

## Multifamily MBS Prospectus



### Guaranteed Mortgage Pass-Through Certificates (Multifamily Residential Mortgage Loans)

#### The Certificates

We, the Federal National Mortgage Association or Fannie Mae, will issue and guarantee the mortgage pass-through certificates. Each issue of certificates will have its own identification number and will represent the ownership of a pool of one or more multifamily residential mortgage loans secured by multifamily properties that contain at least five residential units and by participation interests in loans of that type.

#### Fannie Mae Guaranty

We guarantee that the holders of the certificates will receive timely payments of interest and principal. In addition, we guarantee the full and final payment of the unpaid principal balance of the certificates on the distribution date in the month of the maturity date specified in the prospectus supplement for the certificates. We alone are responsible for making payments under our guaranty. **The certificates and payments of principal and interest on the certificates 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.**

**Consider carefully the risk factors section beginning on page 9. Unless you understand and are able to tolerate these risks, you should not invest in the certificates.**

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

**The date of this Prospectus is August 1, 2002.**

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## INFORMATION ABOUT PROSPECTUS SUPPLEMENTS

We will provide information that supplements this prospectus in connection with each issue of certificates. The prospectus supplement will be available in paper form and, in some cases, may also be available electronically. The disclosure documents for any particular issue of certificates are this prospectus and the prospectus supplement relating to that issue, together with any information incorporated in these documents by reference as discussed below under the heading “*Additional Information about Fannie Mae.*” The prospectus supplement includes a prospectus supplement narrative, a schedule of loan information, and the final pool statistics. **In determining whether to purchase any issue of certificates, you should rely ONLY on the information in this prospectus, the related prospectus supplement and any information that we have incorporated into these documents by reference. You should not rely on information that may be offered to you by a third party. It may not be reliable.**

The prospectus supplement will include information about the pooled multifamily mortgage loan or loans backing a particular issue of certificates and about the certificates themselves. The information concerning the multifamily mortgage loans in the pool will be the most current information available to us on the first day of the month in which the certificates are being issued. Because the prospectus supplement will contain specific information about a particular issue of certificates, you should rely on the information in the prospectus supplement to the extent it varies from or is more complete than the information in this prospectus.

You may obtain copies of this prospectus and any related prospectus supplement by writing to Fannie Mae, 3900 Wisconsin Avenue, NW, Area 2H-3S, Washington, DC 20016 or by calling the Fannie Mae Helpline at 1-800-237-8627 or 202-752-6547. The prospectus supplement is generally available two business days before settlement of the related issue of certificates. These documents will also be available on our corporate Web site at [www.fanniemae.com](http://www.fanniemae.com) and on our business-to-business Web site at [www.efanniemae.com](http://www.efanniemae.com).

## SUMMARY

This summary highlights information contained elsewhere in this prospectus. As a summary, it speaks in general terms without giving details or discussing any exceptions. Before buying any issue of certificates, you should have the information necessary to make an investment decision. For that, you must read this prospectus in its entirety as well as any applicable prospectus supplement.

Title of Security . . . . . Guaranteed Mortgage Pass-Through Certificates (Multifamily Residential Mortgage Loans).

Issuer and Guarantor . . . . . Fannie Mae, a federally chartered and stockholder-owned corporation.

**Neither the certificates nor payments of principal and interest on the certificates are guaranteed by the United States, and the certificates do not constitute a debt or obligation of the United States or any of its agencies or instrumentalities other than Fannie Mae. We alone are responsible for making payments on our guaranty.**

Description of Certificates . . . . . Each certificate will represent an ownership interest in a pool of one or more multifamily mortgage loans or participation interests in multifamily mortgage loans. We will issue the certificates in book-entry form on the book-entry system of the U.S. Federal Reserve Banks, unless we specify a different system in the related prospectus supplement. The book-entry certificates will not be convertible into physical certificates.

Minimum Denomination . . . . . We will issue the certificates in minimum denominations of \$1,000.

Issue Date . . . . . The first day of the month in which the certificates are issued.

Distribution Date . . . . . Unless a different day is specified in the related prospectus supplement, payments to certificateholders will be made on the 25th of each month. If the specified day is not a business day, payment will be made on the next business day.

Maturity Date . . . . . The date specified in the prospectus supplement for each issue of certificates.

Discount Mortgage-Backed Securities (DMBS) . . . . . Some series of certificates are issued as DMBS, which are short-term mortgage-backed securities that do not bear interest and that have terms of less than one year (typically nine months or less). Investors purchase DMBS at a discount. On the maturity date, the holder of the DMBS receives the original stated principal amount of the DMBS.

If any voluntary or involuntary prepayments on the multifamily mortgage loans underlying a series of DMBS are received during the term of the DMBS, those prepayments are not passed through to DMBS certificateholders until the maturity date.

We guarantee the full and final payment to DMBS certificateholders of the full original stated principal amount of the certificates on the maturity date of the DMBS.

The related prospectus supplement will set forth the term and other specific characteristics of an issue of DMBS certificates.

Unless otherwise noted, the disclosures in this prospectus, including risk factors, that relate to early prepayments, monthly reports, distributions of interest and principal, defeasance of mortgage loans, and adjustable-rate certificates do not apply to DMBS.

Interest on the Certificates . . . . . On the distribution date in each month, we will pay interest on the certificates to the certificateholders.

Interest on the certificates may be calculated using a variety of methods. The related prospectus supplement will specify the method being used for a specific series of certificates.

If a pool contains fixed-rate multifamily mortgage loans, we will pay to certificateholders interest at the fixed pass-through rate stated in the related prospectus supplement.

If a pool contains adjustable-rate multifamily mortgage loans (other than those multifamily mortgage loans permitting negative amortization), we will pay to certificateholders interest at the variable pool accrual rate. The initial pool accrual rate is specified in the related prospectus supplement.

If a pool contains adjustable-rate multifamily mortgage loans permitting negative amortization, we will pay to certificateholders interest at the variable pool accrual rate minus the aggregate amount of any deferred interest that is added to the principal balances of the mortgage loans. The related prospectus supplement will state when a pool contains adjustable-rate multifamily mortgage loans permitting negative amortization. We generally do not purchase these loans.

Principal of the Certificates . . . . . On the distribution date in each month, we will pay to certificateholders:

- the scheduled principal due on the multifamily mortgage loans in the pool during the related due period,
- the stated principal balances of multifamily mortgage loans that were prepaid in full during the calendar month preceding the month in which that distribution date occurs,
- the stated principal balances of multifamily mortgage loans that were purchased out of the pool for any reason during the calendar month preceding the month in which that distribution date occurs, and
- the amount of any partial prepayments on multifamily mortgage loans received during the calendar month preceding the month in which that distribution date occurs.

The stated principal balance of a multifamily mortgage loan is the principal balance of the loan as of the issue date of the certificates, reduced by all payments of principal paid to certificateholders after that date with respect to the loan (and,

in the case of a negatively amortizing loan, increased by accrued interest, if any, that has been added to principal).

Prepayments in full received on the first day of a month may be treated as if received on the last day of the preceding month. If they are so treated, they will be passed through on the distribution date in the month of actual receipt.

With respect to any distribution date, the due period is the period from and including the second day of the calendar month preceding the month in which the distribution date occurs to and including the first day of the calendar month in which that distribution date occurs.

Prepayments ..... Some multifamily mortgage loans allow prepayment at any time. Other loans prohibit prepayment during an initial period but allow prepayment later in the term. When prepayment is permitted, the borrower may be charged a prepayment premium. Prepayment premiums may take a variety of forms, including, but not limited to, yield maintenance, a percentage of the unpaid principal balance of the multifamily mortgage loan being prepaid, or other forms. The prospectus supplement will specify when prepayments would be permitted on the multifamily mortgage loans in the pool, whether any prepayment premiums would be charged and whether any of the prepayment premiums, if collected, would be shared with you. **We do not guarantee the payment to you of any prepayment premiums.**

Defeasance ..... Some multifamily mortgage loans prohibit voluntary prepayments of principal but permit a borrower to choose to defease a loan. When a borrower chooses to defease a loan, the borrower will deliver to us substitute collateral acceptable to us and structured to make principal and interest payments identical to those being made on the related mortgage note. After delivery of the acceptable substitute collateral, we will release the mortgaged property from the lien of the mortgage. Although defeased, the loan remains in the pool. The acceptable substitute collateral funds the scheduled principal and interest on the loan for the remainder of the loan term. If there is a release of the mortgaged property, the related mortgage loan will no longer qualify as a “loan secured by an interest in real property.”

Monthly Pool Factors ..... On or about the fourth day of each month, we will publish the monthly pool factor for each issue of certificates. If you multiply the monthly pool factor by the original principal balance of the certificates, you will obtain the current principal balance of the certificates, after giving effect to the monthly principal payment to be paid on the distribution date in that month.

|  |  |
|--|--|
| Guaranty.....                            | <p>We guarantee payment to you on each distribution date of:</p> <ul style="list-style-type: none"> <li>• the aggregate amount of the borrowers' scheduled principal payments for the related due period, whether or not received, plus</li> <li>• an amount equal to one month's interest on the certificates.</li> </ul> <p>For fixed-rate pools, we guarantee payment of interest at the pass-through rate specified in the prospectus supplement.</p> <p>For adjustable-rate pools that do not permit negative amortization, we guarantee payment of interest at the variable pool accrual rate.</p> <p>For adjustable-rate pools containing multifamily mortgage loans permitting negative amortization, we guarantee payment of interest at the variable pool accrual rate less the aggregate amount of any deferred interest added to the principal balance of those loans.</p> <p>In addition, we guarantee the full and final payment of the unpaid principal balance of the certificates on the distribution date in the month of the maturity date of the certificates.</p> |
| Servicing.....                           | <p>We are usually responsible for servicing the multifamily mortgage loans in each pool. We typically contract with mortgage lenders to perform many servicing functions for us. Where we hold both a mortgage loan and an equity interest in a property, another unaffiliated holder of an equity interest in the transaction may be responsible for servicing the loans.</p>   |
| Multifamily Mortgage Pools.....          | <p>Each multifamily mortgage loan will meet our standards for loans that we purchase, unless we have allowed a variance for a specific loan. We may change our standards from time to time. Each mortgage pool will contain one or more multifamily mortgage loans or participation interests in multifamily mortgage loans.</p>   |
| Types of Multifamily Mortgage Loans..... | <p>Multifamily mortgage loans will have the following characteristics:</p> <ul style="list-style-type: none"> <li>• A loan may be either a conventional or government loan;</li> <li>• A loan may have either fixed or adjustable rates of interest;</li> <li>• A loan may be secured by a first mortgage lien or a subordinate mortgage lien;</li> <li>• A loan may provide for payments of principal and interest or payments of interest only;</li> <li>• A loan may fully amortize over its term, or it may only partially amortize over its term with a balloon payment at maturity;</li> <li>• A loan may permit negative amortization and accretion of interest.</li> </ul>   |

The related prospectus supplement will specify the type and characteristics of the multifamily mortgage loans in a particular pool.

