

**\$250,783,293 (Approximate)**



**Guaranteed REMIC Pass-Through Certificates  
Fannie Mae REMIC Trust 2004-W5**

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

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

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

**The Certificates**

We, the Federal National Mortgage Association (Fannie Mae), will issue and guarantee the certificates listed in the chart on this page. The certificates will represent beneficial ownership interests in the trust assets.

**Payments to Certificateholders**

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 as described in this prospectus.

**The Fannie Mae Guaranty**

We will guarantee that the payments of monthly interest and principal described above are paid to investors on time and that any outstanding principal balance of each class of certificates is paid on the final distribution date.

**The Trust and Its Assets**

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

<i>Class</i>	<i>Original Class Balance(1)</i>	<i>Principal Type(2)</i>	<i>Interest Rate</i>	<i>Interest Type(2)</i>	<i>CUSIP Number</i>	<i>Assumed Maturity Date(3)</i>
A1 .....	\$155,206,903	PT	6.0%	FIX	31393YKM6	February 2037
F1 .....	91,621,876	PT	(4)	FLT	31393YKN4	February 2037
P1 .....	3,954,514	PT	(5)	PO	31393YKP9	February 2037
S1 .....	91,621,876(6)	NTL	(4)	INV/IO	31393YKQ7	February 2037
X1 .....	25,077,379(6)	NTL	(7)	WAC/IO	31393YKR5	February 2037
R .....	0	NPR	0	NPR	31393YKS3	February 2037
RL .....	0	NPR	0	NPR	31393YKT1	February 2037

- (1) Approximate. May vary by plus or minus 5%.
- (2) See “Description of the Certificates—Class Definitions and Abbreviations.”
- (3) The Assumed Maturity Date is calculated assuming the maturity dates of the mortgage loans are not modified. Fannie Mae does not guarantee payment in full of the principal balances of the certificates on the Assumed Maturity Date. Fannie Mae will guarantee payment in full of the principal balances of the certificates no later than the distribution date in February 2047.
- (4) Based on LIBOR.
- (5) The P1 Class will be a principal only class and will not bear interest.
- (6) Notional principal balances. These classes are interest only classes.
- (7) The X1 Class will bear interest at the variable annual rate described in this prospectus. During the initial interest accrual period, the X1 Class is expected to bear interest at an annual rate of approximately 0.90093%.

The dealer will offer the certificates from time to time in negotiated transactions at varying prices. We expect the settlement date to be April 30, 2004.

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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 (collectively, the “Disclosure Documents”).

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

Fannie Mae  
MBS Helpline  
3900 Wisconsin Avenue, N.W.  
Area 2H-3S  
Washington, D.C. 20016  
(telephone 1-800-237-8627).

In addition, the Disclosure Documents, together with the class factors, are available on our corporate Web site located at [www.fanniemae.com](http://www.fanniemae.com).

You also can obtain additional copies of the Disclosure Documents by writing or calling the dealer at:

Bear, Stearns & Co., Inc.  
Prospectus Department  
One MetroTech Center North  
Brooklyn, New York 11201  
(telephone 347-643-1581)

In the first quarter of 2003, we began filing periodic reports with the SEC under the Securities Exchange Act of 1934. These filings include Form 10-Ks, Form 10-Qs and Form 8-Ks. Our SEC filings are available at the SEC’s Web site at [www.sec.gov](http://www.sec.gov). You also may 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 Web site solely for the information of prospective investors. We do not intend the Web site 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 Securities Exchange Act of 1934, that information is not incorporated by reference in this prospectus.

## REFERENCE SHEET

**This reference sheet 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 each of the additional disclosure documents referred to on page 4.**

### **The Certificates**

- The certificates will represent beneficial ownership interests in Fannie Mae REMIC Trust 2004-W5.
- The trust assets will consist of first lien, one- to four-family, fully amortizing, fixed-rate mortgage loans insured by the Federal Housing Administration (FHA) or partially guaranteed by the U.S. Department of Veterans Affairs (VA). All of the mortgage loans previously were repurchased from Ginnie Mae pools as a result of past delinquency.

### **Certain Characteristics of the Mortgage Loans**

Each of the mortgage loans was originated in accordance with the underwriting guidelines of the FHA or VA and included in a Ginnie Mae pool. Generally, each mortgage loan was subsequently repurchased from a Ginnie Mae pool after a delinquency on the loan was not cured for at least 90 days or, if the mortgage loan was included in a Ginnie Mae pool prior to January 1, 2003, after a period of four consecutive months during which the loan remained at least 30 days delinquent. The mortgage loans are now reperforming as and to the extent described in the section of this prospectus entitled "The Mortgage Loans."

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

### **Class Factors**

The class factors are numbers that, when multiplied by the initial principal balance or notional balance of a certificate, can be used to calculate the current principal balance or notional balance of that certificate (after taking into account distributions in the same month). We will publish the class factors for the certificates on or shortly after the 23rd day of each month.

### **Settlement Date**

We expect to issue the certificates on April 30, 2004.

### **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, beginning in May 2004.

### **Book-Entry Certificates**

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

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

**DTC Book-Entry**

All classes other than the R and RL Classes

**Physical**

R and RL Classes

## Interest Rates

During each interest accrual period, the fixed rate class will bear interest at the applicable annual interest rate listed on the cover of this prospectus.

During the initial interest accrual period, the floating rate and inverse floating rate classes will bear interest at the initial interest rates listed below. During subsequent interest accrual periods, the floating rate and inverse floating rate classes will bear interest based on the formulas indicated below, but always subject to the specified maximum and minimum interest rates:

<u>Class</u>	<u>Initial Interest Rate</u>	<u>Maximum Interest Rate</u>	<u>Minimum Interest Rate</u>	<u>Formula for Calculation of Interest Rate (1)</u>
F1 .....	1.55%	7.50%	0.45%	LIBOR + 45 basis points
S1 .....	5.95%	7.05%	0.00%	7.05% - LIBOR

(1) We will establish LIBOR on the basis of the “BBA Method.”

During each interest accrual period, the X1 Class will bear interest at the applicable rate described in this prospectus.

## Notional Classes

The S1 and X1 Classes are notional classes. A notional class will not receive principal. The notional principal balance of a notional class is the balance used to calculate interest. See “Description of the Certificates—Interest Payments on the Certificates—*Notional Classes*” and “—Yield Tables—*The Interest Only Classes*” in this prospectus.

The notional principal balances of the notional classes will equal the percentages of the aggregate principal balances specified below immediately before the related distribution date:

<u>Class</u>	
S1 .....	100% of the F1 Class
X1 .....	100% of the Category c Loans

For a description of the Category c Loans, see “Description of the Certificates—Certain Definitions Relating to Payments on the Certificates” in this prospectus.

## Principal Only Class

The P1 Class is a principal only class and will not bear interest. See “Description of the Certificates—Principal Payments on the Certificates” and “—Yield Tables—*The P1 Class*” in this prospectus.

## Payments of Principal

### *A1 Principal Distribution Amount*

To the A1 Class to zero

### *F1 Principal Distribution Amount*

To the F1 Class to zero.

### *P1 Principal Distribution Amount*

To the P1 Class to zero.

For a description of the A1 Principal Distribution Amount, F1 Principal Distribution Amount and P1 Principal Distribution Amount, see “Description of the Certificates—Certain Definitions Relating to Payments on the Certificates” in this prospectus.

**Guaranty Payments**

We guarantee that we will pay to the holders of certificates (i) all required installments of principal and interest on the certificates on time and (ii) the remaining principal balance of each class of certificate no later than the distribution date in February 2047.

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

<u>Classes</u>	<u>CPR Prepayment Assumption</u>				
	<u>0%</u>	<u>10%</u>	<u>20%</u>	<u>30%</u>	<u>40%</u>
A1 .....	16.9	7.4	4.1	2.7	1.9
F1 and S1.....	16.1	7.2	4.1	2.7	1.9
P1 .....	16.9	7.3	4.1	2.7	1.9
X1 .....	13.7	6.8	4.0	2.7	1.9

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



## 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 consider carefully the following:

- You should have sufficient knowledge and experience to evaluate the merits and risks of the certificates and the information contained in this prospectus and the other disclosure documents described on page 4.
- 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 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 the mortgage loans are repurchased;
- the actual characteristics of the mortgage loans; and
- in the case of the X1 Class, fluctuations in the weighted average of the net mortgage rates of the related 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 and principal payments on the related mortgage loans are faster than you expect, or
- if you buy your certificates (including the P1 Class) at a discount and principal payments on the related mortgage loans are slower than you expect.

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

In addition, in the case of the X1 Class, if a disproportionately high rate of prepayments occurs on Category c Loans with relatively higher interest rates, the yield on the X1 Class will decrease and may be lower than you expect.

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

Under certain circumstances, collections of interest on the mortgage loans may be reduced. Nevertheless, we guarantee that you will receive the full amount of interest due on your certificates regardless of any such reduction in interest collected on the mortgage loans.

We used certain assumptions concerning the mortgage loans in preparing certain tabular information in this prospectus. If the actual mortgage loan characteristics differ even slightly from those assumptions, the weighted average life and yield of the related 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 distribution date occurring in February 2047. If you assumed the actual final payment would occur on the distribution date occurring in February 2047, your yield could be lower than you expect.

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

*Level of floating rate index affects yields on certain certificates.* The yield on any floating rate or inverse floating rate certificate will be affected by the level of its interest rate index. If the level of the index differs from the level you expect, then your actual yield may be lower than you expect.

## **Prepayment Considerations**

*The rate of principal payments of the certificates depends on numerous factors.* Many factors affect the prepayment rate. The rate of principal payments on the certificates of a particular class generally will depend on the rate of principal payments on the related mortgage

loans. Principal payments on the mortgage loans may occur as a result of scheduled amortization or prepayments. The rate of principal payments is likely to vary considerably from time to time as a result of the liquidation of foreclosed mortgage loans, FHA insurance payments and VA guarantee payments, as well as because borrowers generally may prepay the mortgage loans at any time without penalty. Prepayment rates also may be influenced by changes in FHA or VA program guidelines.

