption							
Date	FRPV: 0%	FRPV: 50%	FRPV: 85%	FRPV: 115%	FRPV: 150%	FRPV: 175%	FRPV: 200%
	CPR: 0%	CPR: 15%	CPR: 22%	CPR: 27%	CPR: 35%	CPR: 40%	CPR: 45%
Initial Percent .....	100	100	100	100	100	100	100
June 2004 .....	99	87	80	76	69	64	60
June 2005 .....	98	74	63	56	45	39	34
June 2006 .....	96	64	50	41	30	24	19
June 2007 .....	95	54	39	30	20	15	11
June 2008 .....	93	47	31	22	13	9	6
June 2009 .....	92	40	24	16	9	5	3
June 2010 .....	90	34	19	12	6	3	2
June 2011 .....	88	29	15	9	4	2	1
June 2012 .....	86	25	12	6	2	1	1
June 2013 .....	84	21	9	5	2	1	*
June 2014 .....	82	18	7	3	1	*	*
June 2015 .....	79	15	6	2	1	*	*
June 2016 .....	76	13	4	2	*	*	*
June 2017 .....	74	11	3	1	*	*	*
June 2018 .....	71	9	3	1	*	*	*
June 2019 .....	68	8	2	1	*	*	*
June 2020 .....	65	6	2	*	*	*	*
June 2021 .....	62	5	1	*	*	*	*
June 2022 .....	58	4	1	*	*	*	*
June 2023 .....	54	4	1	*	*	*	*
June 2024 .....	50	3	1	*	*	*	*
June 2025 .....	46	2	*	*	*	*	*
June 2026 .....	42	2	*	*	*	*	*
June 2027 .....	37	1	*	*	*	*	*
June 2028 .....	31	1	*	*	*	*	*
June 2029 .....	26	1	*	*	*	*	*
June 2030 .....	20	1	*	*	*	*	*
June 2031 .....	13	*	*	*	*	*	*
June 2032 .....	6	*	*	*	*	*	0
June 2033 .....	0	0	0	0	0	0	0
Weighted Average							
Life (years)** .....	19.4	6.4	4.3	3.4	2.6	2.2	1.9

A and AIO† Classes****							
Prepayment Assumption							
Date	FRPV: 0%	FRPV: 50%	FRPV: 85%	FRPV: 115%	FRPV: 150%	FRPV: 175%	FRPV: 200%
	CPR: 0%	CPR: 15%	CPR: 22%	CPR: 27%	CPR: 35%	CPR: 40%	CPR: 45%
Initial Percent .....	100	100	100	100	100	100	100
June 2004 .....	99	87	80	76	69	64	60
June 2005 .....	98	74	63	56	45	39	34
June 2006 .....	96	64	50	41	30	24	19
June 2007 .....	95	54	39	30	20	15	11
June 2008 .....	93	47	31	22	13	0	0
June 2009 .....	92	40	24	16	0	0	0
June 2010 .....	90	34	19	12	0	0	0
June 2011 .....	88	29	15	0	0	0	0
June 2012 .....	86	25	12	0	0	0	0
June 2013 .....	84	21	0	0	0	0	0
June 2014 .....	82	18	0	0	0	0	0
June 2015 .....	79	15	0	0	0	0	0
June 2016 .....	76	13	0	0	0	0	0
June 2017 .....	74	11	0	0	0	0	0
June 2018 .....	71	0	0	0	0	0	0
June 2019 .....	68	0	0	0	0	0	0
June 2020 .....	65	0	0	0	0	0	0
June 2021 .....	62	0	0	0	0	0	0
June 2022 .....	58	0	0	0	0	0	0
June 2023 .....	54	0	0	0	0	0	0
June 2024 .....	50	0	0	0	0	0	0
June 2025 .....	46	0	0	0	0	0	0
June 2026 .....	42	0	0	0	0	0	0
June 2027 .....	37	0	0	0	0	0	0
June 2028 .....	31	0	0	0	0	0	0
June 2029 .....	26	0	0	0	0	0	0
June 2030 .....	20	0	0	0	0	0	0
June 2031 .....	13	0	0	0	0	0	0
June 2032 .....	0	0	0	0	0	0	0
June 2033 .....	0	0	0	0	0	0	0
Weighted Average							
Life (years)** .....	19.3	5.9	3.9	3.1	2.4	2.0	1.8