Types of Real Property Securing

Multifamily Mortgage Loans . . . . .

Except to the extent that they have been defeased, multifamily mortgage loans will be secured by first or subordinate liens on the following types of real property:

- Apartment buildings that contain five or more dwelling units;
- Multifamily affordable housing;
- Seniors' housing (congregate care, assisted living);
- Cooperative housing projects that contain five or more units;
- Manufactured housing communities;
- Student housing.



## RISK FACTORS

You should carefully consider, among other things, the following risks associated with an investment in the certificates:

### INVESTMENT FACTORS:

**The certificates may not be a suitable investment for you.**

Because each investor has different investment needs and a different tolerance for risk, you should consult your own financial and legal advisors to determine whether the certificates are suitable investments for you. The certificates are complex financial instruments. They are not a suitable investment for every investor. Before investing, you should

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

### PREPAYMENT FACTORS:

#### *General*

**Multifamily mortgage loans in the pool could be repaid more quickly or more slowly than you had expected, affecting the timing of repayment of principal on your certificates.**

As a result, the return on your investment in the certificates could be less than you predicted when you purchased the certificates. If the loans are repaid more quickly, principal on your certificates will be paid to you sooner than you expected. You may not be able to reinvest these proceeds at a yield that is equal to or greater than the yield on your certificates. If the loans are repaid more slowly, then the principal on your certificates will be repaid to you later than you expected. Your ability to reinvest these funds would therefore be delayed. If the yield on your certificates is lower than the yield available on comparable investments at the date when you had expected your certificates to prepay or mature, you will be disadvantaged by having less principal available to reinvest and by having your investment dollars remain in the certificates for a longer-than-expected period. Moreover, even if the loans are repaid at a rate that on average is consistent with your expectations, variations in the rate over time can significantly affect your yield. If the rate of principal prepayment during any period is faster or slower than you expected, a corresponding reduction or increase in the prepayment rate during a later period may not fully offset the effect on your yield of the earlier prepayment rate.

Because many multifamily pools consist of only one or two loans, a difference in prepayment rates between what you had expected and what actually occurs may not only have a significant effect on your yield but also lead to a full prepayment of your certificate at a date much earlier or much later than you had expected. Some of the specific reasons why multifamily mortgage loans could be repaid at a rate different from your expectation are described in separate paragraphs below.

**The number and characteristics of loans will differ from pool to pool, causing prepayment speeds to differ for different issues of certificates.**

A multifamily mortgage loan pool may include a single loan, a mix of loans with differing characteristics or a group of loans originated at different times by different lenders. Differences among the loan characteristics and differences among the eligibility and underwriting standards applied to the loan purchases may affect the likelihood that a borrower will prepay a loan under various circumstances and that a borrower will become delinquent. Thus, the differences among pools may affect whether prepayment of a particular issue of certificates will follow historical prepayment averages or prepayment averages of otherwise similar certificates issued concurrently. This is especially true for pools including just one loan or a small number of loans.

#### *Refinance Environment*

**Prevailing interest rates could decline, causing borrowers to prepay their multifamily mortgage loans and refinance at lower interest rates, increasing the rate at which you receive your return of principal on the certificates.**

You could receive payments of principal on the certificates more quickly than you expected, which may be at a time when reinvestment rates are lower. While most multifamily mortgage loans require borrowers to pay yield maintenance fees or other types of prepayment premiums that discourage borrowers from prepaying, some multifamily loans may not require these payments. Generally, we do not waive prepayment premiums.

**Prevailing interest rates could rise, causing borrowers not to prepay their multifamily mortgage loans, slowing the rate at which you receive your return of principal on the certificates.**

You could receive payments of principal on the certificates more slowly than you expected, and the certificates could remain outstanding longer than you expected. If prevailing interest rates rise and borrowers are less able to obtain new multifamily mortgage loans at lower rates, they may be less likely to refinance their existing multifamily mortgage loans. If borrowers do not refinance their multifamily mortgage loans, the mortgage loans in the pool may, on average, prepay more slowly than you expected.

**The mortgage origination industry could change its procedures and prices for refinancing multifamily mortgage loans, increasing the rate at which you receive your return of principal on the certificates.**

These changes may include reducing the documentation required to refinance and easing underwriting standards. Some of these changes may be made at our direction. If mortgage originators are successful in streamlining procedures and reducing costs for refinancing, borrowers may be encouraged to refinance their loans. An increase in the refinancing of multifamily mortgage loans in the pool will accelerate the rate at which you receive payments of principal on your certificates. Because many multifamily pools consist of only one or two loans, refinancing those loans could result in a full

prepayment of your certificate at a date much earlier than you expected.

*Diversity and Location*

**The pool may afford little or no diversification of investment.**

Although an investment in mortgage loan pools may benefit an investor by providing diversification, the benefit may be realized only if and to the extent that the pool contains many loans that differ from one another as to credit risk and other risk parameters. Many of our multifamily mortgage pools include only one or a few loans and, therefore, do not afford the benefit of diversification. Investors should review carefully the related prospectus supplement, which provides the number of multifamily loans included in that pool, the geographic locations of the mortgaged properties securing those loans and other general characteristics of the loans.

**The location of real property securing loans will differ from pool to pool, causing prepayment speeds to differ for different issues of certificates.**

We purchase multifamily mortgage loans throughout the United States and its territories. A pool may include loans secured by property in one or several states and may be relatively concentrated or diverse in location. Regional economic differences among locations may affect the likelihood that a borrower will prepay a loan and the likelihood that a borrower will become delinquent. Thus, the differences among geographic concentrations in pools may affect whether prepayment of a particular issue of certificates will follow historical prepayment averages or prepayment averages of otherwise similar certificates issued concurrently.

*Property/Credit*

**Borrowers may default on their multifamily mortgage loans, resulting in prepayment of all or a portion of the principal on the certificates and adversely affecting your yield.**

Our guaranty of the repayment of principal on the certificates means that a default by a borrower does not reduce the amount of principal that will be repaid to certificateholders. Because multifamily loans often have large principal balances, principal prepayments resulting from defaults or breaches of representations and warranties may significantly and adversely affect your yield.

When a multifamily loan is delinquent by four or more consecutive monthly payments, we generally have the option to purchase the loan out of the pool. If we exercise this option, we will pay you the stated principal balance of the repurchased loan on the distribution date in the month after the month in which the loan is repurchased. This prepayment may significantly and adversely affect your yield. If the certificates are backed by only one multifamily mortgage loan, as is often the case, the pool would be terminated at the time of the prepayment to you.

A number of factors may adversely affect the value and operation of a multifamily property and the borrower's abil-

ity to make the required loan payments. Some of these factors include:

- changes in national, regional or local economic and employment conditions that may cause reductions in occupancy levels, limits on or reductions in rents, or increases in the number of rent payments received late;
- the existence or construction of competing or alternative residential properties, including other apartment buildings and complexes, manufactured housing communities, mobile home parks and single-family housing;
- government actions that limit access to the property or result in seizure of the property;
- governmental regulations designed to protect tenants in connection with rent increases and evictions;
- the ability of the borrower or property manager to operate and maintain the property in a successful manner;
- significant changes in the size of required loan payments;
- uninsured natural disasters or criminal acts of destruction or violence; and
- borrower bankruptcy or other insolvency.

Because units in a multifamily rental property typically are leased to individuals for terms of one year or less, a multifamily property may be likely to respond relatively quickly to a downturn in the local economy or to the closing of a major employer in the area.

Significant factors affecting loans secured by properties with one or more special features are described below.

**If the multifamily mortgage loans in a pool are secured by properties with special features, the successful operation of the properties may depend upon additional factors.**

***Multifamily Affordable Housing Loans:*** Mortgaged properties securing multifamily affordable housing mortgage loans, including mortgaged properties that are tax credit properties under section 42 of the Internal Revenue Code, are generally encumbered by restrictive covenants, regulatory agreements or ground leases that impose tenant income, occupancy and/or rent restrictions. A breach of these restrictions generally constitutes an event of default under the mortgage. In addition, some multifamily affordable housing properties may benefit from long-term federal rental assistance or other federal, state or local subsidies that may be terminated or abated if the requirements of the subsidies are not met. Some of these subsidies may require annual appropriations or awards by the governmental entity providing the subsidy. If the governmental entity chooses not to renew the subsidy, the borrower may be unable to replace that lost subsidy. If a subsidy cannot be replaced through obtaining a new subsidy, increasing rents to current tenants or leasing properties to market-rate tenants, a property may face the risk of default under the mortgage. Moreover, increases in the amount of

rental assistance or other subsidies provided to multifamily affordable housing properties may be insufficient to cover rapidly rising operating costs, especially where those costs are unexpected (for example, the cost of electricity or heating oil rises dramatically in a short time). This may result in the borrower's inability to make required payments of principal and interest. Some multifamily affordable housing properties may also benefit from non-Fannie Mae subordinate debt that is conditioned on the maintenance of specified use and occupancy restrictions. Failure to make all payments due on the subordinate debt as well as failure to comply with any use and occupancy restrictions may result in a default in the subordinate debt and a consequent default on the mortgage loan in the pool.