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

It is highly unlikely that the mortgage loans will prepay:

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

Prepayment rates can also be affected if the mortgage includes a due-on-sale clause requiring that the borrower repay the mortgage loan in full if the mortgaged property is sold. In this regard, FHA and VA have historically permitted FHA and VA loans to be assumed by purchasers of mortgaged properties, thus making such loans less likely to prepay when a mortgaged property is sold. However, prior to 1989, FHA and VA

generally permitted loans to be assumed by purchasers without prior credit verification, and such loans may be more likely to default, and thus be liquidated, than would be the case had such loans been assumed by borrowers whose credit qualifications had been verified.

*Prepayment rates may also be affected by a breach of the representations and warranties made by the seller.* The seller will make representations and warranties with respect to the mortgage loans and may have to repurchase the related loans in case of a breach of those representations and warranties. Any such repurchases will have the same effect of as increasing the rate of prepayment.

Under certain limited circumstances, Fannie Mae has the option to purchase from the trust any loan whose interest rate has been reduced. Any such purchase will have the same effect on the related certificates as borrower prepayments.

*The amortization schedules of the mortgage loans may be recast and their terms may be extended.* The servicer has the right under certain circumstances to recast the amortization schedule (based on a 30-year term) and/or extend the scheduled date of final payment on a mortgage loan (but not beyond February 2047). To the extent that the servicer recasts the amortization schedule or extends the term of a mortgage loan, the weighted average lives of the related classes of certificates could be extended.

*Exercise of the optional clean-up call will have the same effect on the certificates as borrower prepayments of the mortgage loans.* The servicer may purchase all the remaining mortgage loans on or after the first distribution date when the aggregate balance of the mortgage loans is reduced to 5% or less of their aggregate stated principal balance as of the issue date. If the servicer purchases the mortgage loans in this way, it would have the same effect as a prepayment in full of all the mortgage loans.

*Concentration of mortgaged properties in certain states could lead to increased delinquencies, with the same effect as borrower prepayments.* As of the issue date, the states with relatively high concentrations of mortgaged properties are as follows: Indiana (13.71%), Ohio (13.01%), Michigan (9.40%), California (7.66%), North Carolina (7.64%), Texas

(7.48%), Maryland (6.80%) and Virginia (5.09%).

If economic conditions worsen, a natural disaster occurs or the residential real estate markets in those states experience an overall decline in property values, the rates of delinquencies, foreclosures and bankruptcies on the related mortgage loans probably will increase and may increase substantially.

*Loan characteristics may differ from descriptions due to permitted variance.* The principal amount of mortgage loans delivered to the trust on the settlement date may vary by plus or minus 5%. In that event the principal balances of the related certificates will be adjusted accordingly to reflect such variance. In addition, it is expected that additional mortgage loans may be added, and certain mortgage loans may be deleted, between the issue date and the settlement date. As a result, the characteristics of the mortgage loans actually included in the trust may differ from the characteristics of the mortgage loans specified in this prospectus.

*The rate of principal payments on the certificates cannot be predicted.* Because so many factors affect the prepayment rate of the mortgage loans, we cannot predict the prepayment experience of the mortgage loans and therefore cannot predict the rate of principal payments on the certificates.

## **Reinvestment Risk**

*The certificates are subject to reinvestment risk.* Generally, a borrower may prepay a mortgage loan at any time. 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**

*Uncertain market for the certificates could make them difficult to sell and cause their values to fluctuate.* We cannot be sure that a market

for resale of the certificates will develop. Further, if a market develops, it may not continue or be sufficiently liquid to allow you to sell your certificates. 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 related mortgage loans;
- past and expected prepayment levels of the related mortgage loans and comparable loans;
- the outstanding principal amount of the certificates;

- the amount of certificates offered for resale from time to time;
- any legal restrictions or tax treatment limiting demand for the certificates;
- the availability of comparable securities;
- the level, direction and volatility of interest rates generally; and
- general economic conditions.

### **Fannie Mae Guaranty Considerations**

*If we did not perform under our guaranty, delinquencies and defaults on the related mortgage loans would directly affect your investment.* If we were unable to perform our guaranty obligations, certificateholders would receive only borrower payments and other recoveries on the related mortgage loans. If that happened, delinquencies and defaults on the related mortgage loans would directly affect the amounts that certificateholders would receive each month.

## **GENERAL**

The material under this heading summarizes certain features of the Certificates and is not complete. You will find additional information about the Certificates in the other sections of this prospectus, as well as in the additional Disclosure Documents and 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 Trust Agreement.

*Structure.* We, the Federal National Mortgage Association (“Fannie Mae”), a corporation organized and existing under the laws of the United States, under the authority contained in Section 304(d) of the Federal National Mortgage Association Charter Act (12 U.S.C. §1716 *et seq.*), will create the Fannie Mae REMIC Trust specified on the cover of this prospectus (the “Trust”) and a separate trust (the “Lower Tier REMIC”) pursuant to a trust agreement (the “Trust Agreement”) dated as of April 1, 2004 (the “Issue Date”). We will issue the Guaranteed REMIC Pass-Through Certificates (the “Certificates”) pursuant to the Trust Agreement. We will execute the Trust Agreement in our corporate capacity and as trustee (the “Trustee”).

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

The Trust and the Lower Tier REMIC each will constitute a “real estate mortgage investment conduit” (each, a “REMIC”) under the Internal Revenue Code of 1986, as amended (the “Code”). The assets of the Trust will consist of the Lower Tier Regular Interests. The assets of the Lower Tier REMIC will consist of the Mortgage Loans.

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

- 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.

*Fannie Mae Guaranty.* We guarantee that we will pay to Certificateholders:

- required installments of principal and interest on the Certificates on time, and
- the remaining principal balance of each Class of Certificates no later than the Distribution Date in February 2047, whether or not we have received sufficient payments.

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

*Characteristics of Certificates.* The Certificates (except the R and RL Classes) will be represented by one or more certificates (the “DTC Certificates”) to be registered at all times in the name of the nominee of The Depository Trust Company (“DTC”), a New York-chartered limited purpose trust company, or any successor or depository selected or approved by us. We refer to the nominee of DTC as the “Holder” or “Certificateholder” of the DTC Certificates. DTC will maintain the DTC Certificates through its book-entry facilities. A Holder is not necessarily the beneficial owner of a Certificate. Beneficial owners ordinarily will hold Certificates through one or more financial intermediaries, such as banks, brokerage firms and securities clearing organizations. See “Description of the Certificates—Book-Entry Procedures” in this prospectus.

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

The Holder of the R Class will receive the proceeds of any remaining assets of the Trust 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 “—Special Characteristics of the R and RL Classes” in this prospectus.

*Authorized Denominations.* We will issue the Certificates in the following denominations:

<u>Classes</u>	<u>Denominations</u>
The Principal Only and Interest Only Classes	\$100,000 minimum plus whole dollar increments
The A1 and F1 Classes	\$1,000 minimum plus whole dollar increments

We will issue the R and RL Classes as single Certificates with no principal balances.

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

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

*Class Factors.* On or shortly after the 23rd calendar day of each month, we will publish a class factor (carried to eight decimal places) for each Class of Certificates. When the applicable class factor



is multiplied by the original principal balance (or notional principal balance) of a Certificate of any Class, the product will equal the current principal balance (or notional principal balance) of that Certificate after taking into account payments on the Distribution Date in the same month.

*Optional Termination by the Servicer.* The Servicer may effect an early termination of the Trust as described under “The Trust Agreement—Termination” in this prospectus. We have no option to effect an early termination of the Lower Tier REMIC or the Trust. Further, we will not repurchase any of the Mortgage Loans in a “clean-up call.”

## THE MORTGAGE LOANS

### General

We expect that the Trust will consist of approximately 2,863 Mortgage Loans having an aggregate principal balance of approximately \$250,783,294 as of the Issue Date. This aggregate amount may vary by plus or minus 5%. Fannie Mae, as purchaser, and EMC Mortgage Corporation, as seller (in such capacity, the “Seller”) and servicer (in such capacity, together with any subservicers, the “Servicer”), will be parties to a sale and servicing agreement dated as of the Issue Date (the “Sale and Servicing Agreement”).

Each Mortgage Loan is a first lien, one- to four-family, fully amortizing loan that bears a fixed rate of interest. All of the Mortgage Loans are FHA-insured or partially guaranteed by the VA. 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.”

Although the Mortgage Loans generally have terms not more than 30 years, as of the Issue Date approximately 0.08% of the Mortgage Loans (based on aggregate principal balance) provided for a stated maturity date more than 30 years, but generally not more than 40 years, from their dates of origination.

Each Mortgage Loan provides that the obligor on the related Mortgage Note (the “borrower”) must make payments by a scheduled day of each month. This day is fixed at the time of origination. In addition, each Mortgage Loan provides that each borrower must pay interest on its outstanding principal balance at the rate specified or described in the related Mortgage Note (the “Mortgage Interest Rate”). Interest is calculated on the basis of a 360-day year consisting of twelve 30-day months. If a borrower makes a payment earlier or later than the scheduled due date, the amortization schedule will not change, nor will the relative application of such payment to principal and interest.

The information shown on Exhibit A summarizes certain assumed characteristics of the Mortgage Loans as of the Issue Date. The information in the tables is presented in aggregated form, on the basis of the characteristics specified in the tables, and does not reflect actual or assumed characteristics of any individual Mortgage Loan. The information in the tables does not give effect to prepayments received on the Mortgage Loans on or after the Issue Date.

Each of the Mortgage Loans was originated in accordance with the underwriting guidelines of FHA or VA, as the case may be, and was eligible to be included in a Ginnie Mae pool at the time of origination as permitted by the rules of the Government National Mortgage Association (“Ginnie Mae”). Substantially all the Mortgage Loans were pooled with Ginnie Mae and then purchased from the Ginnie Mae pool when the Mortgage Loan had a delinquency that was not cured for at least 90 days or, if the Mortgage Loan was included in a Ginnie Mae pool prior to January 1, 2003, after a period of four consecutive months during which the loan remained at least 30 days delinquent.

As of the Issue Date, no Mortgage Loan was more than 450 days contractually delinquent. Neither the Servicer nor Fannie Mae has the right to repurchase a Mortgage Loan from the Trust based upon the contractual delinquency of that loan on the Issue Date.

### Statistical Information

The following tables set forth certain information as of the Issue Date with respect to the Mortgage Loans. References to “Principal Balance Outstanding” mean the aggregate of the Stated Principal Balances of the Mortgage Loans as of the Issue Date. The sum of the percentage columns in the following tables may not equal 100% due to rounding.