\* Indicates an outstanding balance greater than 0% and less than 0.5% of the original principal balance.  
 \*\* Determined as specified under “—Weighted Average Lives of the Certificates” above.  
 \*\*\* Assumes that the optional clean-up call is not exercised.  
 \*\*\*\* Assumes that the optional clean-up call is exercised at the earliest possible date.  
 † 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 Trust Agreement and the Sale and Servicing Agreement not discussed elsewhere in this prospectus. Certain capitalized terms that we use in these summaries are defined in the Trust Agreement or the Sale and Servicing Agreement. These summaries are, by definition, not complete. If there is ever a conflict between the information in this prospectus and the actual terms of the Trust Agreement or the Sale and Servicing Agreement, the terms of the Trust Agreement or the Sale and Servicing Agreement, as applicable, will prevail.

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

The Trust Agreement will contain a mortgage loan schedule that will identify the Mortgage Loans that are being transferred to the Lower Tier REMIC. As Trustee, we, or our document custodian, will hold, on behalf of the Certificateholders, the original Mortgage Notes, endorsed in blank, and assignments of the mortgage instruments in recordable form. Usually assignments are in a form suitable for recording but they are not recorded. We may change these document custody requirements at any time, as long as we determine that any such change will not have a materially adverse effect on the interests of Certificateholders.

### **Servicing Through Long Beach Mortgage Company**

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

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

Each month, an amount calculated based on the principal balance of each related Mortgage Loan will be retained to pay various Trust expenses, including servicing fees payable to the Servicer, mortgage insurance fees and amounts to compensate us for providing our guaranty (together, for any Mortgage Loan, the "Trust Expense Rate"). Late charges, assumption fees and similar charges, to the extent they are collected from borrowers, will be retained by the Servicer as additional servicing compensation.

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

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

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

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

- as a trust account with an eligible depository institution (which account may contain other funds that we hold in a trust capacity), or

- as part of our general assets (with appropriate credit entries to the applicable REMIC trust).

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

### **Reports to Certificateholders**

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

After the end of each calendar year, we will furnish to each person who was a Certificateholder at any time during that year any information required by the Internal Revenue Service.

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

### **Collection and Other Servicing Procedures**

In connection with its servicing activities, the Servicer has full power and authority to do or cause to be done any and all things it may deem necessary or appropriate, including the foreclosure or comparable conversion of a defaulted Mortgage Loan. Subject to certain conditions and limitations described in the Sale and Servicing Agreement, the Servicer will, at Fannie Mae's direction and on Fannie Mae's behalf, purchase from the Lower Tier REMIC any Mortgage Loan that has become delinquent by four or more monthly payments. The purchase price will be equal to the principal balance of the delinquent Mortgage Loan together with accrued interest. We will pay the purchase price to Certificateholders in the same manner as full prepayments of Mortgage Loans. See "Description of the Certificates—Principal Payments" in this prospectus.

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

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

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

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

In connection with the transfer or prospective transfer of title to a Mortgaged Property securing any Mortgage Loan, the Servicer has undertaken to accelerate the maturity of the related Mortgage

Loan if it contains a “due-on-sale” clause that permits acceleration under those conditions (unless applicable law prohibits enforcing the “due-on-sale” clause).

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

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

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

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

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

If we merge or consolidate with another corporation, the successor corporation will be our successor under the Trust Agreement and will assume all of our obligations under the Trust Agreement, including our guaranty obligations.

### **Events of Default**

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

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

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

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



our terminated obligations. This successor will take legal title to the Mortgage Loans and other assets of Lower Tier Trust and the Trust.

### **Amendment**

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

- to add to our duties;
- to evidence that another party has become our successor and has assumed our duties under the Trust Agreement as Trustee or in our corporate capacity or both;
- to eliminate any of our rights in our corporate capacity under the Trust Agreement;
- to cure any ambiguity or correct or add to any provision in the Trust Agreement, so long as no Certificateholder is adversely affected; or
- to modify the Trust Agreement to maintain the legal status of Upper Tier REMIC 1, REMIC 2 and the Lower Tier REMIC as REMICs.