***Seniors' Housing Loans:*** For seniors' housing loans, the borrower's ability to find and retain tenants at satisfactory rental levels depends not only on the typical factors affecting multifamily properties in a specific market but also on the quality of the special services rendered to the elderly residents of the related mortgaged property. In addition, governmental regulations may apply to seniors' housing, especially to assisted living facilities, including licensing requirements for operators of the facilities. Failure to comply with the regulations and licensing requirements could cause operations at a facility to be curtailed or stopped entirely, which would have a substantial adverse effect upon the rental income received from the facility and the ability of the borrower to make its monthly payments on the seniors' housing loan. A failure to comply could also result in the termination of the manager/operator of the facility and the engagement of a qualified operator upon short notice, which could have a substantial adverse effect upon the operations of the facility. Moreover, many assisted living facilities require leases of only a few months. The short rental terms, significant turnover of tenants and the related expenses incurred in re-renting the units may have a significant adverse effect on the profitability of the seniors' facility. If the facility is not profitable, the borrower may be unable to make the required payments of principal and interest on the multifamily mortgage loan, resulting in a default under the loan.

***Blanket Cooperative Loans:*** A significant portion of the cash flow available to a housing cooperative corporation borrower is received from the payment by the tenant-owners of their proportionate share of the payments on the blanket mortgage loan and the expenses of the cooperative housing project and from the payment of rent by tenants on units owned by the cooperative corporation borrower. The borrower's ability to make its monthly payments on the blanket loan is highly dependent upon the timely receipt of these required payments from tenant-owners and rents from its tenants. In addition, if the rents received on units owned by the cooperative corporation borrower are insufficient to cover

its share of the debt service and other expenses, the borrower's cash flow may be adversely affected. Moreover, the borrower may need to make unanticipated expenditures, which must then be reimbursed by special assessments on the tenant-owners. Any adverse effect on the cooperative corporation borrower's cash flow may cause the borrower to be unable to make the required payments of principal and interest on the blanket loan, resulting in a default under the loan.

***Manufactured Housing Community Loans:*** The success of a manufactured housing community is primarily dependent upon the successful leasing of its spaces to owner-occupied manufactured homes. Successful leasing, in turn, is highly dependent upon the successful marketing of the manufactured housing community to owners of manufactured homes and upon the ability of potential owners to locate, agree to purchase and finance the purchase of manufactured homes. Difficulties in the manufactured housing segment relating to the availability of manufactured homes, the quality of construction of the manufactured homes and the ability of potential owners to obtain financing on reasonable terms for the purchase of manufactured homes may occur from time to time and may be outside the control of the borrower on a manufactured housing community loan. If the difficulties continue for an extended period of time, a borrower may not receive sufficient income from leasing and other operations to make the required payments of principal and interest on the manufactured housing community loan, resulting in a default under the loan.

***Dedicated Student Housing Loans:*** Dedicated student housing generally permits tenants to rent units under a one-year lease. Students often do not remain in the same units during the following school year. The significant turnover of student tenants and the higher level of maintenance required may have a significant adverse effect on the profitability of the operation of the housing. If the housing is not profitable, the borrower may be unable to make the required payments of principal and interest on the multifamily mortgage loan, resulting in a default under the loan.

In any of these cases, if an event of default under the related mortgage resulted in the entire unpaid principal balance of the loan being paid in full, you would receive an early distribution of principal from the mortgage loan. If there is only one mortgage loan in the pool, the pool would be terminated and the stated principal balance of the loan would be paid to you.

**A multifamily affordable housing loan that is also a low-income housing tax credit loan may fail to maintain compliance with the**

If a tax credit mortgaged property does not maintain compliance with the tax credit restrictions on tenant income or rental rates, the owners of the tax credit project may lose the tax credits related to the period of the noncompliance and face the partial recapture of previously taken tax credits.



**requirements for maintaining the tax credits.**

**We could repurchase one or more multifamily mortgage loans from the pool due to a breach of representations and warranties, accelerating the rate at which you receive your return of principal.**

**If we own an equity interest in a mortgaged property securing a mortgage loan in your pool, there may be a conflict of interest with respect to the property.**

*Additional Collateral and Subordination*

**If the mortgaged property securing a mortgage loan in your pool also serves as collateral for another mortgage loan, a default on the other mortgage loan may adversely affect the mortgage loan in your pool.**

This could lead to an event of default under the mortgage loan, acceleration of the mortgage loan and the early prepayment of principal on the certificates.

Each seller that sells loans to us makes representations and warranties about itself and the loans it sells to us. If these representations and warranties were not true when they were made, we can require the seller to repurchase the affected loans at any time. The affected loans could be all of the loans in the pool or only a portion of the pool. When a loan is repurchased, we pay you its stated principal balance on the distribution date in the month following the month of repurchase. Thus, a breach of a representation and warranty may result in an early payment of principal on your certificates, which would affect your yield. Because many multifamily pools consist of only one or two loans, this could result in a full prepayment of your certificate at a date much earlier than you expected.

Your pool may contain a mortgage loan secured by a mortgaged property in which we indirectly hold or later acquire an equity interest, along with other unaffiliated equity investors. The loan is generally serviced by one of the other equity investors or by an unaffiliated third party. If the borrower were to default on the loan, we, in our corporate capacity, may exercise our rights as an equity holder to take or approve the taking of actions that could cause an early payment of principal on your certificates, which would affect your yield.

This may occur even if the borrower has been making timely payments of principal and interest on the mortgage loan in your pool, as described below.

***If a multifamily mortgage loan in your pool is a subordinate loan, a default on the senior loan could cause a default on the subordinate loan.*** Although our guaranty will cover the repayment of the principal of the subordinate loan, the default would result in an early payment of principal on your certificates, which would affect your yield.

***If a subordinate loan is placed on a mortgaged property that is securing a mortgage loan in your pool, a default on the subordinate loan could cause a default on the mortgage loan.*** This may occur even though the mortgage loan in your pool is senior to the subordinate loan. If we accelerated the payment of the mortgage loan as a result of the default, there would be an early payment of principal on your certificates, which would affect your yield.

*If one or more other mortgage loans are cross-defaulted with the mortgage loan in your pool, a default on any of the other mortgage loans will cause a default on the mortgage loan.* In that case, we may declare the mortgage loan in your pool immediately due and payable. If we did so, there would be an early prepayment of principal on your certificates, which would affect your yield.

*If a mortgaged property securing a mortgage loan in your pool also serves as collateral for another mortgage loan, a default on the other mortgage loan could cause the sale of the mortgaged property securing the mortgage loan in your pool.* When the mortgage loan in your pool is also cross-collateralized with one or more other mortgage loans, the other mortgage loans are also secured by the mortgaged property securing the mortgage loan in your pool. An event of default under any of the other mortgage loans could result in the mortgaged property being sold to repay the other mortgage loan or loans. In that case, there would be an early payment of principal on your certificates, which would affect your yield.

In any of these cases, if the affected mortgage loan is the only loan in the pool, the pool would be terminated and the stated principal balance of the loan would be paid to you.

#### *External Factors*

**There may be partial prepayments of principal, accelerating the rate at which you receive your return of principal on the certificates.**

If a partial prepayment of principal is made, either voluntarily or involuntarily (for instance, as a result of condemnation), we will pay you on the distribution date in the month following the month of payment the portion of the principal that is prepaid on an unscheduled basis. The outstanding principal balance of the certificates will be reduced by the amount of this prepaid principal, accelerating the maturity of the certificates compared to what the maturity would have been in the absence of a partial prepayment. We will pay you any partial prepayment of principal even if the loan was in an interest-only period when the prepayment was made.

**Catastrophic events could damage, destroy or cut off access to one or more of the multifamily mortgaged properties securing loans in a particular pool, causing borrower defaults on the loans.**

If the damage to or destruction of a property is wholly or partially covered by insurance but the property is not repaired or replaced, receipt of the insurance proceeds may cause a full or partial prepayment of the related mortgage loan. If a property is not insured against the damage or destruction or if the proceeds are inadequate to repair or rebuild the property, the borrower may be unable to make the required payments of principal and interest. In addition, even if the property is not damaged or destroyed, governmental authorities may restrict or prohibit access by tenants to the geographic area in which the property is located. The resulting loss of rents, which may extend for a lengthy period of time, may also cause the borrower to be unable to make the required payments of principal and interest, causing a default under the related mortgage loan. If a mortgage loan is



prepaid in full due to the receipt of insurance proceeds, or if an event of default results in the entire unpaid principal balance of the loan being paid in full, you would receive an early distribution of principal from the mortgage loan. If there is only one mortgage loan in the pool, the pool would be terminated and the stated principal balance would be paid to you.

#### *Other Prepayments*

**If the pool includes adjustable-rate loans that permit conversion to a fixed rate, borrowers may so convert the loans, accelerating the rate at which you receive your return of principal.**

Some adjustable-rate loans contain conversion options, permitting the borrower to convert the loan to a fixed-rate loan. If these loans are included in an adjustable-rate pool, and the borrower exercises the option, thereby converting the loan to a fixed-rate loan, we will buy the loan out of the pool before its conversion to a fixed rate. The stated principal balance of that loan is passed through to you on the distribution date in the month following the month of our purchase. As a result, the weighted average life of the certificates for a pool of convertible adjustable-rate loans may be significantly shorter than for a comparable pool of non-convertible adjustable-rate loans. Because many multifamily pools consist of only one or two loans, this could result in a full prepayment of your certificate at a date much earlier than you expected.

**Letters of credit that secure borrowers' performance may cause partial prepayment of the certificates.**

The terms of a multifamily mortgage loan may require the borrower to obtain and deliver to the lender a letter of credit that secures performance of the borrower's obligation to meet certain requirements or that provides additional collateral for the loan. If the borrower does not meet the requirements or if we believe that the proceeds of the collateral are needed, we may draw on the letter of credit. If we do so, a portion of the proceeds of the letter of credit may be applied to repay a portion of the principal on the loan. This prepayment will be passed through to you as a partial prepayment on the certificates, which would affect your yield. Generally, you would not be entitled to receive a prepayment premium in this case.

#### **YIELD FACTORS:**

**A disproportionate incidence of prepayments and repurchases among adjustable-rate loans of different interest rates will affect your yield.**

Certificateholders in multifamily pools with more than one adjustable-rate mortgage loan receive a yield that is the weighted average of the loan rates, net of our fees. That weighted average will change whenever a loan in the pool is prepaid, either in whole or in part, or is purchased out of the pool. A disproportionate incidence of prepayments and repurchases among loans of different interest rates will increase or decrease the effective yield to you.