#### Contractual Delinquency (1)

Contractual Delinquency (Days)	Number of Mortgage Loans	Principal Balance Outstanding	Percent of Principal Balance of the Mortgage Loans	Weighted Average Mortgage Interest Rate	WAM (months)	Weighted Average Mortgage Loan Age (months)	Balance-Weighted # of Payments Last 3 Months	Balance-Weighted # of Payments Last 6 Months
Less than 30 Days	1,174	\$ 99,750,662	39.78%	7.169%	308	46	3.4	6.2
30- 59 Days	1,037	90,932,207	36.26	7.182	307	47	2.8	5.6
60- 89 Days	412	37,430,176	14.93	7.108	312	43	2.6	5.3
90-119 Days	135	12,714,602	5.07	7.071	319	37	2.1	4.4
120-149 Days	68	6,685,190	2.67	7.113	321	36	1.8	4.2
150-179 Days	7	725,454	0.29	6.930	302	40	1.4	3.6
Greater than 179 Days	30	2,545,003	1.01	7.301	283	64	1.5	3.4
Total	<u>2,863</u>	<u>\$250,783,294</u>	<u>100.00%</u>					

(1) A Mortgage Loan is “contractually delinquent” as of the Issue Date if delinquencies that occurred at any time during the term of the loan have not been cured.

#### Number of Payments Made in Last 3 Months (1)

Number of Payments Made in Last 3 Months	Number of Mortgage Loans	Principal Balance Outstanding	Percent of Principal Balance of the Mortgage Loans	Weighted Average Mortgage Interest Rate	WAM (months)	Weighted Average Mortgage Loan Age (months)	Balance-Weighted # of Payments Last 3 Months	Balance-Weighted # of Payments Last 6 Months
1	152	\$ 13,953,659	5.56%	7.145%	307	48	1.0	3.8
2	425	37,516,070	14.96	7.070	312	43	2.0	4.7
3 or More	<u>2,286</u>	<u>199,313,564</u>	<u>79.48</u>	<u>7.176</u>	<u>309</u>	<u>46</u>	<u>3.3</u>	<u>6.0</u>
Total	<u>2,863</u>	<u>\$250,783,294</u>	<u>100.00%</u>					

(1) As of the Issue Date, the balance weighted number of payments on the Mortgage Loans (based on their Issue Date Principal Balances) made in the last three months was approximately 3 payments.

**Number of Payments Made in Last 6 Months (1)**

<b>Number of Payments Made in Last 6 Months</b>	<b>Number of Mortgage Loans</b>	<b>Principal Balance Outstanding</b>	<b>Percent of Principal Balance of the Mortgage Loans</b>	<b>Weighted Average Mortgage Interest Rate</b>	<b>WAM (months)</b>	<b>Weighted Average Mortgage Loan Age (months)</b>	<b>Balance-Weighted # of Payments Last 3 Months</b>	<b>Balance-Weighted # of Payments Last 6 Months</b>
3 .....	154	\$ 13,156,159	5.25%	7.221%	299	56	1.8	3.0
4 .....	294	26,410,765	10.53	7.194	308	46	2.1	4.0
5 .....	222	20,068,621	8.00	6.889	314	41	2.5	5.0
6 or More .....	2,193	191,147,748	76.22	7.178	309	45	3.2	6.2
Total: .....	<u>2,863</u>	<u>\$250,783,294</u>	<u>100.00%</u>					

(1) As of the Issue Date, the balance weighted number of payments made on the Mortgage Loans (based on their Issue Date Principal Balances) made in the last six months was approximately 6 payments.

**Issue Date Mortgage Loan Principal Balances (1)**

<b>Issue Date Mortgage Loan Principal Balances (\$)</b>	<b>Number of Mortgage Loans</b>	<b>Principal Balance Outstanding</b>	<b>Percent of Principal Balance of the Mortgage Loans</b>	<b>Weighted Average Mortgage Interest Rate</b>	<b>WAM (months)</b>	<b>Weighted Average Mortgage Loan Age (months)</b>
1- 50,000 .....	577	\$ 18,973,050	7.57%	8.358%	225	115
50,001-100,000 .....	1,255	93,017,323	37.09	7.340	302	51
100,001-150,000 .....	800	96,569,686	38.51	6.871	322	34
150,001-200,000 .....	184	31,209,669	12.44	6.843	328	30
200,001-250,000 .....	38	8,293,913	3.31	7.051	335	25
250,001-300,000 .....	6	1,636,831	0.65	6.812	337	23
300,001-350,000 .....	1	302,172	0.12	8.000	328	32
350,001-400,000 .....	1	365,656	0.15	6.500	345	15
400,001-450,000 .....	1	414,991	0.17	5.750	326	34
Total: .....	<u>2,863</u>	<u>\$250,783,294</u>	<u>100.00%</u>			

(1) As of the Issue Date, the average principal balance for the Mortgage Loans was approximately \$87,595.



### Mortgage Interest Rates (1)

Mortgage Interest Rates (%)	Number of Mortgage Loans	Principal Balance Outstanding	Percent of Principal Balance of the Mortgage Loans	Weighted Average Mortgage Interest Rate	WAM (months)	Weighted Average Mortgage Loan Age (months)
4.501- 5.000 .....	5	\$ 554,522	0.22%	5.000%	322	9
5.001- 5.500 .....	18	2,259,878	0.90	5.472	324	15
5.501- 6.000 .....	165	19,569,353	7.80	5.973	331	18
6.001- 6.500 .....	492	53,192,464	21.21	6.471	315	34
6.501- 7.000 .....	709	70,835,956	28.25	6.925	317	39
7.001- 7.500 .....	643	54,594,119	21.77	7.445	312	46
7.501- 8.000 .....	321	24,699,621	9.85	7.934	303	54
8.001- 8.500 .....	213	13,090,171	5.22	8.456	286	71
8.501- 9.000 .....	87	4,691,571	1.87	8.934	264	96
9.001- 9.500 .....	94	3,383,214	1.35	9.487	209	148
9.501-10.000 .....	56	2,025,384	0.81	9.991	185	174
10.001-10.500 .....	32	1,099,520	0.44	10.500	169	191
10.501-11.000 .....	5	140,145	0.06	11.000	167	187
11.001-11.500 .....	10	219,292	0.09	11.500	118	242
11.501-12.000 .....	3	82,199	0.03	12.000	121	239
12.001-12.500 .....	3	106,301	0.04	12.500	124	237
12.501-13.000 .....	3	110,564	0.04	13.000	116	244
13.001-13.500 .....	2	76,616	0.03	13.500	126	234
13.501-14.000 .....	1	25,127	0.01	14.000	123	237
15.001-15.500 .....	1	27,279	0.01	15.500	100	260
Total: .....	<u>2,863</u>	<u>\$250,783,294</u>	<u>100.00%</u>			

(1) As of the Issue Date, the weighted average Mortgage Interest Rate of the Mortgage Loans was approximately 7.159%.

### Original Terms to Stated Maturity (1)

Original Terms to Stated Maturity (months)	Number of Mortgage Loans	Principal Balance Outstanding	Percent of Principal Balance of the Mortgage Loans	Weighted Average Mortgage Interest Rate	WAM (months)	Weighted Average Mortgage Loan Age (months)
61-120 .....	2	\$ 103,990	0.04%	7.086%	87	33
121-180 .....	105	4,964,073	1.98	6.598	127	53
181-240 .....	42	2,869,351	1.14	6.919	197	43
241-300 .....	22	1,758,779	0.70	6.675	245	55
301-360 .....	2,689	240,882,754	96.05	7.177	315	45
361-420 .....	3	204,346	0.08	7.246	323	59
Total: .....	<u>2,863</u>	<u>\$250,783,294</u>	<u>100.00%</u>			

(1) As of the Issue Date, the weighted average original term to stated maturity of the Mortgage Loans was approximately 354 months.

### Remaining Terms to Stated Maturity (1)

Remaining Terms to Stated Maturity (months)	Number of Mortgage Loans	Principal Balance Outstanding	Percent of Principal Balance of the Mortgage Loans	Weighted Average Mortgage Interest Rate	WAM (months)	Weighted Average Mortgage Loan Age (months)
60 or Less .....	56	\$ 922,925	0.37%	7.596%	52	161
61-120 .....	55	1,746,897	0.70	8.288	98	125
121-180 .....	187	8,754,690	3.49	8.223	158	126
181-240 .....	267	14,344,200	5.72	7.791	224	117
241-300 .....	567	43,965,496	17.53	7.236	285	73
301-360 .....	1,730	180,947,525	72.15	7.026	332	28
361 or Greater .....	1	101,561	0.04	5.375	394	8
Total .....	<u>2,863</u>	<u>\$250,783,294</u>	<u>100.00%</u>			

(1) As of the Issue Date, the weighted average remaining term to stated maturity of the Mortgage Loans was approximately 309 months.

### Mortgage Loan Ages (months) (1)

Mortgage Loan Ages (months)	Number of Mortgage Loans	Principal Balance Outstanding	Percent of Principal Balance of the Mortgage Loans	Weighted Average Mortgage Interest Rate	WAM (months)	Weighted Average Mortgage Loan Age (months)
0- 24 .....	706	\$ 78,750,919	31.40%	6.645%	337	18
25- 48 .....	952	95,387,521	38.04	7.257	323	32
49- 72 .....	499	43,831,643	17.48	7.030	292	62
73- 96 .....	123	8,044,770	3.21	7.813	269	83
97-120 .....	148	7,334,356	2.92	8.090	244	106
121-144 .....	198	9,289,827	3.70	7.559	216	129
145-168 .....	55	2,146,355	0.86	9.306	200	154
169-192 .....	48	1,868,549	0.75	9.955	177	182
193-216 .....	82	3,121,310	1.24	9.314	155	204
217-240 .....	15	474,727	0.19	11.766	136	224
241-264 .....	7	246,165	0.10	13.008	112	248
265-288 .....	1	17,630	0.01	11.500	75	285
289-312 .....	18	199,962	0.08	10.069	61	299
313-336 .....	11	69,562	0.03	8.316	38	322
Total .....	<u>2,863</u>	<u>\$250,783,294</u>	<u>100.00%</u>			

(1) As of the Issue Date, the weighted average mortgage loan age of the Mortgage Loans was approximately 46 months.