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

### **Termination**

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

Subject to certain conditions and limitations described in the Sale and Servicing Agreement, the Servicer may exercise the optional clean-up call if the aggregate remaining principal balance of the Mortgage Loans is 10% or less of the aggregate initial principal balance of the A Class Certificates.

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

## **CERTAIN FEDERAL INCOME TAX CONSEQUENCES**

The Certificates and payments on the Certificates are not generally exempt from taxation. Therefore, you should consider the tax consequences of holding a Certificate before you acquire one. The following discussion describes certain U.S. federal income tax consequences to beneficial owners of Certificates. The discussion is general and does not purport to deal with all aspects of federal

taxation that may be relevant to particular investors. This discussion may not apply to your particular circumstances for one of the following, or other, reasons:

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

Further, although the A Class Certificates resemble variable rate debt instruments, the tax treatment of these Certificates can differ from the tax treatment of such an investment. For these reasons, you should consult your own tax advisors regarding the federal income tax consequences of holding and disposing of Certificates as well as any tax consequences arising under the laws of any state, local or foreign taxing jurisdiction.

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

- REMIC Election and Special Tax Attributes
- Taxation of Certificates of the A and AIO Classes
- Taxation of Beneficial Owners of Regular Certificates
- Taxation of the Interest Carryover Amounts
- Taxation of the Cap Contract
- Taxation of Beneficial Owners of the Residual Certificates
- Taxes on the REMICs
- Reporting and Other Administrative Matters
- Backup Withholding
- Foreign Investors
- Tax Return Disclosure Requirements

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

We will elect to treat Upper Tier REMIC 1, REMIC 2 and the Lower Tier REMIC as REMICs under the Code. Qualification as a REMIC requires ongoing compliance with certain conditions. Arnold & Porter, special tax counsel to Fannie Mae, will deliver its opinion to Fannie Mae that, assuming compliance with the Trust Agreement, Upper Tier REMIC 1, REMIC 2 and the Lower Tier REMIC will be treated as REMICs for federal income tax purposes. The Lower Tier Regular Interests will be designated as the “regular interests” and the RL Class Certificate will be designated as the “residual interest” in the Lower Tier REMIC. The R and RM Class Certificates will be designated as the “residual interest” in Upper Tier REMIC 1 and REMIC 2, respectively. (The R, RM and RL Class Certificates are each referred to herein as the “Residual Certificates.”)

Upper Tier REMIC 1 will be taxed as if it had issued two regular interests, one corresponding to each of the A and AIO Classes. REMIC 2 will be taxed as if it had issued a regular interest

corresponding to the AIO Class. Each of these regular interests will be entitled to receive interest and principal payments at the times and in the amounts equal to those made to the Class to which it corresponds, except that the interest rate on these regular interests will be determined without regard to the A Class Interest Carryover Amount. A beneficial owner of an A Class Certificate will be treated for federal income tax purposes as the beneficial owner of a pro rata interest in the corresponding regular interest. Any excess of the amount of interest actually payable to an A Class Certificate over the amount of interest payable on the corresponding regular interest will be deemed to have been received pursuant to a notional principal contract as discussed below. See “—*Taxation of the Interest Carryover Amounts*” and “*Taxation of the Cap Contract*” below. The remaining regular interests, corresponding to the AIO Class, will be taxed as if they were entitled to receive interest payments at the times and in the amounts equal to those made to the Class to which they correspond, except that the interest rate on such regular interests will be determined without regard to the A Class Interest Carryover Amount. Any excess of the amount of interest payable on the REMIC 2 regular interest over the amount of interest payable to the AIO Class will be deemed to have been paid by such Class pursuant to a notional principal contract as discussed below. See “—*Taxation of the Interest Carryover Amounts*” below. For purposes of this discussion, each of the regular interests offered hereby and issued by Upper Tier REMIC 1 and REMIC 2 is referred to as a “Regular Certificate” and, together, as “Regular Certificates.”