**You may not be entitled to receive prepayment premium payments.**

Even if a borrower is required to make prepayment premium payments (in the form of yield maintenance fees or other prepayment payments) as a condition of prepaying multifamily mortgage loans, those payments are not necessarily passed through to you. The related prospectus supplement

will state whether the payments are passed through to you and describe the calculation of your share. If the payments are not passed through to you and borrowers refinance or otherwise pay off their multifamily mortgage loans early, you would not be compensated fully for the loss of future interest on the certificates, which would affect your yield. **We do not guarantee the payment to you of any prepayment premiums.**

#### **LIQUIDITY FACTORS:**

**There may be no market for the certificates of a particular issue, and no assurance can be given that a market will develop and continue.**

We cannot be sure that each new issue of certificates, when created, will have a ready market, or, if a market does develop, that the market will remain active during the entire term for which the certificates are outstanding. Therefore, it is possible that if you wish to sell your certificates in the future, you may have difficulty finding potential purchasers. Some of the factors that may affect the resale of certificates include:

- the method, frequency and complexity of calculating principal or interest on the loans or the certificates;
- the age and unpaid principal balances of the multifamily mortgage loans in the pool;
- the prepayment features of the multifamily mortgage loans in the pool;
- the outstanding principal amount of the certificates of that series and other series with similar features;
- the amount of certificates of that series or of a series with similar features offered for resale from time to time;
- the availability of current information about the multifamily mortgage loans in the pool;
- any legal restriction or tax treatment that limits the demand for the certificates;
- the availability of comparable securities; and
- the level of interest rates generally, the volatility with which prevailing interest rates are changing and the trend in direction of interest rate changes.

**Terrorist activities could cause reductions in investor confidence and substantial volatility in real estate and securities markets.**

It is impossible to predict the extent to which terrorist activities may occur in the United States or, if they occur, the extent of the effect on the certificates in a particular issue. Moreover, it is uncertain what effects any past or future terrorist activities and/or any consequent actions on the part of the U.S. Government and others will have on U.S. and world financial markets; local, regional and national economies; real estate markets across the U.S.; and/or particular business segments, including those that are important to the performance of the real properties that secure the underlying multifamily mortgage loans. Among other things, reduced

investor confidence could result in substantial volatility in securities markets and a decline in real estate-related investments. As a result of the foregoing, defaults on multifamily mortgage loans could increase, causing early payments of principal to you and, regardless of the performance of the underlying mortgage loans, the liquidity and market value of the offered certificates may be impaired.

#### **CREDIT FACTORS:**

**If a borrower defaulted on a multifamily mortgage loan payment and we failed to pay under our guaranty, the amount distributed to certificateholders would be reduced.**

If borrowers fail to make their mortgage loan payments on time, we have agreed to make payments under our guaranty. As long as we make these payments, you will not be affected by borrowers' late payments. If, however, we become unable to pay, or fail to pay for any reason, the payments that you receive as a certificateholder will be reduced as a result of borrowers' late payments or complete failure to pay.

**If our credit should become impaired, a buyer may be willing to pay only a reduced price for your certificates, if you wanted to sell them in the future.**

There could be an adverse change in our financial condition that would impair the perception of our credit. Even if we were to make all the payments required under our guaranty, potential buyers may offer less for your certificates than they would offer if our financial condition had not been impaired.

#### **FANNIE MAE**

Fannie Mae is a federally chartered and stockholder-owned corporation organized and existing under the Federal National Mortgage Association Charter Act. We were established in 1938 as a United States government agency to provide supplemental liquidity to the mortgage market. We became a stockholder-owned and privately managed corporation by legislation enacted in 1968. We are the largest investor in residential mortgage loans in the United States.

Under the Charter Act, we were created to:

- provide stability in the secondary market for residential mortgages;
- respond appropriately to the private capital markets;
- provide ongoing assistance to the secondary market for residential mortgages (including activities relating to mortgages on multifamily housing for low-and moderate-income families) by increasing the liquidity of mortgage investments and improving the distribution of investment capital available for residential mortgage financing; and
- promote access to mortgage credit throughout the nation (including central cities, rural areas and underserved areas) by increasing the liquidity of mortgage investments and improving the distribution of investment capital available for residential mortgage financing.

In accordance with our statutory purpose, we provide funds to the mortgage market by purchasing mortgage loans from lenders. In this way, we replenish their funds so they can make additional loans. We acquire funds to purchase these loans by issuing debt securities to capital market investors, many of whom ordinarily would not invest in mortgages. Thus, we are able to expand the total amount of funds available for housing.

We also issue mortgage-backed certificates, receiving guaranty fees for our guaranty of timely payment of principal and interest on the certificates. We issue mortgage-backed certificates primarily

in exchange for pools of mortgage loans from lenders. By issuing mortgage-backed certificates, we further fulfill our statutory mandate to increase the liquidity of residential mortgage loans.

In addition, we offer various services to lenders and others for a fee. These services include issuing certain types of structured mortgage-backed certificates and providing technology services for originating and underwriting mortgage loans.

Our principal office is located at 3900 Wisconsin Avenue, NW, Washington, DC 20016, telephone: 202-752-7000.

## **ADDITIONAL INFORMATION ABOUT FANNIE MAE**

You should read our current Information Statement and any supplements to the Information Statement for additional information about Fannie Mae. These documents contain important financial and other information about Fannie Mae, which we are incorporating by reference in this prospectus. This means that we are disclosing important information to you by referring to these documents and have not reprinted that information here. You should read these documents together with this prospectus.

We publish our Information Statement annually and update it from time to time, usually to reflect quarterly and annual financial results. When we use the term Information Statement in this prospectus, we mean our most recent Information Statement as of the issue date for a particular issue of certificates, together with any supplements to that Information Statement that have been published up until that time. You should rely on only the most current Information Statement.

You can read our Information Statement and other information about us at the offices of the New York Stock Exchange, the Chicago Stock Exchange and the Pacific Exchange. As of the date of this prospectus, we are not subject to the periodic reporting requirements of the Securities Exchange Act of 1934 (the "Exchange Act"), so we do not currently file reports or other information with the Securities and Exchange Commission (the "SEC").

In the first quarter of 2003, we will begin filing periodic financial disclosures with the SEC under the Exchange Act. These filings will include our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q and Current Reports on Form 8-K. Our SEC filings will be available at the SEC's Web site at *www.sec.gov*. You may also read and copy any document we file with the SEC by visiting the SEC's public reference rooms in Washington, DC, New York, New York and Chicago, Illinois. Please call the SEC at 1-800-SEC-0330 for further information about the public reference rooms.

You can obtain copies of our Information Statement, all the other documents incorporated by reference and additional information about us, without charge, by writing us at Office of Investor Relations, Fannie Mae, 3900 Wisconsin Avenue, NW, Washington, DC 20016, or by calling us at 1-800-701-4791. Many of these documents are also available on our corporate Web site at *www.fanniemae.com* and our business-to-business Web site at *www.efanniemae.com*.

## **USE OF PROCEEDS**

We usually issue certificates in swap transactions, in which the certificates are issued in exchange for the multifamily mortgage loan or loans in the pool that backs the certificates. In some instances, we may issue certificates backed by pools of multifamily mortgage loans that we already own. In those transactions, we would receive cash proceeds. Unless stated otherwise in the prospectus supplement, we would apply the cash proceeds to the purchase of other mortgage loans and for other general corporate purposes.

## DESCRIPTION OF THE CERTIFICATES

We will issue the certificates under a trust indenture. For each issuance of certificates, there will be an issue supplement to the trust indenture. We have summarized the terms of the trust indenture below. This summary is not complete. If there is any conflict between the information in this prospectus and the actual provisions of the trust indenture, the terms of the trust indenture and its related issue supplement will govern. You may review the trust indenture related to your certificates on our Web sites and may obtain a copy of the trust indenture and its related issue supplement from our Washington, DC office.

### The Certificates

The certificates represent fractional undivided ownership interests in the pool of one or more multifamily mortgage loans held in the trust created under the trust indenture and the issue supplement. These certificates are sometimes called mortgage-backed securities or MBS. We will hold the multifamily mortgage loans, in our capacity as trustee under the trust indenture, for the benefit of all the holders of certificates of the same issue. The fractional undivided interest of each certificate of the issue will be equal to the initial principal balance of that certificate divided by the aggregate principal balance of the loans in the pool on the issue date.

Occasionally, the certificates represent fractional undivided ownership interests in a pool of participation certificates, rather than in a pool of whole multifamily mortgage loans. If that is the case, the prospectus supplement will state that fact. We will hold the participation certificates in our capacity as trustee under the trust indenture, for the benefit of all the holders of certificates of the same issue. The description of the certificates throughout this prospectus is written on the assumption that the certificates represent interests in whole multifamily mortgage loans.

### Certificates for Discount Mortgage-Backed Securities (DMBS)

Some series of certificates may be issued as DMBS, which are short-term mortgage-backed securities that do not bear interest and have terms of less than one year (typically nine months or less). DMBS are often issued as part of a credit facility transaction. See “*Multifamily Mortgage Loan Pools—Credit Facilities*” for a description of credit facility transactions. Investors purchase DMBS at a discount. On the maturity date, the holder of the DMBS receives the original stated principal amount of the DMBS. The related prospectus supplement will set forth the term and other specific characteristics of an issue of DMBS certificates as well as information concerning the related mortgage loans. See “*Federal Income Tax Consequences—Application of Revenue Ruling 84-10—Original Issue Discount*” for a discussion of tax issues involved in purchasing DMBS. Unless otherwise noted, disclosures in this prospectus, including risk factors, that relate to early prepayments, monthly reports, distributions of interest and principal, defeasance of mortgage loans, and adjustable-rate certificates do not apply to DMBS.

If any voluntary or involuntary prepayments on the multifamily mortgage loans underlying a series of DMBS are received during the term of the DMBS, those prepayments will not be passed through to the DMBS certificateholders until the maturity date. Instead, the original stated principal amount of the DMBS will be paid to the certificateholders on the maturity date.

We guarantee the full and final payment to DMBS certificateholders of the original stated principal balance of the certificates on the maturity date of the DMBS.