## Geographic Distribution of Mortgaged Properties

State	Number of Mortgage Loans	Principal Balance Outstanding	Percent of		WAM (months)	Weighted Average Mortgage Loan Age (months)	Balance-Weighted # of Payments Last 3 Months	Balance-Weighted # of Payments Last 6 Months
			Principal Balance of the Mortgage Loans	Weighted Average Mortgage Interest Rate				
Indiana .....	442	\$ 34,372,569	13.71%	7.111%	313	44	3.0	5.9
Ohio .....	329	32,622,234	13.01	6.925	313	43	3.0	5.9
Michigan .....	393	23,584,805	9.40	7.543	305	50	3.0	5.9
California .....	139	19,216,070	7.66	6.978	336	24	2.9	5.9
North Carolina .....	248	19,166,706	7.64	7.267	291	63	2.9	5.3
Texas .....	262	18,767,443	7.48	7.297	288	58	2.9	5.8
Maryland .....	158	17,061,916	6.80	7.185	297	57	2.9	5.4
Virginia .....	128	12,776,408	5.09	7.169	308	46	2.9	5.3
Georgia .....	78	8,049,275	3.21	7.114	318	38	3.0	5.4
Colorado .....	61	7,980,569	3.18	7.000	322	35	2.9	5.9
Other (30 States) .....	625	57,185,299	22.80	7.160	310	42	2.9	5.6
Total .....	<u>2,863</u>	<u>\$250,783,294</u>	<u>100.00%</u>					

## Mortgage Loan Type

Mortgage Loan Type	Number of Mortgage Loans	Principal Balance Outstanding	Percent of		WAM (months)	Weighted Average Mortgage Loan Age (months)	Balance-Weighted # of Payments Last 3 Months	Balance-Weighted # of Payments Last 6 Months
			Principal Balance of the Mortgage Loans	Weighted Average Mortgage Interest Rate				
FHA .....	2,310	\$201,903,191	80.51%	7.200%	313	43	3.0	5.7
VA .....	553	48,880,103	19.49	6.987	291	56	2.8	5.5
Total .....	<u>2,863</u>	<u>\$250,783,294</u>	<u>100.00%</u>					

## Bankruptcy Status

Bankruptcy Status	Number of Mortgage Loans	Principal Balance Outstanding	Percent of		WAM (months)	Weighted Average Mortgage Loan Age (months)	Balance-Weighted # of Payments Last 3 Months	Balance-Weighted # of Payments Last 6 Months
			Principal Balance of the Mortgage Loans	Weighted Average Mortgage Interest Rate				
Other .....	2,816	\$246,641,850	98.35%	7.159%	309	45	3.0	5.7
Bankruptcy .....	47	4,141,444	1.65	7.125	296	53	1.5	3.5
Total .....	<u>2,863</u>	<u>\$250,783,294</u>	<u>100.00%</u>					

## Fannie Mae Mortgage Purchase Program

### *General*

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

The mortgage loans we purchase must meet standards required by the law under which we were chartered, which we refer to as the Charter Act. These standards require that the mortgage loans be, in our judgment, of a quality, type and class consistent with the purchase standards imposed by private institutional mortgage investors. Consistent with those requirements, and with the purposes for which

we were chartered, we establish eligibility criteria and policies for the mortgage loans we purchase, for the sellers from whom we purchase loans, and for the servicers who service our mortgage loans.

### **Selling and Servicing Guides**

Our eligibility criteria and policies, summarized below, are set forth in our Selling and Servicing Guides and updates and amendments to these Guides. We amend our Guides and our eligibility criteria and policies from time to time. This means it is possible that not all the mortgage loans in a particular pool will be subject to the same eligibility standards. It also means that the standards described in the Guides may not be the same as the standards that applied when loans in a particular pool were originated. We may also waive or modify our eligibility and loan underwriting requirements or policies when we purchase mortgage loans.

### **Mortgage Loan Eligibility Standards—Government Insured Loans**

#### *Dollar Limitations*

The Charter Act sets no maximum dollar limitations on the loans that we can purchase if the loans are government loans.

The maximum loan amount for FHA-insured single-family mortgage loans is established by statute. As of January 2004, the basic maximum loan amount for most FHA-insured single-family mortgage loans is \$160,176 for a one-unit dwelling, \$205,032 for a two-unit dwelling, \$247,824 for a three-unit dwelling, and \$307,992 for a four-unit dwelling. In high-cost areas, as designated by HUD/FHA, the maximum loan amount may be increased up to \$290,319 for a one-unit dwelling, \$371,621 for a two-unit dwelling, \$449,181 for a three-unit dwelling, and \$558,236 for a four-unit dwelling. In addition, the maximum loan amount for FHA-insured mortgages secured by property located in Alaska, Guam, Hawaii, and the Virgin Islands may be adjusted up to 150% of HUD/FHA's high-cost area limits. We purchase FHA mortgages up to the maximum original principal amount that the FHA will insure for the area in which the property is located.

The VA does not establish a maximum loan amount for VA guaranteed loans secured by single-family one- to four-unit properties. We will purchase VA mortgages up to our current maximum original principal amount for conforming loans secured by similar one- to four-unit properties.

#### *Loan-to-Value Ratios*

The maximum loan-to-value ratio for FHA-insured and VA-guaranteed mortgage loans we purchase is the maximum established by the FHA or VA for the particular program under which the mortgage was insured or guaranteed.

#### *Underwriting Guidelines*

FHA-insured and VA-guaranteed mortgage loans that we purchase must be originated in accordance with the applicable requirements and underwriting standards of the agency providing the insurance or guaranty. Each insured or guaranteed loan that we purchase must have in effect a valid mortgage insurance certificate or loan guaranty certificate. In the case of VA loans, the unguaranteed portion of the VA loan amount cannot be greater than 75% of the purchase price of the property or 75% of the VA's valuation estimate, whichever is less.

## **DESCRIPTION OF THE CERTIFICATES**

### **Book-Entry Procedures**

*DTC.* DTC is a limited-purpose trust company organized under the laws of the State of New York and is a member of the U.S. Federal Reserve System, a "clearing corporation" within the

meaning of the New York Uniform Commercial Code and a “clearing agency” registered under Section 17A of the Securities Exchange Act of 1934, as amended. DTC holds securities for DTC participants and facilitates the clearance and settlement of transactions between DTC participants through electronic book-entry changes to accounts of DTC participants.

*Title to DTC Certificates.* The DTC Certificates will be registered at all times in the name of the nominee of DTC. Under its normal procedures, DTC will record the amount of Certificates held by each firm which participates in the book-entry system of DTC (each, a “DTC Participant”), whether held for its own account or on behalf of another person. Initially, we will act as paying agent for the Certificates. In addition, US Bank will perform certain administrative functions in connection with the Certificates.

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

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

## Interest Payments on the Certificates

*Definitions.* We define certain capitalized terms used in this section under “—Certain Definitions Relating to Payments on the Certificates” below.

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

<u>Interest Type*</u>	<u>Classes</u>
Fixed Rate . . . . .	A1
Floating Rate . . . . .	F1
Inverse Floating Rate . . . . .	S1
Weighted Average Coupon . . . . .	X1
Interest Only . . . . .	S1 and X1
Principal Only . . . . .	P1
No Payment Residual . . . . .	R and RL

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

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

Interest to be paid on each Certificate on each Distribution Date will consist of one month's interest on the outstanding principal balance of that Certificate immediately prior to that Distribution Date.

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

<u>Classes</u>	<u>Interest Accrual Period</u>
The A1 and X1 Classes (the "Delay Classes")	Calendar month preceding the month in which the Distribution Date occurs
The F1 and S1 Classes	One-month period beginning on the 25th day of the month preceding the month in which the Distribution Date occurs

See "Risk Factors—*Delay classes have lower yields and market values*" in this prospectus.

The Dealer will treat the P1 Class as a Delay Class solely for the purpose of facilitating trading.

*Notional Classes.* The Notional Classes will not have principal balances. During each Interest Accrual Period, the Notional Classes will bear interest on their notional principal balances at their applicable interest rates. The notional principal balances of the Notional Classes will be calculated as specified under "Reference Sheet—Notional Classes" in this prospectus.

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

*Floating Rate and Inverse Floating Rate Classes.* During each Interest Accrual Period, the Floating Rate and Inverse Floating Rate Classes will bear interest at rates determined as described under "Reference Sheet—Interest Rates" in this prospectus.

Changes in the specified interest rate index (the "Index") will affect the yields with respect to the related Classes. These changes may not correspond to changes in mortgage interest rates. Lower mortgage interest rates could occur while an increase in the level of the Index occurs. Similarly, higher mortgage interest rates could occur while a decrease in the level of the Index occurs.

Our establishment of each Index value and our determination of the interest rate for each applicable Class for the related Interest Accrual Period will be final and binding in the absence of manifest error. You may obtain each such interest rate by telephoning us at 1-800-237-8627.

*Weighted Average Coupon Class.* During the initial Interest Accrual Period, we expect the X1 Class to bear interest at the approximate annual rate of 0.90093%. During each subsequent Interest Accrual Period, the X1 Class will bear interest at an annual rate equal to the *excess*, if any, of the weighted average Net Mortgage Rate of the Category c Loans, weighted on the basis of their Stated Principal Balances as of the beginning of that period, *over* 7.5%.

Our determination of the interest rate for the X1 Class for the related Interest Accrual Period will be final and binding in the absence of manifest error. You may obtain that interest rate by telephoning us at 1-800-237-8627.

## **Calculation of LIBOR**

*General.* The "Index Determination Date" for each Floating Rate and Inverse Floating Class means the second business day before the first day of each Interest Accrual Period. For purposes of

calculating 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 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 each Floating Rate and Inverse Floating Rate 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.

*Calculation Method.* We will calculate 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 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, LIBOR is calculated on each Index Determination Date as follows:

- If at least two Reference Banks are making quotations, 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, LIBOR for the next Interest Accrual Period shall be the 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.

If we are unable to calculate LIBOR on the initial Index Determination Date, LIBOR for the following Interest Accrual Period will be equal to 1.10%

### **Principal Payments on the Certificates**

*Definitions.* We define certain capitalized terms used in this section under “—Certain Definitions Relating to Payments on the Certificates” below.



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

<u>Principal Type*</u>	<u>Classes</u>
Pass-Through	A1, F1 and P1
Notional	S1 and X1
No Payment Residual	R and RL

\* See “—Class Definitions and Abbreviations.”