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

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

### **Taxation of Certificates of the A and AIO Classes**

Except as provided below, a beneficial owner of an A or AIO Class Certificate will be treated

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

Consequently, each beneficial owner of an A or AIO Class Certificate will be required to report its pro rata share of income accruing with respect to the corresponding REMIC regular interest, as discussed under “—*Taxation of Beneficial Owners of Regular Certificates*” below. In addition, each beneficial owner of an A or AIO Class Certificate will be required to report its pro rata share of net income with respect to the notional principal contract and will be permitted to recognize its share of a net deduction with respect to the notional principal contract, subject to the discussions under

“—*Taxation of the Interest Carryover Amounts*” below. You should consult your own tax advisor regarding the consequences to you in light of your particular circumstances of taxing separately the two components comprising each A and AIO Class Certificate (that is, the corresponding REMIC regular interest and the notional principal contract).

#### *Allocations*

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

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

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

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

#### *Tax Attributes*

Although the A and AIO Class Certificates will represent beneficial ownership in REMIC regular interests, which are afforded certain tax attributes under the Code (see “—*REMIC Elections and*

*Special Tax Attributes*” above), the interest in the corresponding notional principal contract represented by an A or AIO Class Certificate will not constitute:

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

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

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

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

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

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

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

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

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



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

<u>Mortgage Loans</u>	<u>Prepayment Assumption</u>
Fixed	115% Fixed Rate Prepayment Vector
Adjustable Rate	27% CPR

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

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

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

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

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

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

(ii) the adjusted issue price of the Regular Certificate at the beginning of the accrual period.

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

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

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

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



prepayment assumption described above is consistent with this standard. Fannie Mae makes no representation, however, that the Mortgage Loans will prepay at either of the rates 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 Certificates—Maturity Considerations and Final Distribution Dates” and “—Decrement Tables” in this prospectus.

#### *Weighted Average Coupon Classes*

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

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

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

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

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

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

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

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

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

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

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

## **Special Election**

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

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

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

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

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

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

## **Termination**

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

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

The beneficial owners of an A or AIO Class Certificate will be treated as having entered into a "notional principal contract" within the meaning of Treasury Department Regulations promulgated under section 446 of the Code (the "NPC Regulations"). Pursuant to this notional principal contract, a beneficial owner of an A Class Certificate will be treated as agreeing to pay a premium to the beneficial owners of the AIO Certificates for the right to receive the A Class Interest Carryover Amount with respect to the A Class Certificate. A beneficial owner of an A or AIO Class Certificate will be treated as having entered into the notional principal contract on the date the beneficial owner acquires the Certificate.

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

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

Any payment made to the A Class will be treated as a periodic payment under the NPC Regulations. To the extent that the periodic payments for any year exceeds the amount of the premium amortized in that year, such excess shall represent net income for that year in the case of a beneficial owner of an A Class Certificate (and a net deduction for that year in the case of a beneficial owner of an AIO Class Certificate). Conversely, to the extent that the amount of the premium

amortized in any year exceeds the periodic payments for that year, such excess shall represent a net deduction for that year in the case of a beneficial owner of an A Class Certificate (and net income for that year in the case of a beneficial owner of an AIO Class Certificate). Although not clear, net income or a net deduction should be treated as ordinary income or as an ordinary deduction.

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

### **Special Consequences for Beneficial Owners of AIO Class Certificates**

Payments that are deemed to have been made by the AIO Class to the A Class pursuant to the notional principal contract will be made through an "outside reserve fund" described in the Regulations, which will not be an asset of the Lower Tier REMIC, Upper Tier REMIC 1 or REMIC 2 for tax purposes. This outside reserve fund will be funded with interest payments on the REMIC regular interest corresponding to the AIO Class, and the beneficial owners of the AIO Class Certificates will be treated for federal income tax purposes as the beneficial owners of their allocable share of this outside reserve fund. As a result, a beneficial owner of an AIO Class Certificate will be required to accrue income with respect to interest payments on the corresponding REMIC regular interest and will be entitled to a net deduction with respect to payments made from the outside reserve fund as follows: a beneficial owner of an AIO Class will be entitled to a net deduction with respect to payments made from the outside reserve fund to fund the A Class Interest Carryover Amount. Therefore, if your ability to recognize a net deduction with respect to the notional principal contract were limited, you could be required to accrue more interest income than the amount of interest actually distributed on your AIO Class Certificate. You should consult your own tax advisor regarding your ability to recognize a net deduction with respect to a notional principal contract, regardless of whether you hold an A or AIO Class Certificate.