### Issuance in Book-Entry Form

We will issue the certificates in book-entry form using the book-entry system of the U.S. Federal Reserve Banks, unless we specify and describe a different method in the related prospectus supplement. Physical certificates are not available. Book-entry certificates must be issued in a minimum denomination of \$1,000 with additional increments of \$1. They are freely transferable on the records



of any Federal Reserve Bank but are not convertible to physical certificates. Any transfers are subject to the minimum denomination requirements.

A certificateholder is an entity whose name appears in the records of a Federal Reserve Bank as owner of the certificate. Only entities that are eligible to maintain book-entry accounts with a Federal Reserve Bank may be certificateholders. These entities are not necessarily the beneficial owners of the certificates. They are banks, brokerage firms, securities clearing organizations and similar companies, which act as financial intermediaries. Beneficial owners ordinarily hold certificates by having accounts at financial intermediaries. Financial intermediaries either have book-entry accounts with a Federal Reserve Bank or hold through other financial intermediaries, one of which has such a book-entry account. A certificateholder that is not also the beneficial owner of a certificate, and all the other financial intermediaries in the chain between the certificateholder and the beneficial owner, are responsible for establishing and maintaining accounts for their customers.

Neither we nor the Federal Reserve Banks will have any direct obligation to the beneficial owner of a certificate who is not also a certificateholder. We and the Federal Reserve Bank may treat the certificateholder as the absolute owner of the certificate for all purposes, regardless of any contrary instructions that the beneficial owner may provide. For example, we will make distribution payments on the certificates only to certificateholders and will give effect to a transfer of a certificate only if we receive the notice from a certificateholder.

The Federal Reserve Bank credits the account of the certificateholder when we make a distribution on the certificates. Each certificateholder and any financial intermediaries are responsible for remitting distributions to the beneficial owners of the certificate.

### **Payments on Certificates**

Unless a different day is specified in the prospectus supplement, payments to MBS certificateholders will be made on the 25th of each month and payments to DMBS certificateholders will be made on the maturity date of the DMBS. If the specified day is not a business day, payment will be made on the next business day. We refer to this date as a distribution date.

For MBS, we will make the first payment for each issue of certificates on the distribution date in the month after the month of issuance. The record date for MBS certificates is the last day of the month immediately preceding the month in which the distribution date occurs. For DMBS, we will make no payments until the maturity date.

For MBS, we will pay the certificateholder who is listed as the holder in the records of any Federal Reserve Bank as of the record date. For DMBS, we will pay the certificate holder who is listed as the holder in the records of any Federal Reserve Bank as of the maturity date.

### ***Interest Payments***

We will pay one month's interest on the certificates on each distribution date. Interest will be calculated on the certificate's principal balance immediately before each distribution date.

For pools of fixed-rate multifamily loans, we will pay to certificateholders one month's interest at the pass-through rate stated in the related prospectus supplement. For pools of adjustable-rate multifamily loans (other than those loans that permit negative amortization), we will pay one month's interest at the pool accrual rate. (The initial pool accrual rate is described in the related prospectus supplement.)

For pools of adjustable-rate multifamily loans that permit negative amortization, we will pay to certificateholders one month's interest at the pool accrual rate minus the aggregate amount of any deferred interest that is added to the principal balances of the adjustable-rate loans during the related due period. During periods when the mortgage loans are negatively amortizing, the amount of interest received by certificateholders may not increase although the certificate balances will be increasing as deferred interest is added to the principal balance of the mortgage loans.

The related due period for the certificates is the period beginning with and including the second day of the calendar month preceding the month in which the distribution date occurs and ending with and including the first day of the calendar month in which that distribution date occurs.

### ***Interest Accrual Basis***

We will calculate the amount of interest due each month on the certificates on the basis stated in the prospectus supplement. If interest is calculated on the certificates on a 30/360 basis, the certificates will accrue interest on the basis that each month consists of 30 days and each year consists of 360 days. If interest is calculated on the certificates on an actual/360 basis, the certificates will accrue interest on the basis of the actual number of days in the calendar month preceding the month in which the distribution date occurs and a year assumed to consist of 360 days. If another method is used for calculating interest on the certificates, it will be specified and described in the related prospectus supplement.

### ***Principal Payments***

On each distribution date, we will pay to certificateholders, as payments of principal on the certificates, an amount equal to the aggregate of the following amounts:

- the scheduled principal due on the mortgage loans in the pool during the related due period;
- the stated principal balances of mortgage loans that were prepaid in full during the calendar month preceding the month in which that distribution date occurs;
- the stated principal balances of mortgage loans that were purchased out of the pool for any reason during the calendar month preceding the month in which that distribution date occurs; and
- the amount of any partial prepayment on mortgage loans received during the calendar month preceding the month in which that distribution date occurs.

The stated principal balance of a mortgage loan is the principal balance of the loan as of the issue date of the certificates, reduced by all payments of principal paid to certificateholders after that date, and increased by accrued interest, if any, that has been added to principal as a result of negative amortization under the loan's terms.

For mortgage loans that do not have their first scheduled principal payments due until the second month following the issuance of the certificates, certificateholders will receive no scheduled principal payments on the first distribution date. The related prospectus supplement will indicate the percentage of these mortgage loans in the pool, if any.

There are some instances when the distribution date for prepayments may differ from that described above. For example, sometimes the servicer is unable to provide us with prepayment information in sufficient time to allow the monthly pool factor for that distribution date to reflect the prepayment. In those instances, we will pay those prepayments to you on the distribution date that occurs in the second month following the month in which the borrower makes the prepayment. We sometimes treat prepayments in full received on the first day of a month as if actually received on the last day of the preceding month. In that case, we will pay you these prepayments in full on the distribution date in the month of actual receipt.

## Reports to Certificateholders

### *Monthly Reports*

Each certificateholder who is listed as the holder in the records of any Federal Reserve Bank will be provided the information below with respect to each payment, adjusted to reflect each certificateholder's pro rata interest in the related pool as of the distribution date:

- the amount due on the certificates on that distribution date on account of total scheduled and unscheduled principal;
- the amount due on the certificates on that distribution date on account of interest;
- the total cash payment on the certificates on that distribution date;
- for pools containing loans that permit negative amortization, the amount of any deferred interest added to principal as of that distribution date as a result of the negative amortization;
- the principal balances of the certificates on that distribution date after giving effect to any payment of principal on that date (and, for pools containing loans that permit negative amortization, after giving effect to any deferred interest added to the principal balances of the mortgage loans in that pool during the related due period); and
- for pools of adjustable-rate loans, the pool accrual rate for that distribution date.

### *Annual Reports*

Within a reasonable time after the end of each calendar year, we will furnish to each person who was listed as a certificateholder in the records of any Federal Reserve Bank at any time during that year a statement containing any information required by the federal income tax laws.

## Fannie Mae Guaranty

We guarantee payment to you, on each distribution date, of:

- the aggregate amount of the borrowers' scheduled principal payments for the related due period, whether or not received,

*plus*

- an amount equal to one month's interest on the certificates.

For fixed-rate pools, we guarantee payment of interest at the specified pass-through rate stated in the prospectus supplement. For adjustable-rate pools (other than those containing loans that permit negative amortization), we guarantee payment of interest at the variable pool accrual rate. For adjustable-rate pools containing loans that permit negative amortization, we guarantee payment of interest at the variable pool accrual rate minus the aggregate amount of any deferred interest that is added to the principal balances of the mortgage loans.

In addition, we guarantee the full and final payment of the unpaid principal balance of the certificates on the distribution date in the month of the maturity date.

If we were unable to perform our guaranty obligations, certificateholders would receive only the payments that borrowers actually make and other recoveries on the mortgage loans in the pool from sources such as insurance, condemnation and foreclosure proceeds. If that happens, delinquencies and defaults on the mortgage loans would directly affect the amounts that certificateholders would receive each month.

**Neither the certificates nor payments of principal and interest on the certificates are guaranteed by the United States government. The certificates do not constitute a debt or obligation of the United States or any of its agencies or instrumentalities other than Fannie Mae. We alone are responsible for making payments on our guaranty.**



## **Collection and Other Servicing Procedures**

We are generally responsible for servicing the mortgage loans in each pool. We may service loans through lenders or other approved mortgage servicers. See *“Fannie Mae Purchase Program—Seller and Servicer Eligibility”* for information on our servicer requirements. Our servicing procedures include collecting payments from borrowers, seeing that the mortgaged properties are insured, and foreclosing upon defaulted mortgage loans. Most multifamily mortgage loans provide that it is an event of default under the loan if the borrower sells or transfers the related property or certain ownership interests in the related property without the consent of Fannie Mae and the servicer of the loan and without the payment of a transfer fee. See *“Multifamily Mortgage Loan Pools—General Characteristics of Multifamily Loans—Assumptions of Multifamily Loans and Transfers of Interests in Borrowers”* for a discussion of our transfer policy. In some instances, we may hold a mortgage loan secured by a property in which we also own an equity interest. If so, one of the other owners or an unaffiliated third party may be responsible for servicing the related mortgage loan. See *“Fannie Mae Purchase Program—Servicing Arrangements.”*

## **Certain Matters Regarding Our Duties as Trustee**

We may not resign from our duties under the trust indenture unless a change in law requires it. Even then, our resignation would not become effective until a successor has assumed our duties. A successor would not take over our guaranty obligations. Even if our other duties under the trust indenture terminate, we would still be obligated under our guaranty.

If we are unable to fulfill our guaranty obligations, the trust indenture may be modified to provide for monthly distributions to certificateholders from mortgage loan payments and other mortgage loan recoveries in a manner similar to practices and procedures followed in the servicing of whole loans for institutional investors. See *“—Amendment”* below.

We are not liable under the trust indenture to certificateholders for 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 against any liability if it results from willful misfeasance, bad faith or gross negligence or as a result of willful disregard of our duties.

The trust indenture 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 indenture. On the other hand, we may decide to participate in legal actions, such as actions involving the mortgage loans, if we think our participation would be necessary or in the interests of you as a certificateholder. In that case, we will pay the legal expenses and costs of the action.

If we merge or consolidate with another corporation, the successor corporation will be our successor under the trust indenture and will assume all of our duties under the trust indenture, including our guaranty.