*General.* The outstanding principal balance of any Certificate as of any date of determination is equal to the initial outstanding principal balance of that Certificate, reduced by all amounts previously paid as principal on that Certificate.

We define certain capitalized terms used in the following section under “—Certain Definitions Relating to Payments on the Certificates” below.

*Principal Distribution Amount*

On each Distribution Date, we will pay principal in an amount (the “Principal Distribution Amount”) equal to the sum of the following:

- the A1 Principal Distribution Amount *plus*
- the F1 Principal Distribution Amount *plus*
- the P1 Principal Distribution Amount.

On each Distribution Date, we will pay the A1 Principal Distribution Amount as principal of the A1 Class, until its principal balance is reduced to zero.

On each Distribution Date, we will pay the F1 Principal Distribution Amount as principal of the F1 Class, until its principal balance is reduced to zero.

On each Distribution Date, we will pay the P1 Principal Distribution Amount as principal of the P1 Class, until its principal balance is reduced to zero.

} Pass-Through Classes

**Certain Definitions Relating to Payments on the Certificates**

*A1 Percentage.* For any Category b Loan, the *excess* of 100% *over* the F1 Percentage for that loan.

*A1 Principal Distribution Amount.* For any Distribution Date, the *sum* of the following:

- the Category a Non-P1 Cash Flow Distribution Amount for that date, *plus*
- the Category b A1 Cash Flow Distribution Amount for that date.

*Category a Non-P1 Cash Flow Distribution Amount.* For any Distribution Date, the aggregate of the following amounts, without duplication:

- the applicable Non-P1 Percentage of the monthly payment of principal due on each Category a Loan during the related Due Period, *plus*
- the applicable Non-P1 Percentage of the Stated Principal Balance of each Category a Loan that Fannie Mae, the Servicer or the Seller purchases during the related Due Period, *plus*
- the applicable Non-P1 Percentage of the Stated Principal Balance of each Category a Loan reported as having become a Liquidated Loan during the related Due Period, *plus*

- the applicable Non-P1 Percentage of any partial or full principal prepayment reported as having been received during the related Due Period from borrowers on any Category a Loan.

*Category a Loans.* Mortgage Loans having Net Mortgage Rates *less than 6.0%*.

*Category b A1 Cash Flow Distribution Amount* For any Distribution Date, the *sum* of the following amounts, without duplication:

- the applicable A1 Percentage of the monthly payment of principal due on each Category b Loan during the related Due Period, *plus*
- the applicable A1 Percentage of the Stated Principal Balance of each Category b Loan that Fannie Mae, the Servicer or the Seller purchases during the related Due Period, *plus*
- the applicable A1 Percentage of the Stated Principal Balance of each Category b Loan reported as having become a Liquidated Loan during the related Due Period, *plus*
- the applicable A1 Percentage of any partial or full principal prepayment reported as having been received from borrowers on any Category b Loan during the related Due Period.

*Category b F1 Cash Flow Distribution Amount.* For any Distribution Date, the *sum* of the following amounts, without duplication:

- the applicable F1 Percentage of the monthly payment of principal due on each Category b Loan during the related Due Period, *plus*
- the applicable F1 Percentage of the Stated Principal Balance of each Category b Loan that Fannie Mae, the Servicer or the Seller purchases during the related Due Period, *plus*
- the applicable F1 Percentage of the Stated Principal Balance of each Category b Loan reported as having become a Liquidated Loan during the related Due Period, *plus*
- the applicable F1 Percentage of any partial or full principal prepayment reported as having been received from borrowers on any Category b Loan during the related Due Period.

*Category b Loans.* Mortgage Loans having Net Mortgage Rates *equal to or greater than 6.0%* but not greater than 7.5%.

*Category c Cash Flow Distribution Amount.* For any Distribution Date, the aggregate of the following amounts, without duplication:

- the monthly payment of principal due on each Category c Loan during the related Due Period, *plus*
- the Stated Principal Balance of each Category c Loan that Fannie Mae, the Servicer or the Seller purchases during the related Due Period, *plus*
- the Stated Principal Balance of each Category c Loan reported as having become a Liquidated Loan during the related Due Period, *plus*
- any partial or full principal prepayment reported as having been received during the related Due Period from borrowers on any Category c Loan.

*Category c Loans.* Mortgage Loans having Net Mortgage Rates *greater than 7.5%*

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

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

*F1 Percentage.* For any Category b Loan, (the related Net Mortgage Rate *minus* 6.0%) *divided* by 1.5%, expressed as a percentage.

*F1 Principal Distribution Amount.* For any Distribution Date, the *sum* of the following:

- the Category b F1 Cash Flow Distribution Amount for that date, *plus*
- the Category c Cash Flow Distribution Amount for that date.

*Liquidated Loan.* A defaulted Mortgage Loan with respect to which the Servicer has concluded that the full amount finally recoverable on account of that loan has been received, whether or not this amount is equal to the principal balance of that loan.

*Net Mortgage Rate.* For any Mortgage Loan, the Mortgage Interest Rate of that loan minus the sum of (i) the Servicing Fee Rate and (ii) the rate at which the Guaranty Fee is calculated with respect to that loan.

*Non-P1 Percentage.* For any Category a Loan, the related Net Mortgage Rate *divided* by 6.0%, expressed as a percentage.

*P1 Percentage.* For any Category a Loan, (6.0% *minus* the related Net Mortgage Rate) *divided* by 6.0%, expressed as a percentage.

*P1 Principal Distribution Amount.* For any Distribution Date, the aggregate of the following amounts, without duplication:

- the applicable P1 Percentage of the monthly payment of principal due on each Category a Loan during the related Due Period, *plus*
- the applicable P1 Percentage of the Stated Principal Balance of each Category a Loan that Fannie Mae, the Servicer or the Seller purchases during the related Due Period, *plus*
- the applicable P1 Percentage of the Stated Principal Balance of each Category a Loan reported as having become a Liquidated Loan during the related Due Period, *plus*
- the applicable P1 Percentage of any partial or full principal prepayment reported as having been received during the related Due Period from borrowers on any Category a Loan.

*Servicing Fee Rate.* The percentage identified on the Mortgage Loan Schedule.

*Stated Principal Balance.* The unpaid principal balance of a Mortgage Loan (or the scheduled unpaid principal balance thereof, in the case of Mortgage Loans that are delinquent) as of the Issue Date reduced by all amounts representing principal received or advanced by the Servicer and previously paid to Certificateholders with respect to that loan.

## 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 page of this prospectus.

<u>Abbreviation</u>	<u>Category of Class</u>	<u>Definition</u>
<b>INTEREST TYPES</b>		
FIX	Fixed Rate	Has an interest rate that is fixed throughout the life of the class.
FLT	Floating Rate	Has an interest rate that resets periodically based upon a designated index and that varies directly with changes in the index.
INV	Inverse Floating Rate	Has an interest rate that resets periodically based upon a designated index and that varies inversely with changes in the index.
IO	Interest Only	Receives some or all of the interest payments made on the related mortgage loans or other assets of the trust but no principal. Interest Only Classes have a notional principal balance. A notional principal balance is the amount used as a reference to calculate amount of interest due on an Interest Only Class.
NPR	No Payment Residual	Receives no payments of interest.
PO	Principal Only	Does not bear interest and is entitled to receive only payments of principal.
WAC	Weighted Average Coupon	Has an interest rate that represents an effective weighted average interest rate that may change from period to period.
<b>PRINCIPAL TYPES</b>		
NPR	No Payment Residual	Receives no payments of principal.
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.
PT	Pass-Through	Is designed to receive principal payments in direct relation to actual or scheduled payments on some or all of the related mortgage loans.

## Special Characteristics of the R and RL Classes

The R and RL Classes will not have principal balances and will not bear interest. If any assets of the Trust remain after the principal balances of all Classes are reduced to zero, we will pay the Holder of the R Class the proceeds of those assets. If any assets of the Lower Tier REMIC remain after the principal balances of the Lower Tier Regular Interests are reduced to zero, we will pay the proceeds of those assets to the Holder of the RL Class. We do not expect that any material assets will remain in either case.

No R or RL 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 the R or RL 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 or RL 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 or RL Certificate will not be owned directly or indirectly by a disqualified organization,
- it is not acquiring the R or RL 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 or RL Certificate,
- it intends to pay taxes on the R or RL Certificate as they become due,
- it will not cause income from the R or RL 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 or RL Certificate unless it has received from the new transferee an affidavit containing these same eight 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 a Residual Certificate—Sales and Other Dispositions of a Residual Certificate—Residual Certificate 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) in which the transferee provides its taxpayer identification number. In addition, if a pass-through entity (including a nominee) holds an R or RL Certificate, it may be subject to additional taxes if a disqualified organization is a record holder in the entity.

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

- a citizen or resident of the United States,
- a corporation, partnership or other entity created under the laws of the United States or any of 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 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 or RL 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 four 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 transferee makes the representation to the transferor in the affidavit relating to foreign permanent establishments discussed above. Fourth, the transfer satisfies either the “asset test” or the “formula test.” If you plan to transfer an R or RL Certificate, you should consult your own tax advisor for further information.

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” as defined in section 860L(a)(2) of the Code and it agrees in writing that any subsequent transfer of the Certificate 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 R or RL Certificate will not be paid. A transfer satisfies the formula test if the present value of the anticipated tax liabilities associated with holding the R or RL Certificate is less than or equal to the present value of the sum of (i) any consideration given to the transferee to acquire the R or RL 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 or RL Certificate.

The Holder of the R Class will be considered to be the holder of the “residual interest” in the REMIC constituted by the Trust, and the Holder of the RL Class 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.” Pursuant to the Trust Agreement we will be obligated to provide to the Holder or Holders of the R and RL Classes (i) information that they need to prepare their federal income tax returns and (ii) any reports regarding the R or RL Class that may be required under the Code.

## **Structuring Assumptions**

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

- payments on all Mortgage Loans are due and received on the first day of each month;
- each year consists of twelve 30-day months;
- the Mortgage Loans prepay at the CPR levels specified in the related table;
- the Servicer does not exercise its optional clean-up call;



- the settlement date for the sale of the Certificates occurs on April 30, 2004; and
- each Distribution Date for the Certificates occurs on the 25th day of the month, beginning in May 2004.