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

Any amount that is considered to be allocated to the notional principal contract in connection with the sale or other disposition of an A or AIO Class Certificate as described above under "*REMIC Election and Special Tax Attributes—Taxation of Certificates of the A and AIO Classes—Allocations*" will be considered a "termination payment" under the NPC Regulations. Under the NPC Regulations, a beneficial owner of an A or AIO Class Certificate will have gain or loss from the disposition of the notional principal contract equal to (i) the sum of the unamortized portion of any premium received or deemed to have been received by the beneficial owner upon entering into the notional principal contract and any termination payment it receives or is deemed to have received, less (ii) the sum of the unamortized portion of any premium paid or deemed to have been paid by the beneficial owner upon entering into the notional principal contract and any termination payment it

makes or is deemed to have made. The gain or loss should be capital gain or loss, provided the notional principal contract is a capital asset to the beneficial owner. The ability to deduct capital losses is subject to limitations.

### *Taxation of the Cap Contract*

The Cap Contract will constitute a notional principal contract under the NPC Regulations. Pursuant to this notional principal contract, a beneficial owner of an A Class Certificate will be treated as agreeing to pay a premium for the right to receive the payments on the Cap Contract. A beneficial owner of an A Class Certificate will be treated as having entered into the notional principal contract on the date the beneficial owner acquires the Certificate. A beneficial owner of an A Class Certificate also will be treated as having entered into a notional principal contract represented by the right to receive the A Class Interest Carryover Amount with respect to such Class from amounts otherwise payable on the AIO Class. See “—*Taxation of the Interest Carryover Amounts*” above.

#### *Treatment of Payments under the Cap Contract*

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

Any payment received by the A Class pursuant to the Cap Contract will be treated as a periodic payment under the NPC Regulations. To the extent that the periodic payments for any year exceed the amount of the premium amortized in that year, such excess shall represent net income for that year. Conversely, to the extent that the amount of the premium amortized in any year exceeds the periodic payments for that year, such excess shall represent a net deduction for that year. Although not clear, net income or a net deduction should be treated as ordinary income or as an ordinary deduction.

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

#### *Disposition of the Cap Contract*

Any amount that is considered to be allocated to the Cap Contract in connection with the sale or other disposition of an A Class Certificate as described under “—*Taxation of Certificates of the A and AIO Classes—Allocations*” above will be considered a “termination payment” under the NPC Regulations. Under the NPC Regulations, a beneficial owner of an A Class Certificate will have gain or loss from the disposition of the Cap Contract equal to (i) the sum of the unamortized portion of any



premium received or deemed to have been received by the beneficial owner upon entering into the Cap Contract and any termination payment it receives or is deemed to have received, less (ii) the sum of the unamortized portion of any premium paid or deemed to have been paid by the beneficial owner upon entering into the Cap Contract and any termination payment it makes or is deemed to have made. The gain or loss should be capital gain or loss, provided the Cap Contract is a capital asset to the beneficial owner. The ability to deduct capital losses is subject to limitations.

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

#### **Daily Portions**

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

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

The taxable income or net loss of each REMIC will be the income from the “qualified mortgages” it holds and any reinvestment earnings less deductions allowed to the REMIC. In general, a Mortgage Loan will be a “qualified mortgage” to the Lower Tier REMIC if the Mortgage Loan is “principally secured by an interest in real property” within the meaning of section 860G(a)(3) of the Code. The Lower Tier Regular Interests will be “qualified mortgages” to Upper Tier REMIC 1. The non-offered notional class will be a “qualified mortgage” to REMIC 2.