## **Events of Default**

Any of the following events will be considered an event of default under the trust indenture for an issue of certificates:

- if we fail to make a required payment to you, and our failure continues uncorrected for 15 days after certificateholders owning at least 5% of that issue of certificates have given us written notice of nonpayment; or
- if we fail in any material way to fulfill any of our other obligations under the trust indenture or the related issue supplement, and our failure continues uncorrected for 60 days after certificateholders owning at least 25% of that issue of certificates have given us written notice of our failure; or
- if we become insolvent or unable to pay our debts or if other events of insolvency occur.

If an event of default occurs and continues uncorrected, certificateholders who own at least 25% of the related issue of certificates will have the right to terminate all of our rights and obligations under the trust indenture for that issue and to appoint a successor to all of our terminated obligations. These obligations include our duties as trustee and in our corporate capacity. However, our guaranty obligations will continue in effect. The successor will take legal title to the mortgage loans included in the related trust fund. The acts of certificateholders to terminate us and appoint a successor must be in writing.

### **Amendment**

We may amend the trust indenture without notifying or obtaining your consent, to do any of the following:

- add to our duties;
- evidence that another party has become our successor and has assumed our duties under the trust indenture in our capacity as trustee or in our corporate capacity or both;
- eliminate any of our rights in our corporate capacity under the trust indenture;
- take an action to cure any ambiguity or correct or add to any provision in the trust indenture or the related issue supplement, provided that the action does not adversely affect any certificateholder; and
- if we cannot fulfill our guaranty obligations, modify the trust indenture to provide for monthly distributions from payments and other recoveries on the mortgage loans in the pool in a manner similar to practices and procedures followed in the servicing of whole loans for institutional investors.

In addition, if certificateholders owning at least 66% of an issue of certificates give their consent, we may amend the trust indenture for that issue to eliminate, change or add to its terms or those of the related issue supplement, 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 that must give their consent to the types of amendments listed in the preceding sentence unless all certificateholders of an issue have agreed. In addition, unless each affected certificateholder consents, no amendment may reduce or delay the funds that are required to be distributed on any certificate.

### **Termination**

The trust indenture will terminate with respect to each issue of certificates when the last mortgage loan in that pool has been paid off or liquidated and the proceeds have been distributed to you. We do **not** have an option, in the nature of a clean-up call, to repurchase the mortgage loans and thereby to retire the certificates and terminate the trust indenture.

## **YIELD CONSIDERATIONS**

### **Effective Yield on Certificates**

Your yield will depend in part upon whether you purchase a certificate at a discount or a premium from its outstanding principal balance. In general, if you purchase a certificate at a discount from its outstanding principal balance and the mortgage loans are prepaid at a rate that is slower than you expected, your yield on that certificate will be less than you expected. If you purchase a certificate at a premium over its outstanding principal balance and the mortgage loans are prepaid at a rate that is faster than you expected, your yield on that certificate also will be less than you expected. **You must make your own decision as to the prepayment assumptions you will use in deciding whether to purchase the certificates.**

Although interest on the certificates accrues during a calendar month, we do not pay interest to you until the distribution date in the following calendar month. Because of this delay, your effective yield on the certificates will be less than it would be if we paid interest earlier.

### **Yield of Adjustable-Rate Certificates**

Certificates backed by adjustable-rate multifamily mortgage loans bear interest at a rate that also adjusts and that is calculated on the basis of the changing rates on the loans in the pool. Rates on the loans in the pool adjust based upon changes in the value of a stated index. How the index value is determined and how it changes, along with other features of adjustable-rate multifamily loans, will affect the yield on the certificates. See “*Multifamily Mortgage Loan Pools—Multifamily Mortgage Loans—Adjustable-Rate Loans (ARM Loans)*” for information regarding the different types of adjustable-rate multifamily mortgage loans and the methods for adjusting their interest rates. The adjustment of interest rates on the loans in the pool affects the yield on the certificates. The effective yield on the certificates is the result of the combined effect of some or all of the following factors:

- ***The index.*** All mortgage loans in a single pool have the same stated index, which will be identified in the prospectus supplement.
- ***Initial fixed-rate period.*** Most multifamily mortgage loans in the pool will have an initial interest rate that is not based on the stated index. In that case, the initial interest rate on the related certificates will not be based on the stated index. This will continue to be true until all of the mortgage loans in the pool have reached their first rate adjustment date. In some pools, not all the mortgage loans in the pool will have the same first rate adjustment date.
- ***Mortgage margin.*** On each interest rate adjustment date, the interest rate is adjusted to equal the sum of the mortgage margin and the stated index value most recently available as of a date specified in the mortgage note. The result is rounded according to the rounding convention stated in the mortgage note or, if none is stated, to three decimal points, unless otherwise specified in the prospectus supplement.
- ***Index change frequency.*** If the interest rates on the multifamily mortgage loans change less frequently than the index value, changes in the effective yield on the certificates will lag changes in the index. A change in the index value will not necessarily cause an immediate change in the pool accrual rate. The pool accrual rate will be affected only as, and to the extent that, mortgage loans in the pool experience interest rate adjustments.
- ***Interest rate adjustment dates.*** Since some or all the multifamily mortgage loans in the pool may not have the same rate adjustment date, the index values upon which interest rate adjustments are based may vary among the mortgage loans in a pool.
- ***The lookback period.*** The lookback period consists of the number of days specified in the related mortgage note that fall between the rate change date and the specified preceding date. The lookback period creates a lag between the index value upon which interest rate adjustments are based and the index value in effect at the time the interest rate on the mortgage loan adjusts. The lookback period is specified in the prospectus supplement.
- ***Interest rate caps and floors.*** Interest rate caps and floors may prevent the interest rate on a multifamily mortgage loan from increasing as high or declining as low as it would otherwise as a result of a change in the index value. As a result, the yield paid on the certificates will be affected whenever one or more mortgage loans in the pool are affected by an interest rate cap or floor.
- ***Option to convert to fixed-rate loan.*** If the borrower exercises any option to convert the adjustable-rate loan to a fixed-rate loan, we will repurchase the mortgage loan from the pool during the calendar month before the loan begins to accrue interest at the new fixed rate. The

repurchase price will be equal to the loan's stated principal balance plus accrued interest as of the date of the repurchase based on the pool's accrual rate. The stated principal balance of the mortgage loan will be passed through to certificateholders and will reduce the outstanding principal balance of the certificates on the distribution date in the month following the month of repurchase. As a result, the weighted average life of the certificates for a pool of convertible adjustable-rate loans may be significantly shorter than for a comparable pool of non-convertible adjustable-rate loans.

- ***Prepayments and repurchases of loans.*** Adjustable-rate pools may contain multifamily mortgage loans having several different interest rates. You receive a yield that is the weighted average of the loan rates, net of our fees. That weighted average will change whenever a loan in the pool is prepaid, either in whole or in part, or is purchased out of the pool. A disproportionate incidence of prepayments and repurchases among loans of different interest rates will increase or decrease the effective yield to certificateholders.
- ***Adjustments upon assumption.*** If any adjustable-rate mortgage loan in the pool permits the lender to adjust the interest rate caps, interest rate floors or mortgage margin in connection with an assumption of the loan, the effective yield on the certificates may be affected.
- ***Negative amortization.*** If any adjustable-rate pool contains multifamily loans permitting negative amortization, the yield on the related certificates may be affected in several ways.
  - *Principal may increase.* During periods when a mortgage loan is negatively amortizing, the unpaid principal balance on the mortgage loan will be increasing as deferred interest is added to the principal balance of the mortgage loan. The same amount is also added to the outstanding principal balance of the certificates, so that the unpaid principal balance of the certificates equals the stated principal balance of the mortgage loans.
  - *Interest paid is affected.* When a loan is negatively amortizing, certificateholders will be paid interest equal only to the portion of the borrower's scheduled payment for the related due period that is allocable to interest. This excludes the amount of any deferred interest. As a result, during periods when one or more mortgage loans in the pool are negatively amortizing, certificateholders will receive less interest than they would have expected if they were calculating the predicted interest solely on the outstanding certificate balance at the applicable pool accrual rate.
  - *Effect of periodic reamortization.* Because deferred interest may have been added to the outstanding principal balance of a loan due to negative amortization, the monthly payments of principal and interest on the loan may be insufficient to fully amortize the loan's outstanding principal balance over the remaining loan term. In this case, the outstanding principal balance may but is not required to be reamortized over the remaining loan term. Reamortization is the adjustment of the monthly payment amount to an amount sufficient to pay the then remaining principal balance of the loan, together with interest at the then applicable rate, in equal monthly payments for its remaining term. This readjustment is made without regard to the caps on payment adjustments that would otherwise apply. Whenever adjustable-rate mortgage loans are reamortized, certificateholders' monthly interest payments will no longer be reduced by deferred interest, unless another period of negative amortization occurs.

A complete discussion of adjustable-rate loans and their characteristics and the pools containing the adjustable-rate loans may be found under "*Multifamily Mortgage Loan Pools—Types of Multifamily Mortgage Pools—Adjustable-Rate Pools—Variable Pool Accrual Rate*" and "*Multifamily Mortgage Loan Pools—Multifamily Mortgage Loans—Adjustable-Rate Loans (ARM Loans)*."

## **Maturity Considerations**

The weighted average life of the certificates will depend upon the extent to which each payment on the loans is applied to principal rather than to interest. For a description of the types of loans that may be included in a pool, see “*Multifamily Mortgage Loan Pools—Multifamily Mortgage Loans.*”

Some multifamily mortgage loans provide for full amortization of principal over the term. These loans may include fixed-rate loans as well as adjustable-rate loans that are reamortized each time the payment is adjusted. Most payments on these loans are allocated to interest in the early years, with greater portions of the payments allocated to principal as the loans remain outstanding.

Some mortgage loans provide for partial amortization during the term, with a balloon payment at the end. These loans have monthly payments calculated on the basis of an amortization schedule (typically 25 or 30 years) that is longer than the term (typically 7 to 10 years) of the loan. The remaining principal balance becomes due in a lump sum payment at the end of the term, on the loan’s contractual maturity date. Only a small portion of the principal amount of the loans will have amortized before the balloon payment on the loan is due.