*Prepayment Assumptions.* Prepayments of mortgage loans commonly are measured relative to a prepayment standard or model. The model used in this prospectus is the “Constant Prepayment Rate” or “CPR” model. The CPR model represents an assumed *constant* rate of prepayment each month, expressed as a per annum percentage of the then outstanding principal balance of the pool of mortgage loans. *This model does not purport to be an 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 any constant percentage of the Prepayment Assumption or at any other constant rate.*

## Yield Tables

*General.* The tables below illustrate the sensitivity of the pre-tax corporate bond equivalent yields to maturity of the applicable Classes to various constant percentages of CPR. We calculated the yields set forth in the tables by

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

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

We cannot assure you that

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

Furthermore, because some of the Mortgage Loans are likely to have remaining terms to maturity shorter or longer than those assumed and interest rates higher or lower than those assumed, the principal payments on the Certificates are likely to differ from those assumed. This would be the case even if all Mortgage Loans prepay at the indicated constant percentages of CPR. Moreover, it is unlikely that

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

***The Inverse Floating Rate Class.* The yield to investors in the Inverse Floating Rate Class will be very sensitive to the rate of principal payments (including prepayments) of the related Mortgage Loans. The Mortgage Loans can be prepaid at any time without penalty. As illustrated in the table below, it is possible that investors in the Inverse Floating Rate Class would lose money on their initial investments.**



Changes in the Index may not correspond to changes in prevailing mortgage interest rates. It is possible that lower prevailing mortgage interest rates, which might be expected to result in faster prepayments, could occur while the level of the Index increased.

The information shown in the following yield table has been prepared on the basis of the Pricing Assumptions and the assumptions that

- the interest rate on the Inverse Floating Rate Class for the initial Interest Accrual Period is the rate listed in the table under “Reference Sheet—Interest Rates” in this prospectus and for each following Interest Accrual Period will be based on the specified level of the Index, and
- the aggregate purchase price of the Inverse Floating Rate Class (expressed as a percentage of the original notional principal balance) is as follows:

<u>Class</u>	<u>Price*</u>
S1 .....	9.375%

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

**Sensitivity of the S1 Class to Prepayments and LIBOR†  
(Pre-Tax Yields to Maturity)**

<u>LIBOR</u>	<u>CPR Prepayment Assumption</u>				
	<u>5%</u>	<u>10%</u>	<u>20%</u>	<u>30%</u>	<u>40%</u>
0.10% .....	76.9%	69.8%	55.1%	39.5%	22.5%
1.10% .....	63.8%	57.1%	43.0%	27.9%	11.7%
3.10% .....	38.6%	32.4%	19.5%	5.8%	(9.1)%
5.10% .....	14.3%	8.6%	(3.1)%	(15.6)%	(29.1)%
7.05% .....	*	*	*	*	*

† Applies only to the Category b and Category c Loans.

\* The pre-tax yield to maturity would be less than (99.9)%.

***The Weighted Average Coupon Class.*** The yields to investors in the Weighted Average Coupon Class will be very sensitive to the rate of principal payments (including prepayments) of the related Mortgage Loans. The Mortgage Loans can be prepaid at any time without penalty. Under various prepayment scenarios for the related Mortgage Loans, the investors in the Weighted Average Coupon Class would lose money on their initial investments.

We cannot assure you that:

- the Mortgage Loans will prepay at any of the assumed rates in this prospectus or at any other particular rate;
- the pre-tax yields on the Weighted Average Coupon Class will correspond to any of the pre-tax yields shown in this prospectus; or
- the aggregate purchase price of the Weighted Average Coupon Class will be the price assumed below.

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

<u>Class</u>	<u>Price*</u>
X1 .....	1.65%

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

#### Sensitivity of the X1 Class to Prepayments\*

	<u>CPR Prepayment Assumption</u>				
	<u>5%</u>	<u>10%</u>	<u>20%</u>	<u>30%</u>	<u>40%</u>
<u>Pre-Tax Yields to Maturity</u> .....	50.0%	43.6%	30.2%	15.8%	0.4%

\* Applies only to the Category c Loans.

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

The information shown in the following yield table has been prepared on the basis of the Pricing Assumptions and the assumption that the aggregate purchase price of the P1 Class (expressed as a percentage of the original principal balance) is as follows:

<u>Class</u>	<u>Price</u>
P1 .....	68.0%

#### Sensitivity of the P1 Class to Prepayments\*

	<u>CPR Prepayment Assumption</u>				
	<u>5%</u>	<u>10%</u>	<u>20%</u>	<u>30%</u>	<u>40%</u>
<u>Pre-Tax Yields to Maturity</u> .....	4.0%	6.2%	11.6%	18.1%	25.8%

\* Applies only to the Category a Loans.

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

The weighted average lives of the Certificates will be influenced by, among other factors, the rate at which principal payments are made on the related Mortgage Loans. For the purpose of the preceding sentence, principal payments include scheduled payments, principal prepayments, liquidations due to default, casualty and condemnation and payments made pursuant to either our guaranty

of payment or our option to repurchase. The interaction of the above factors may result in differing principal prepayment speeds on the Classes of Certificates. Accordingly, we cannot give any assurance as to the weighted average lives of the Certificates.

## Maturity Considerations and Final Distribution Date

We expect the maturities of substantially all of the Mortgage Loans to be between 15 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.

## Decrement Tables

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

It is *unlikely* that all the Mortgage Loans:

- will have the interest rates or remaining terms to maturity assumed or
- will prepay at any constant percentage of CPR.

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

### Percent of Original Principal Balances Outstanding

Date	A1 Class					F1 and S1† Classes					P1 Class					X1† Class				
	CPR Prepayment Assumption					CPR Prepayment Assumption					CPR Prepayment Assumption					CPR Prepayment Assumption				
	0%	10%	20%	30%	40%	0%	10%	20%	30%	40%	0%	10%	20%	30%	40%	0%	10%	20%	30%	40%
Initial Percent	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100
April 2005	99	89	79	69	59	99	89	79	69	59	98	89	79	69	59	98	89	79	69	59
April 2006	97	79	62	48	35	97	79	62	48	35	97	78	62	47	35	97	78	62	47	35
April 2007	95	70	49	33	21	95	70	49	33	21	95	69	49	33	21	95	69	48	32	20
April 2008	94	61	38	23	12	94	61	38	22	12	93	61	38	22	12	92	61	38	22	12
April 2009	92	54	30	15	7	92	54	30	15	7	91	54	30	15	7	90	53	29	15	7
April 2010	90	48	24	11	4	90	48	23	11	4	89	48	23	11	4	87	46	23	10	4
April 2011	88	42	18	7	2	87	42	18	7	2	87	42	18	7	2	84	40	18	7	2
April 2012	85	37	14	5	1	85	36	14	5	1	85	37	14	5	1	81	35	14	5	1
April 2013	83	32	11	3	1	82	32	11	3	1	82	32	11	3	1	78	30	10	3	1
April 2014	80	28	9	2	*	79	28	9	2	*	80	28	9	2	*	74	26	8	2	*
April 2015	78	24	7	2	*	76	24	7	2	*	77	24	7	2	*	70	22	6	1	*
April 2016	75	21	5	1	*	73	21	5	1	*	74	21	5	1	*	66	19	5	1	*
April 2017	72	18	4	1	*	69	18	4	1	*	71	18	4	1	*	61	15	3	1	*
April 2018	68	16	3	*	*	65	15	3	*	*	67	15	3	*	*	55	13	2	*	*
April 2019	64	13	2	*	*	61	13	2	*	*	64	13	2	*	*	50	10	2	*	*
April 2020	61	11	2	*	*	56	10	2	*	*	60	11	2	*	*	43	8	1	*	*
April 2021	56	9	1	*	*	51	9	1	*	*	56	9	1	*	*	36	6	1	*	*
April 2022	52	8	1	*	*	46	7	1	*	*	51	8	1	*	*	28	4	1	*	*
April 2023	47	6	1	*	*	40	5	1	*	*	47	6	1	*	*	20	3	*	*	*
April 2024	42	5	*	*	*	34	4	*	*	*	42	5	*	*	*	11	1	*	*	*
April 2025	36	4	*	*	*	27	3	*	*	*	36	4	*	*	*	1	*	*	*	*
April 2026	30	3	*	*	*	22	2	*	*	*	31	3	*	*	*	0	0	0	0	0
April 2027	24	2	*	*	*	17	2	*	*	*	25	2	*	*	*	0	0	0	0	0
April 2028	17	1	*	*	*	12	1	*	*	*	18	1	*	*	*	0	0	0	0	0
April 2029	10	1	*	*	*	6	*	*	*	*	12	1	*	*	*	0	0	0	0	0
April 2030	2	*	*	*	*	1	*	*	*	*	4	*	*	*	*	0	0	0	0	0
April 2031	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Weighted Average Life (years)**	16.9	7.4	4.1	2.7	1.9	16.1	7.2	4.1	2.7	1.9	16.9	7.3	4.1	2.7	1.9	13.7	6.8	4.0	2.7	1.9

\* 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.

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

## **THE TRUST AGREEMENT**

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

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

The Trust Agreement will contain a mortgage loan schedule (the “Mortgage Loan Schedule”) that will identify the Mortgage Loans that are being transferred to the Trust. As Trustee, we will hold, on behalf of the Certificateholders, the original Mortgage Notes, endorsed in blank, and assignments of the mortgage instruments to us in recordable form. Usually assignments are in a form suitable for recording but they are not recorded. However, a blanket assignment may be used for the transfer of a large number of Mortgage Loans, even if the properties are not located in the same recording jurisdiction, depending on the applicable Lender’s servicing experience and its financial condition.

At our option, we may choose to maintain the documents described above with one or more custodian institutions supervised and regulated by the Comptroller of the Currency, the Board of Governors of the Federal Reserve System, the Office of Thrift Supervision, the FDIC or the NCUA. We will review the Mortgage Loan Schedule before we issue the Certificates and will conduct random spot checks after issuing the Certificates to confirm that we have all the documents we need. 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.

If a liquidation, reorganization, or similar proceeding involving our assets or the assets of a Lender were to occur, it is not clear what law would be applicable. As a result, we cannot render a legal opinion about the Certificateholders’ rights to the Mortgage Loans in the event of a proceeding of this type.