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

- A deduction will be allowed for accruals of interest (including any OID, but without regard to the investment interest limitation in section 163(d) of the Code) on the REMIC’s regular interests (but not its residual interest).
- Market discount equal to any excess of the total principal balances of the qualified mortgages over the REMIC’s basis in these mortgages generally will be included in income by the REMIC as it accrues under a constant yield method, taking into account the prepayment assumption described above.
- If a REMIC is treated as having acquired qualified mortgages at a premium, the premium also will be amortized using a constant yield method.
- No item of income, gain, loss or deduction allocable to a prohibited transaction (see “—*Taxes on the REMICs*—Prohibited Transactions” below) will be taken into account.
- A REMIC generally may not deduct any item that would not be allowed in calculating the taxable income of a partnership by virtue of section 703(a)(2) of the Code.
- The limitation on miscellaneous itemized deductions imposed on individuals by section 67 of the Code will not be applied at the REMIC level to any administrative fees, such as servicing



and guaranty fees. (See, however, “—Pass-Through of Servicing and Guaranty Fees to Individuals” below.)

- No deduction will be allowed for any expenses incurred in connection with the formation of the REMICs and the issuance of the Regular and Residual Certificates.
- Any gain or loss to a REMIC from the disposition of any asset, including a qualified mortgage or “permitted investment” as defined in section 860G(a)(5) of the Code, will be treated as ordinary gain or loss.

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

For purposes of determining the taxable income or net loss of each REMIC, OID will be calculated by taking into account the following. First, because all the Lower Tier Regular Interests will be issued to Upper Tier REMIC 1, the Lower Tier Regular Interests will be treated as a single debt instrument because they will be issued to a single holder in a single transaction. Second, Upper Tier REMIC 1 and REMIC 2 will elect to include in gross income all interest that accrues on the regular interests held by each REMIC by using a constant yield method. See “—*Taxation of Beneficial Owners of Regular Certificates*—Special Election” above.

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

### **Basis Rules and Distributions**

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

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

## **Treatment of Excess Inclusions**

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

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

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

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

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

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

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

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

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

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

In addition, a tax may be imposed upon a pass-through entity (including a regulated investment company, real estate investment trust, common trust fund, partnership, trust, estate and nominee and certain cooperatives) that owns a Residual Certificate if the pass-through entity has a disqualified organization as a record holder. For this purpose, all interests in an electing large partnership are treated as held by disqualified organizations. No such tax will be imposed on a pass-through entity for a period with respect to an interest therein owned by a disqualified organization if (i) the record holder of the interest furnishes to the pass-through entity an affidavit that it is not a disqualified organization, (ii) during that period, the pass-through entity has no actual knowledge that the affidavit is false and (iii) the entity is not an electing large partnership.

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

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

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

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

## **Termination**

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

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

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

## ***Taxes on the REMICs***

Upper Tier REMIC 1, REMIC 2 and the Lower Tier REMIC 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 Upper Tier REMIC 1, REMIC 2 or the Lower Tier REMIC will engage in any transactions that will give rise to a tax on Upper Tier REMIC 1, REMIC 2 or the Lower Tier REMIC. In any event, pursuant to our guaranty obligation, we will make distributions on the Certificates without offset or deduction for any tax imposed on Upper Tier REMIC 1, REMIC 2 or the Lower Tier REMIC.

## **Prohibited Transactions**

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

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

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

## **Net Income from Foreclosure Property**

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

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

For purposes of the administrative provisions of the Code, Upper Tier REMIC 1, REMIC 2 and the Lower Tier REMIC will each be treated as a partnership and the Residual Owners in each REMIC will be treated as partners. We will prepare, sign and file federal income tax returns for each REMIC, which returns are subject to audit by the IRS. We do not intend to register Upper Tier REMIC 1, REMIC 2 or the Lower Tier REMIC as a tax shelter pursuant to section 6111 of the Code. We will also act as the tax matters partner for Upper Tier REMIC 1, REMIC 2 and the Lower Tier REMIC either as a beneficial owner of the Residual Certificates or as a fiduciary for the Residual Owners. Each Residual Owner, by the acceptance of a Residual Certificate, agrees that we will act as its fiduciary in the performance of any duties required of it in the event that it is a tax matters partner.