Some mortgage loans provide for the payment of interest only throughout the term, with a balloon lump sum payment of all principal due on the loan’s contractual maturity date. Certificates backed by pools of these loans will pay interest only during their terms except to the extent of borrower prepayments. Other mortgage loans provide for the payment of interest only for an initial period, after which the payments are increased so that the principal balance of the loan partially or fully amortizes over the remaining term. There is no amortization of principal during the initial period. Assuming no prepayments by the borrower, these loans amortize more slowly than loans of the same term and interest rate that provide for monthly payments of principal and interest from the beginning. In the initial period, certificates backed by pools of these loans will pay only interest other than to the extent of borrower prepayments.

## **Prepayments**

Loan prepayments may occur for a variety of reasons. Some of the chief reasons are discussed in this section. They are not all equally applicable to all pools, as they relate in part to features of the loans that differ among pools. Because of these variables, we cannot estimate the future prepayment experience of the multifamily mortgage loans in our pools. You may wish to refer to our Information Statement for recent information regarding the prepayment experience of our multifamily mortgage loan portfolio. This prepayment experience is not, however, indicative of any one pool of multifamily mortgage loans, including the pool backing your certificates.

***Borrower Refinancing.*** Prepayments may increase when current interest rates decline below the mortgage interest rates on existing multifamily loans. It is difficult to predict how far interest rates must decline before multifamily borrowers consider refinancing their mortgage loans. The requirement found in most multifamily mortgage loans that the borrower pay a prepayment premium or a yield maintenance payment if the loan is prepaid may lessen the effect of declining interest rates and detract from the attractiveness of refinancing. If a multifamily borrower does refinance a multifamily loan in a pool, the proceeds from the borrower’s new loan will pay off the multifamily loan in the pool, resulting in a prepayment of principal to you.

Our policy permits lenders that service mortgage loans in our pools to advertise in a general manner their availability and willingness to make loans that refinance existing loans. Our policy does not permit the lenders to target specifically those borrowers whose loans are in our pools.

***Loan Modifications.*** We typically do not permit lenders servicing our loans to repurchase mortgage loans from our pools for the purpose of making loan modifications. For pools containing multifamily mortgage loans insured by the Federal Housing Administration (the “FHA”), however, the FHA may require that FHA loans be modified as a part of the FHA’s loss mitigation strategy. Before any modification may be made to an FHA multifamily mortgage loan that would affect the



interest rate, timing or amount of monthly payments or loan term, the FHA loan will be repurchased from the pool. See “*Fannie Mae Purchase Program—Multifamily Mortgage Loan Eligibility Standards—Underwriting Guidelines*,” for a description of FHA mortgage loans.

Repurchase of FHA loans for the purpose of modification will result in the prepayment of principal on the certificates with the same effect as borrower prepayments.

**Repurchases.** When we exercise our option to repurchase multifamily mortgage loans which are delinquent or for which a breach of a representation or warranty has occurred, the repurchase will result in the prepayment of principal on the certificates with the same effect as borrower prepayments. The rate of prepayment may also be affected by the repurchase of those adjustable-rate loans that permit conversion to a fixed-rate loan.

## **Defeasance**

If a borrower elects to defease a multifamily mortgage loan, the borrower will deliver to us acceptable substitute collateral (federal government or agency securities) that is structured to provide principal and interest payments identical to those being made on the related mortgage note. After delivery of the substitute collateral, the borrower will be released from liability under the mortgage note and the mortgaged property securing the loan will be released from the lien of the mortgage. Defeasance does not result in any prepayment of principal on the loan. After defeasance, the mortgage loan, secured by the acceptable substitute collateral, remains in the pool. See “*Multifamily Mortgage Loan Pools—Defeasance Mortgage Loans*” for a full description of defeasance. The possible tax implications of replacing the mortgaged property collateral for the mortgage loan with acceptable substitute collateral are discussed under “*Federal Income Tax Consequences—Special Tax Attributes—Defeasance Mortgage Loans*.”

## **MULTIFAMILY MORTGAGE LOAN POOLS**

We combine multifamily mortgage loans into pools and issue our guaranteed mortgage pass-through certificates that evidence ownership interests in the pooled loans. We occasionally also create pools of participation interests in multifamily mortgage loans. For purposes of our description here, a participation interest is considered as if it were a separate multifamily mortgage loan, and payments on the participation interest are treated as if they were payments on the underlying loan.

Most of the multifamily loans included in our pools are conventional mortgage loans—that is, loans that are not insured by the FHA or other government agencies. We refer to non-conventional loans as government loans. We refer to pools that include exclusively government loans as government pools. Some conventional loan pools, however, may include loans that are insured by the FHA. Both conventional loans and government loans can bear interest at either a fixed or an adjustable interest rate and can provide for repayment of the principal on several different bases. The related prospectus supplement will identify the type of mortgage loans included in the pool.

## **Pool Prefixes**

We assign a separate pool number to each multifamily mortgage loan pool and the related issue of guaranteed mortgage pass-through certificates. The pool number contains a two-character prefix that identifies the type of multifamily loans in that pool and the basic terms of the certificates. The type of information reflected by the prefix includes whether the multifamily loans are conventional or FHA, whether they bear interest at a fixed-rate or an adjustable-rate, whether the certificates and the underlying loans calculate interest on a 30/360 basis, an actual/360 basis or some other basis, the length of the loan terms, and whether the underlying loans are fully amortizing or have a balloon payment at maturity. No pool will contain both fixed-rate and adjustable-rate loans.

While pool prefixes provide a quick and easy reference source for the characteristics of the loans in a pool, **when you are deciding whether to purchase certificates, you should rely ONLY on**

**the information in this prospectus, the related prospectus supplement and any information that we have incorporated into these documents by reference.**

Some frequently used multifamily prefixes are listed on *Exhibit A* at the end of this prospectus. Current information about prefixes, including prefixes created after the date of this prospectus, may be found on our corporate Web site at [www.fanniemae.com](http://www.fanniemae.com) and our business-to-business Web site at [www.efanniemae.com](http://www.efanniemae.com) under the title “*Mortgage-Backed Securities—Information Center.*”

### **Monthly Pool Factor**

On or about the fourth day of each month, we will publish the current monthly pool factor for each issue of certificates that remains outstanding. If you multiply the monthly pool factor by the original principal balance of the certificates, you will obtain the current principal balance of the certificates, after giving effect to the monthly principal payment to be passed through on the distribution date in that month. These monthly pool factors are made available each month on our corporate Web site at [www.fanniemae.com](http://www.fanniemae.com) and our business-to-business Web site at [www.efanniemae.com](http://www.efanniemae.com) under the title “*Mortgage-Backed Securities—Information Center—Pool Talk®*” and in various financial publications.

### **Types of Multifamily Mortgage Pools**

#### ***Fixed-Rate Pools—Fixed Pass-Through Rate***

Fixed-rate pools consist entirely of one or more fixed-rate multifamily loans. Although the loans in a fixed-rate pool may bear different fixed rates of interest, certificateholders will receive interest at a single fixed pass-through rate that is specified in the related prospectus supplement. In most instances, the interest rates of the underlying fixed-rate loans in a single pool are grouped so that they are all within a 2.0 percentage point range. The pass-through rate does not change if prepayments occur, even if those prepayments cause a change in the weighted average interest rate on any remaining loans in the pool. However, because interest is paid based on the outstanding principal balance of the certificates, and principal prepayments are passed through as prepayments of principal on the certificates, principal prepayments may affect the yield on the certificates. For a discussion of how prepayments can affect yield, see “*Yield Considerations.*”

#### ***Adjustable-Rate Pools—Variable Pool Accrual Rate***

Adjustable-rate pools, also called ARM pools, consist entirely of one or more multifamily mortgage loans that bear interest at rates that adjust periodically in response to changes in an index. The prospectus supplement will identify the index used for the multifamily loans included in a pool. The prospectus supplement will also include additional information about the loan characteristics of the pool, including the frequency of rate and payment adjustments, the percent and timing of interest rate caps, any prepayment premiums or interest-only payment periods, and any option of the borrower to convert the loan to a fixed-rate loan.

We will calculate interest for each adjustable-rate pool at a monthly rate, which we call the pool accrual rate. The pool accrual rate is equal to the weighted average of the mortgage interest rates of each loan in that pool net of our servicing fee and our guaranty fee related to that loan. Therefore, the pool accrual rate is not a fixed pass-through rate. We refer to the sum of our servicing fee and our guaranty fee as our fee percentage. We refer to the difference between the loan’s mortgage margin and our fee percentage as the MBS margin. While interest on the loans will accrue at a rate equal to the index plus the mortgage margin (except when the loans are in their initial fixed-rate periods or are subject to interest rate caps and floors), the pool accrual rate is reduced by our fee percentage.

There are two ways in which the MBS margin in an adjustable-rate pool may be established.

- In some adjustable-rate pools, the MBS margin is the same for all loans in the pool. We refer to this type of adjustable-rate pool as a fixed MBS margin pool.

- In other adjustable-rate pools, our fee percentage is the same for all loans in the pool, with the result that the MBS margins vary among the loans in the pool. We refer to this type of adjustable-rate pool as a weighted average MBS margin pool.

The related prospectus supplement will provide information about the MBS margin for your pool. Each month we post updated MBS margin information for each adjustable-rate pool on our corporate Web site at [www.fanniemae.com](http://www.fanniemae.com) and our business-to-business Web site at [www.efanniemae.com](http://www.efanniemae.com) under “*Mortgage-Backed Securities—Information Center—Pool Talk*®” and in various financial publications.

## **Multifamily Mortgage Loans**

Lenders originate or purchase multifamily loans for sale to us that have fixed or adjustable interest rates, different methods of calculating interest, varying loan terms, restrictions and other features. We purchase these loans under one of three general classes of loan products: Delegated Underwriting and Servicing (“DUS”), Credit Facilities and Negotiated Transactions. Certificates may be backed by multifamily loans acquired by us under any of these general loan products.

The two major categories of multifamily mortgage loans are fixed-rate mortgage loans and adjustable-rate mortgage loans, often called ARM loans. Each of these categories includes several different types of multifamily mortgage loans.

### ***Fixed-Rate Loans***

Fixed-rate mortgage loans bear interest at rates that are fixed at origination and remain constant until the maturity date. Each fixed-rate loan type is described below. A fixed-rate pool will contain mortgage loans of only one type. The related prospectus supplement will identify the type of loans included in the pool.