### **Servicing Through Lenders**

Pursuant to the Trust Agreement, we are responsible for servicing and administering the Mortgage Loans. We are permitted, in our discretion, to contract with the originator of each Mortgage Loan, or another eligible servicing institution, to perform such functions under our supervision as more fully described below (each, a “Lender”). Any servicing contract or arrangement by us with a Lender for the direct servicing of Mortgage Loans is a contract solely between us and that Lender. Therefore, Certificateholders will not be deemed to be parties to such contract and will have no claims, rights, obligations, duties, or liabilities with respect to any Lender.

Unless we agree otherwise, Lenders will be obligated to perform diligently all services and duties customary to the servicing of mortgages in accordance with our applicable Guide. We will monitor the Lender’s performance and we have the right to remove any Lender for cause at any time we consider such removal to be in the best interest of Certificateholders. The duties performed by Lenders 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.

### **Servicing Compensation and Payment of Certain Expenses by Fannie Mae**

We will be entitled to retain an amount based on the principal balance of each Mortgage Loan for Trust expenses and as compensation for our activities and obligations under the Trust Agreement. In addition, we are entitled to retain a portion of the proceeds of the liquidation of a Mortgage Loan that exceeds (i) the principal balance of that Mortgage Loan and (ii) interest owed through the end of the month in which the liquidation occurs at the related Mortgage Interest Rate. We will pay all expenses

incurred in connection with our servicing activities, including, without limitation, the fees to Lenders, and we are not entitled to be reimbursed for such expenses out of the assets of the Trust.

We will retain additional servicing compensation in the form of assumption fees, late payment charges, or otherwise.

### **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 related REMIC).

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 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 a class factor for each Class of Certificates on or shortly after the 23rd calendar day of each month. If you multiply the class factor for a Certificate by the original principal balance or notional balance of the Certificate, you will obtain the current principal balance or notional balance of that Certificate, after giving effect to the principal payment to be made on the following Distribution Date.

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

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

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

We are responsible for servicing the Mortgage Loans and may, as set forth above, conduct such servicing through Lenders or through other Fannie Mae approved mortgage servicers. In connection with our servicing activities, we have full power and authority to do or cause to be done any and all things we may deem necessary or appropriate, including the foreclosure or comparable conversion of a defaulted Mortgage Loan.

With respect to each Mortgage Loan, the Lender 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 related 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 Mortgage Loan from the Trust at a price equal to its stated principal balance together with interest thereon at the Net Mortgage Rate.

Subject to the limitations discussed below, we may:

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

We may waive any assumption fee, or late payment charge, or may exercise or refrain from exercising any “call option rider.” If we decide to take or refrain from taking any of the actions discussed above, our decision must be consistent with the then-current policies or practices that we follow for comparable mortgage loans held in our own portfolio. In making our decisions, we may not take into account the ownership status of the related Mortgage Loan.

Each Mortgage Loan provides that it will be assumable upon the sale of the related Mortgaged Property, subject generally to the purchaser’s compliance with credit and underwriting guidelines.

### **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 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.

### **Optional Purchase of Certain Mortgage Loans by Fannie Mae**

Under certain limited circumstances, the Mortgage Interest Rates on the Mortgage Loans may be reduced. In the event of any such reduction, the Seller will be obligated to pay the difference between the original Mortgage Interest Rate and the Mortgage Interest Rate as modified. If the Seller defaults in this obligation, Fannie Mae will have the option of purchasing from the Trust the related Mortgage Loan. Any such purchase of a Mortgage Loan from the Trust by Fannie Mae will occur at a price equal to its outstanding Stated Principal Balance plus one month’s interest at the applicable Net Mortgage Rate.



## **Events of Default**

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

- if we fail to pay Certificateholders any required amount and our failure continues uncorrected for 15 days after Certificateholders owning at least 5% of the Certificates 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 the Certificates 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 the Certificates have the right to terminate, in writing, all of our obligations under the Trust Agreement. These obligations include our duties as trustee as well as in our corporate capacity. However, our guaranty obligations will continue in effect. The same proportion of Certificateholders also may appoint, in writing, a successor to assume all of our terminated obligations. This successor will take legal title to the Mortgage Loans and other assets of the Trust.

## **Voting Rights**

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

## **Amendment**

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

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

If Certificateholders who own at least 66% of the Certificates 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 Trust has been paid off or liquidated, and the proceeds of that loan have been paid to Certificateholders. The Trust Agreement also will terminate if the Servicer exercises its optional clean-up call and purchases all remaining Mortgage Loans in the Trust. The purchase price for such optional repurchase will equal the Stated Principal Balance of each Mortgage Loan (including one month's interest at the Net Mortgage Rate).

The Servicer may not exercise its optional clean-up call unless the aggregate principal balance of the remaining Mortgage Loans is less than 5% of the aggregate Stated Principal Balance of all the Mortgage Loans as of the Issue Date.

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

## **CERTAIN FEDERAL INCOME TAX CONSEQUENCES**

The Certificates and payments on the Certificates generally are subject to 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 various reasons, including the following:

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

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

The Treasury Department recently issued Regulations directed at “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 own tax advisor concerning any possible disclosure obligation with respect to your investment in the Certificates.

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

- REMIC Elections and Special Tax Attributes

- Taxation of Beneficial Owners of Regular Certificates
- Taxation of Beneficial Owners of a Residual Certificate
- Taxation of Beneficial Owners of RCR Certificates
- Taxes on the REMICs
- Reporting and Other Administrative Matters
- Backup Withholding
- Foreign Investors

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

We will elect to treat the Trust and the Lower Tier REMIC as REMICs under the Code. Qualification as a REMIC requires ongoing compliance with certain conditions. Dewey Ballantine LLP, special tax counsel to Fannie Mae, will deliver its opinion to Fannie Mae that, assuming compliance with the Trust Agreement, the Trust and the Lower Tier REMIC will be treated as REMICs for federal income tax purposes. The REMIC Certificates (other than the R and RL Classes) will be designated as the “regular interests” in the Upper Tier REMIC (each a “Regular Certificate” and, together, the “Regular Certificates”) and the R Class will be designated as the “residual interest” in the Trust. The Lower Tier Regular Interests will be designated as the “regular interests” in the Lower Tier REMIC and the RL Class will be designated as the “residual interest” in the Lower Tier REMIC (together with the R Class, the “Residual Certificates”).

Because the Trust and the Lower Tier REMIC will qualify as REMICs, the Regular and Residual Certificates and any related RCR 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 “real estate assets,” then the portion of the Regular and Residual Certificates that are qualifying assets under section 856(c)(5)(B) of the Code during the calendar year may be limited to the portion of the assets of the Lower Tier REMIC that are “real estate assets.” Similarly, income on the Regular and Residual Certificates will be treated as “interest on obligations secured by mortgages on real property” within the meaning of section 856(c)(3)(B) of the Code, subject to the same limitation as set forth in the preceding sentence. In general, a Mortgage Loan will be a “qualified mortgage” if the Mortgage Loan is “principally secured by an interest in real property” within the meaning of section 860G(a)(3) of the Code. The assets of the Lower Tier REMIC will include, in addition to the Mortgage Loans, payments on the Mortgage Loans held pending distribution on the Regular and Residual Certificates and any reinvestment income thereon.

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

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

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

method of accounting. Rules regarding original issue discount and market discount are discussed below.

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

The P1, S1 and X1 Classes will be, and certain other Classes of Regular Certificates may be, issued with “original issue discount” (“OID”) within the meaning of section 1273(a) of the Code. A Regular Owner must include in gross income the sum of the “daily portions” of OID on its Regular Certificate for each day during its taxable year on which it held the Certificate, generally in advance of receipt of the cash attributable to that income. We will supply to Holders, brokers and middlemen information with respect to the original issue discount accruing on the Regular Certificates. We will supply this information at the time and in the manner required by the Internal Revenue Service (the “IRS”).

#### *Definition of Original Issue Discount*

In general, a Regular Certificate will be considered to be issued with OID equal to the excess, if any, of its “stated redemption price at maturity” over its “issue price.” The issue price of a Regular Certificate is the initial 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 of a Regular Certificate of the P1, S1 and X1 Classes, however, is equal to the sum of all distributions to be made under that Regular Certificate.

Notwithstanding the general definition, OID on a Regular Certificate will be treated as zero if the discount is less than 0.25% of the stated redemption price at maturity of the Certificate multiplied by its weighted average life. The weighted average life of a Regular Certificate is apparently computed for this purpose as the sum, for all distributions included in the stated redemption price at maturity of the Certificate, of the amounts determined by multiplying (i) the number of complete years (rounding down for partial years) from the Settlement Date until the date on which each such distribution is expected to be made under the assumption that the mortgage loans backing the related underlying securities prepay at a specified rate by (ii) a fraction, the numerator of which is the amount of such distribution and the denominator of which is the Regular Certificate’s stated redemption price at maturity. If OID is treated as zero under this rule, the actual amount of OID must be allocated to the principal distributions on the Regular Certificate and, when each principal distribution is received, gain equal to the discount allocated to that distribution will be recognized. The prepayment assumption that will be used in determining the rate of accrual of OID with respect to the Regular Certificates will be 20% CPR. See “Description of the Certificates—Structuring Assumptions—*Prepayment Assumptions*” in this prospectus.

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

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

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

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

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

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

- the yield to maturity of the Regular Certificate, calculated as of the Settlement Date, giving effect to the applicable prepayment assumption,
- events (including actual prepayments) that have occurred prior to the end of the accrual period, and
- the prepayment assumption.

The adjusted issue price of a Regular Certificate at any time will equal the issue price of the 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 Certificate as of that time of amounts included in the stated redemption price at maturity.

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

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

If a Regular Certificate is issued with OID and a subsequent holder purchases the 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 will be recognized. Any tax benefit from the premium not previously recognized will be taken into account in computing gain or loss upon the sale or disposition of the Premium Certificate.

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

A Regular Owner that purchases a Regular Certificate at a price that is less than the remaining stated redemption price at maturity of the Regular Certificate (or in the case of a Regular Certificate issued with OID, less than the adjusted issue price of the Regular Certificate) has market discount with respect to the Regular 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 Certificates of the S1 and X1 Classes.