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

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

### ***Backup Withholding***

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

### ***Foreign Investors***

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

### ***Tax Return Disclosure Requirements***

The Treasury Department recently issued Regulations directed as “tax shelters” that could be read to apply to transactions generally not considered to be tax shelters. These Regulations require



that taxpayers that participate in a “reportable transaction” disclose such transaction on their tax returns by attaching IRS Form 8886, and retain information related to the transaction. A transaction may be a “reportable transaction” based upon any of several indicia, one or more of which may be present with respect to the Certificates. You should consult your tax advisor concerning any possible disclosure obligation with respect to your investment in the Certificates.

## **LEGAL INVESTMENT CONSIDERATIONS**

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

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

## **LEGAL OPINION**

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

## **ERISA CONSIDERATIONS**

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



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

*Additional Considerations relating to the A Class.* Because the right to interest payable under the Cap Contract to Holders of the A Class is not guaranteed by Fannie Mae, our counsel is unable to conclude that the “guaranteed governmental mortgage pool exemption” applies to the acquisition and holding of this right. Therefore, any Plan fiduciary considering an investment in the A Class should consider the identity of the Cap Contract Counterparty in determining whether an investment in the A Class would give rise to a prohibited transaction. Depending on the relevant facts and circumstances, certain prohibited transaction exemptions may apply to the acquisition of the A Class and rights under the Cap Contract—for example, Prohibited Transaction Class Exemption (“PTCE”) 84-14, which exempts certain transactions effected on behalf of a Plan by a “qualified professional asset manager”, PTCE 90-1, which exempts certain transactions by insurance company pooled separate accounts, PTCE 91-38, which exempts certain transactions by bank collective investment funds, PTCE 95-60, which exempts certain transactions by insurance company general accounts, or PTCE 96-23, which exempts certain transactions effected on behalf of a Plan by an “in-house asset manager.” Each Plan that invests in the A Class, by its acceptance of the certificate, will be deemed to make certain representations as provided in the Trust Agreement, including that its acquisition of the A Class and rights under the Cap Contract do not give rise to a nonexempt prohibited transaction under Section 406 of ERISA or Section 4975 of the Code.

## **PLAN OF DISTRIBUTION AND RELATED MATTERS**

*General.* We will acquire the Mortgage Loans from the Seller in exchange for the Certificates pursuant to the Sale and Servicing Agreement. The Seller has agreed to sell the A Class Certificates to the underwriters identified on the front cover (the “Underwriters”), of which Deutsche Bank Securities Inc. and Credit Suisse First Boston LLC are the Co-Lead Underwriters. The Underwriters propose to offer the A Class Certificates directly to the public from time to time in negotiated transactions at varying prices to be determined at the time of sale. The Seller will retain the AIO, R, RM and RL Classes. The Underwriters may effect these transactions to or through other dealers.

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

## **LEGAL MATTERS**

Sidley Austin Brown & Wood LLP will provide legal representation for Fannie Mae. Heller Ehrman White & McAuliffe LLP will provide legal representation to the Seller and the Servicer. Thacher Proffitt & Wood will provide legal representation to the Underwriters.

Exhibit A

Assumed Characteristics of the Mortgage Loans

The table below summarizes certain assumed characteristics of the Mortgage Loans as of the applicable Cut-off 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 information in the table does not give effect to prepayments received on the Mortgage Loans on or after the applicable Cut-off Date.

Fixed Rate Mortgage Loans

Principal Balance	Net WAC	WAC	Weighted Average Original Amortization Term (in months)	Weighted Average Remaining Term (in months)	Weighted Average Age (in months)
\$ 28,837.24	5.857%	8.200%	120	118	2
22,392.04	7.957	10.300	120	119	1
21,068,659.79	3.685	6.028	180	178	2
145,743.18	4.307	6.650	180	178	2
25,582.15	6.647	8.990	180	179	1
225,506.41	5.602	7.945	180	179	1
149,505.83	4.157	6.500	180	179	1
156,796.95	4.623	6.966	180	178	2
1,338,284.27	5.183	7.526	180	178	2
55,908.99	6.007	8.350	240	239	1
199,239.16	4.757	7.100	240	238	2
30,831.25	9.107	11.450	240	238	2
61,106.60	6.507	8.850	240	239	1
204,023.05	4.815	7.158	240	238	2
128,747,674.84	4.459	6.802	360	358	2
1,354,601.10	5.594	7.937	360	358	2
1,166,295.41	5.114	7.457	360	358	2
46,698.18	6.607	8.950	360	358	2
235,843.23	5.957	8.300	360	358	2
218,795.23	4.810	7.153	360	357	3
199,654.63	4.407	6.750	360	358	2
544,256.32	5.748	8.091	360	358	2
5,501,743.85	4.999	7.342	360	358	2
4,245,088.58	5.040	7.383	360	358	2
40,967,187.66	4.988	7.331	360	358	2