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

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

## **Termination**

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

### ***Taxation of Beneficial Owners of a Residual Certificate***

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

The Treasury Department recently issued proposed regulations providing that, to clearly reflect income, an inducement fee paid to a transferee of a noneconomic residual interest in a REMIC must

be included in income over a period that is reasonably related to the period during which the applicable REMIC is expected to generate taxable income or net loss allocable to the transferee. The proposed regulations set forth two safe harbor methods under which a taxpayer's accounting for the inducement fee will be considered to clearly reflect income for these purposes. The proposed regulations also provide that an inducement fee shall be treated as income from sources within the United States. If finalized as proposed, the regulations would be effective for taxable years ending on or after publication of the final regulations in the Federal Register. The proposed regulations contain additional details regarding their application and you should consult your own tax advisor regarding the application of the proposed regulations.

### **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 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 related REMIC for the quarter and then allocating that amount among the Residual Owners in accordance with their percentage interests on that day. Daily portions of income or loss allocated to a Residual Owner will be treated as ordinary income or loss. A Residual Owner must continue to report its daily portion of the taxable income or net loss of the related REMIC until no regular interests in that REMIC 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 the Trust and Lower Tier REMIC will be the income from the "qualified mortgages" they hold and any reinvestment earnings less deductions allowed to the related REMIC. In general, a Mortgage Loan will be a "qualified mortgage" if the Mortgage Loan, respectively, is "principally secured by an interest in real property" within the meaning of section 860G(a)(3) of the Code.

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

- For the Trust, a deduction will be allowed for accruals of interest (including any OID, but without regard to the investment interest limitation in section 163(d) of the Code) on the Regular Certificates (but not the R Certificate).
- Market discount equal to any excess of the total Stated Principal Balances of the qualified mortgages over the related REMIC's basis in these mortgages generally will be included in income by the related REMIC as it accrues under a constant yield method, taking into account the prepayment assumption described above.
- If the related 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.
- The REMICs 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 is 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 the related 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.

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

A Residual Owner may be required to recognize taxable income without being entitled to receive a corresponding amount of cash. This could occur, for example, if mortgage loans are considered to be purchased by a REMIC at a discount, some or all of the regular certificates are issued at a discount, and the discount included as a result of a prepayment on a mortgage loan that is used to pay principal on the regular certificates exceeds the REMIC’s deduction for unaccrued original issue discount relating to the regular certificates. Taxable income of a REMIC may also be greater in earlier years because interest expense deductions, expressed as a percentage of the outstanding principal amount of the regular certificates, may increase over time as the earlier classes of regular certificates are paid, whereas interest income of a 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 related Residual Certificate equal to the amount paid for the Residual Certificate. The basis is increased by amounts included in the income of the Residual Owner and decreased by distributions and by any net loss taken into account with respect to the Residual Certificate. A distribution on the Residual Certificate to a Residual Owner is not included in gross income to the extent it does not exceed the Residual Owner’s basis in the Residual Certificate (adjusted as described above) and, to the extent it exceeds the adjusted basis of the Residual Certificate, is treated as gain from the sale of the Residual Certificate.

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

### **Treatment of Excess Inclusions**

Any excess inclusions with respect to a Residual Certificate are subject to certain special tax rules. All taxable income with respect to the R and RL Certificates 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, “Description of Certificates—Servicing Through Lenders” and “Certain Federal Income Tax Consequences” in our MBS prospectus. A deduction for such fees generally will be allowed to such a Residual Owner only to the extent that such fees, along with certain of the Residual Owner’s other miscellaneous itemized deductions, exceed 2% of the Residual Owner’s adjusted gross income. In addition, such a Residual Owner may not be able to deduct any portion of such fees in computing the Residual Owner’s alternative minimum tax liability. A Residual Owner’s share of such fees generally will be determined by (i) allocating the amount of such expenses for each calendar quarter on a *pro rata* basis to each day in the calendar quarter, and (ii) allocating the daily amount among the Residual Owners in proportion to their respective holdings on that day. Similar rules apply in the case of (i) estates and trusts, and (ii) individuals owning an interest in 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 a Residual Certificate**

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 the Residual Certificate is determined as described above under “—Basis Rules and Distributions.” Except as provided in section 582(c) of the Code, the gain or loss, if any, will be capital gain or loss, provided the Certificate is held as a capital asset.

If a Residual Owner sells or otherwise disposes of 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 Certificate Transferred to or Held by Disqualified Organizations*

Section 860E(e) of the Code imposes a substantial tax, payable by the transferor (or, if a transfer is through a broker, nominee, or other middleman as the transferee's agent, payable by that agent) upon any transfer of the Residual Certificate to a "disqualified organization." A transfer includes any transfer of record or beneficial ownership, whether pursuant to a purchase, a default under a secured lending agreement or otherwise. The term "disqualified organization" is defined above under "Description of the Certificates—Special Characteristics of the R and RL Classes" in this prospectus. The transferor of a Residual Certificate (or an agent of the transferee of a 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, certain limited liability companies 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 a Residual Certificate*

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 Trust 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 and RL Classes" in this prospectus for a discussion of additional provisions applicable to transfers of a Residual Certificate.

### **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 qualified mortgage remaining in the related 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***

The REMICs will not be subject to federal income tax except with respect to income from prohibited transactions and in certain other instances described below. It is not anticipated that the REMICs will engage in any transactions that will give rise to a tax on the REMICs. Pursuant to its guaranty obligations with respect to the Certificates, Fannie Mae will make distributions on the Certificates without offset or deduction for any tax imposed on the REMICs.

#### **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, each REMIC will be treated as a partnership and the related Residual Owners will be treated as partners in that REMIC. We will prepare, sign and file federal income tax returns for the REMICs, which returns are subject to audit by the IRS. We will also act as the tax matters partner for the REMICs, either as a beneficial owner of a Residual Certificate or as a fiduciary for a Residual Owner. 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 the tax matters partner.

Within a reasonable time after the end of each calendar year, we will furnish to each Holder that received a distribution during that year a statement setting forth the portions of any distributions that constitute interest distributions, OID and any other information as is required by Treasury regulations and, with respect to Holders of a Residual Certificate, 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 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 related 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 Regular and Residual Certificates, may be subject to the “backup withholding tax” under section 3406 of the Code if recipients of the distributions fail to furnish to the payor certain information, including their taxpayer identification numbers, or otherwise fail to establish an exemption from this tax. Any amounts deducted and withheld from a distribution to a recipient would be allowed as a credit against the recipient’s federal income tax. Certain penalties may be imposed by the IRS on a recipient of distributions required to supply information who does not do so in the proper manner.

### ***Foreign Investors***

#### **Regular Certificates**

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

#### **Residual Certificates**

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

## **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 Federal Deposit Insurance Corporation, the Office of Thrift Supervision, the National Credit Union Administration, the Department of the Treasury or other federal or state agencies with similar authority, you should review the rules, guidelines and regulations that apply to you prior to purchasing or pledging the Certificates. In addition, if you are a financial institution, you should

consult your regulators concerning the risk-based capital treatment of any Certificate. **Investors should consult their own legal advisors in determining whether and to what extent the Certificates constitute legal investments or are subject to restrictions on investment and whether and to what extent the Certificates can be used as collateral for various types of borrowings.**

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

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

## PLAN OF DISTRIBUTION

We will acquire the Mortgage Loans from the Seller in exchange for the Certificates pursuant to the Sale and Servicing Agreement. Bear, Stearns & Co. Inc. (the “Dealer”), which has been retained by the Seller, proposes to offer the Certificates directly to the public from time to time in negotiated transactions at varying prices to be determined at the time of sale. The Dealer may effect such transactions to or through other dealers.

## **LEGAL MATTERS**

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

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Certain Assumed Characteristics of the Mortgage Loans  
(As of April 1, 2004)

Category a Loans		Weighted Average Remaining Term to Maturity (in Months) ("WARM")	Weighted Average Loan Age (in Months) ("WALA")	Weighted Average Original Term (in Months)
Issue Date Unpaid Principal Balance	Weighted Average Net Mortgage Rate	Weighted Average Mortgage Rate		
\$75,576,218	5.6860509215%	6.3010509215%	29	348
		319		
Category b Loans		Weighted Average Remaining Term to Maturity (in Months) ("WARM")	Weighted Average Loan Age (in Months) ("WALA")	Weighted Average Original Term (in Months)
Issue Date Unpaid Principal Balance	Weighted Average Net Mortgage Rate	Weighted Average Mortgage Rate		
\$150,129,696	6.6648700943%	7.2799644761%	44	357
		313		
Category c Loans		Weighted Average Remaining Term to Maturity (in Months) ("WARM")	Weighted Average Loan Age (in Months) ("WALA")	Weighted Average Original Term (in Months)
Issue Date Unpaid Principal Balance	Weighted Average Net Mortgage Rate	Weighted Average Mortgage Rate		
\$25,077,379	8.4009353832%	9.0166850651%	105	358
		253		

For any date of determination in any calendar month, the "Weighted Average Mortgage Rate" for any category of Mortgage Loans is the weighted average of the Mortgage Interest Rates of such Mortgage Loans during that calendar month; the "Weighted Average Net Mortgage Rate" for any category of Mortgage Loans is the weighted average of the Net Mortgage Rates of such Mortgage Loans during that calendar month; the "Weighted Average Remaining Term to Maturity" for any category of Mortgage Loans is the weighted average remaining amortization term of such Mortgage Loans during that calendar month; the "Weighted Average Loan Age" for any category of Mortgage Loans is the weighted average loan age of such Mortgage Loans during that calendar month. For each of the above definitions, the "weighted average" is calculated on the basis of the Stated Principal Balances of the Mortgage Loans in the related category at the beginning of the related calendar month.

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No one is authorized to give information or to make representations in connection with this offering other than those contained in this Prospectus and the Information Statement. You must not rely on any unauthorized information or representation. This Prospectus and the Information Statement do not constitute an offer or solicitation with regard to the Certificates if it is illegal to make such an offer or solicitation to you under state law. By delivering this Prospectus and the Information Statement at any time, no one implies that the information contained in these documents is correct after their dates.

The Securities and Exchange Commission has not approved or disapproved the Certificates or determined if this Prospectus is truthful and complete. Any representation to the contrary is a criminal offense.

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**\$250,783,293**  
**(Approximate)**



**Guaranteed REMIC  
Pass-Through Certificates  
Fannie Mae REMIC Trust 2004-W5**

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**PROSPECTUS**

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**Bear, Stearns & Co. Inc.**

**March 24, 2004**

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