### Adjustable Rate Mortgage Loans (6 Month LIBOR)

Principal Balance	Net WAC	WAC	Weighted Average Original Amortization Term (in months)	Weighted Remaining Amortization Term (in months)	Weighted Average Age (in months)	Weighted Average Margin	Weighted Average Periodic Rate Cap	Weighted Average Subsequent Periodic Rate Cap	Weighted Average Lifetime Rate Cap	Weighted Average Lifetime Rate Floor	Weighted Average Months to Rate Change	Rate Reset Frequency (in months)
\$ 93,208,447.65	4.446%	6.789%	360	358	2	4.512%	1.000%	1.000%	12.789%	6.789%	22	6
737,515.38	5.641	7.984	360	358	2	5.539	1.000	1.000	13.984	7.984	22	6
3,559,098.68	5.739	8.082	360	358	2	5.355	1.000	1.000	14.082	8.082	22	6
206,705.63	7.157	9.500	360	358	2	4.990	1.000	1.000	15.500	9.500	22	6
217,157.36	4.951	7.294	360	358	2	4.990	1.000	1.000	13.294	7.294	22	6
514,874.00	5.626	7.969	360	358	2	5.373	1.000	1.000	13.969	7.969	22	6
219,688.44	5.407	7.750	360	358	2	4.990	1.000	1.000	13.750	7.750	22	6
573,892.92	5.626	7.969	360	358	2	5.241	1.000	1.000	13.969	7.969	22	6
294,603.04	4.356	6.699	360	359	1	4.990	1.000	1.000	12.699	6.699	23	6
209,832.89	4.807	7.150	360	359	1	4.990	1.000	1.000	13.150	7.150	23	6
749,694.56	5.385	7.728	360	359	1	5.221	1.000	1.000	13.728	7.728	23	6
318,602.42	3.207	5.550	360	356	4	4.990	1.000	1.000	11.550	5.550	20	6
11,534,017.82	4.981	7.324	360	358	2	5.072	1.000	1.000	13.324	7.324	22	6
209,599,991.70	4.630	6.973	360	358	2	5.111	1.000	1.000	12.974	6.973	22	6
59,607,268.58	4.634	6.977	360	358	2	5.057	1.000	1.000	12.977	6.977	22	6
62,459.85	9.157	11.500	360	358	2	6.750	3.000	1.000	17.500	11.500	34	6
415,438.72	5.647	7.990	360	358	2	4.990	3.000	1.000	13.990	7.990	34	6
432,288.11	5.354	7.697	360	358	2	5.246	3.000	1.000	13.697	7.697	34	6
8,785,230.31	4.408	6.751	360	358	2	5.024	3.000	1.000	12.751	6.751	34	6
269,068.48	5.013	7.356	360	357	3	4.990	3.000	1.000	13.356	7.356	57	6
426,854.02	4.243	6.586	360	358	2	4.990	1.000	1.000	12.586	6.586	4	6
562,780.04	4.426	6.769	360	358	2	4.990	1.000	1.000	12.769	6.769	4	6
134,588.60	3.577	5.920	360	357	3	4.990	1.000	1.000	11.920	5.920	3	6
419,656.37	4.681	7.024	360	356	4	4.990	1.000	1.000	12.973	6.973	3	6

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

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

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**\$600,000,000**  
(Approximate)



**Guaranteed REMIC  
Pass-Through Certificates  
Fannie Mae REMIC Trust 2003-W9**

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**PROSPECTUS**

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**Deutsche Bank Securities  
Credit Suisse First Boston**

**RBS Greenwich Capital  
Morgan Stanley  
WaMu Capital Corp.**

**May 16, 2003**

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