- *Fully amortizing equal payment loans*—Each scheduled monthly payment of principal and interest is in the same amount and fully amortizes the principal of the loan over its term.
- *Partially amortizing equal payment loans with balloon payments*—Each scheduled monthly payment of principal and interest, except the final payment, is in the same amount. The amount of principal amortized each month is equal to the principal that would be amortized over an amortization period that is longer than the loan term. The final scheduled payment at maturity is a lump sum or balloon payment that is substantially larger than any previous scheduled payment.
- *Interest-only initially to fully amortizing equal payment loans*—During an initial period of time, no scheduled principal payment is due on the loan, and the borrower’s required monthly payment is set at an amount sufficient to pay only the monthly interest due on the outstanding principal balance at the mortgage interest rate. Consequently, during this initial period, payments on certificates backed by pools of this type of mortgage loan will consist only of interest and unscheduled principal from partial or full prepayments on the mortgage loans. On the first payment due date following the end of the initial interest-only period, the monthly payment amount will change to equal scheduled monthly payments of principal and interest in an amount necessary to pay interest at the mortgage interest rate and to fully amortize the outstanding principal balance of the loan on a level debt service basis over the remainder of its term. Following the end of the interest-only period, the payments you receive on the certificates related to the new monthly payment include scheduled (and unscheduled) principal as well as monthly interest at the fixed pass-through rate.
- *Interest-only initially to equal payment loans with balloon payments*—During the interest-only period, the payments will be made as described above in “*Interest-only initially to fully amortizing equal payment loans*.” On the first payment due date following the end of the initial interest-only period, the monthly payment amount will change to equal scheduled monthly



payments of principal and interest in an amount necessary to pay interest at the mortgage interest rate and to partially amortize the outstanding principal balance of the loan on a level debt service basis over the remainder of its term. The final scheduled payment at maturity is a lump sum or balloon payment that is substantially larger than any previous scheduled payment. Following the end of the interest-only period, the payments you receive on the certificates related to the new monthly payment include scheduled (and unscheduled) principal as well as monthly interest at the fixed pass-through rate.

- *Interest-only equal payment balloon loans*—No scheduled principal payments are due on the loan during its term, and the borrower’s required monthly payment is set at an amount sufficient to pay only the monthly interest due on the outstanding principal balance at the mortgage interest rate. As a result, during the term of the loan, payments on certificates backed by pools of this type of mortgage loan will consist only of interest and unscheduled principal from partial or full prepayments on the mortgage loans. The final scheduled payment at maturity is a lump sum or balloon payment of all outstanding principal plus all accrued and unpaid interest.

### ***Adjustable-Rate Loans (ARM Loans)***

Adjustable-rate mortgage loans bear interest at rates that adjust periodically in response to changes in an index. Two of the more frequently used indices are described below under “—*ARM Indices*.” The prospectus supplement will identify the index for the multifamily loans included in a pool and, if one of these two indices are used, will provide more recent information concerning the index being used. If a different index is used, the prospectus supplement will describe the index and provide historical information concerning the index. Each mortgage note for an ARM loan provides that, if the applicable index is no longer available or is no longer posted through the specified electronic transmission, the holder will choose a new index that is based upon comparable information. We make no representations as to the continued availability of any index nor the date on which any index is published or made publicly available.

#### *Types of ARM Loans*

Each adjustable-rate loan type is described below. Adjustable-rate pools generally will contain loans of only one type. The prospectus supplement will identify the type or types of loans included in the pool.

- *Fully amortizing loans*—The interest rate adjusts periodically during the term of the loan. Each time the rate is adjusted, the monthly payment amount will change to an amount necessary to pay interest at the new interest rate and to pay principal in an amount that fully amortizes the outstanding principal balance of the loan on a level payment basis over the remainder of its term, based on the current interest rate.
- *Partially amortizing loans with balloon payments*—The interest rate adjusts periodically during the term of the loan. Each time the rate is adjusted, the monthly payment amount will change to an amount necessary to pay interest at the new interest rate and to pay principal in an amount that partially amortizes the outstanding principal balance of the loan on a level payment basis over the remainder of its term, based on the current interest rate. (The amount of principal amortized each month is equal to the principal that would be amortized over an amortization period that is longer than the loan term.) The final scheduled payment at maturity is a lump sum or balloon payment that is substantially larger than any previous scheduled payment.
- *Interest-only initially to adjustable-rate fully amortizing loans*—The interest rate adjusts periodically during the term of the loan in accordance with the provisions of the mortgage note to a rate based on the index and mortgage margin specified in the mortgage note. During an initial period of time, no scheduled principal payment is due on the loan. During this time, the borrower’s required monthly payment is set at an amount sufficient to pay only the monthly

interest due on the outstanding principal balance at the then-applicable interest rate. As a consequence, during this initial period, payments on certificates backed by pools of these mortgage loans will consist only of interest and unscheduled principal from partial or full prepayments on the mortgage loans. On the first payment due date following the end of the initial interest-only period, the monthly payment amount will change to an amount necessary to pay interest at the new interest rate and to pay principal in an amount that fully amortizes the outstanding principal balance of the loan on a level payment basis over the remainder of its term, based on the current interest rate. Following the end of the initial interest-only period, the payments you receive related to the new monthly payment include scheduled (and unscheduled) principal and monthly interest at the pool accrual rate then in effect.

- *Interest-only initially to adjustable-rate loans with balloon payments*—The interest rate adjusts periodically during the term of the loan in accordance with the provisions of the mortgage note to a rate based on the index and mortgage margin specified in the mortgage note. During the interest-only period, payments will be made as described above in “—*Interest-only initially to adjustable-rate fully amortizing loans.*” On the first payment due date following the end of the initial interest-only period, the monthly payment amount will change to an amount necessary to pay interest at the new interest rate and to pay principal in an amount that partially amortizes the outstanding principal balance of the loan on a level payment basis over the remainder of its term, based on the current interest rate. The final scheduled payment at maturity is a lump sum or balloon payment that is substantially larger than any previous scheduled payment. Following the end of the interest-only period, the payments you receive on the certificates related to the new monthly payment include scheduled (and unscheduled) principal and monthly interest at the pool accrual rate then in effect.
- *Interest-only balloon loans*—No scheduled principal payments are due on the loan during its term. The interest rate on the loan will adjust in accordance with the provisions of the mortgage note to a rate based on the index and mortgage margin specified in the mortgage note. Each time the rate is adjusted, the borrower’s required monthly payment amount will change to an amount necessary to pay only interest at the new mortgage interest rate. As a result, during the term of the loan, payments on certificates backed by pools of this type of mortgage loan will consist only of interest and unscheduled principal from partial or full prepayment on the mortgage loans. The final scheduled payment at maturity is a lump sum or balloon payment of all outstanding principal plus all accrued and unpaid interest.
- *Loans permitting negative amortization*—As with ARM loans that do not permit negative amortization, the interest rate and payment amount adjust periodically during the term of the loan. There is, however, either an adjustment schedule in which the payment amounts are adjusted less frequently than the interest rate or a payment cap that limits the amount by which the payment can increase as a result of an interest rate increase, or, in some cases, both. In either case, this feature creates the possibility that after an interest rate adjustment, the monthly payment will be insufficient to cover the accrued interest. Whenever that occurs, the portion of interest that is not included in the payment amount will be added to principal (referred to as negative amortization), and interest will accrue on the new higher mortgage balance.
- *Loans with fixed-rate conversion option*—The interest rate and payments adjust in the same manner as fully amortizing or partially amortizing ARM loans, described above, as appropriate, unless the loan is converted to a fixed-rate loan. The borrower has the option to convert the interest rate to a fixed rate at specified times. We will repurchase the loan from the pool during the calendar month before the loan begins to accrue interest at the new fixed rate.

## *How Adjustable-Rate Loans Work*

- *Initial fixed-rate period.* For an initial period, interest on most ARM loans accrues at a fixed rate, which may or may not be based on the index value in effect at the time of the loan's origination. The prospectus supplement will state the initial interest rate, the length of time from loan origination to the first interest rate change date for the loans in the pool and the frequency of later interest rate adjustments, which take place on each interest rate change date. The prospectus supplement also will specify the next interest rate change date of each loan in a pool.
- *Calculation of the adjustable interest rate.* After the initial fixed-rate period, if any, the interest rate on an ARM loan is adjusted at regular intervals specified in the mortgage note. On each rate change date the interest rate is adjusted to equal the sum of the index value most recently available as of a date specified in the mortgage note plus an amount specified in the mortgage note and referred to as the mortgage margin. Unless the prospectus supplement describes a different rounding method, the result is rounded according to the rounding convention stated in the mortgage note or, if none is stated, to three decimal points. The index value to be used will be the latest index value available as of a date that precedes the rate change by the lookback period. The lookback period is the number of days specified in the related mortgage note that fall between the rate change date and the specified preceding date. The prospectus supplement will specify the lookback period for the index value used in the calculation of the new adjusted interest rate.
- *Interest rate caps and floors.* Most ARM loans contain periodic interest rate caps and floors, which limit the amount by which the interest can increase or decrease on each interest rate change date. Most ARM loans also include a lifetime interest rate cap requiring that the interest rate on the loan never exceed the lifetime interest rate cap, regardless of the applicable index value. Most ARM loans also have lifetime interest rate floors below which the interest rate cannot be set. If no lifetime interest rate floor is specified, we treat the related mortgage margin as the floor. The prospectus supplement will specify any periodic interest rate caps and floors that apply to the initial rate adjustment and to each later interest rate adjustment and will also describe any lifetime interest rate caps and lifetime interest rate floors.
- *Options to convert to fixed rate.* Some ARM loans permit the borrower to convert the loan to a fixed-rate loan at certain times specified in the mortgage loan documents. If the borrower exercises the right to convert the ARM loan to a fixed-rate loan, we will purchase the loan from the pool during the calendar month before the loan begins to accrue interest at the new fixed rate. The purchase price will equal the ARM loan's stated principal balance, together with one month's interest at its then-current pool accrual rate. In general, the new fixed rate is equal to the approximate market rate of interest that we would require at the time of conversion for newly originated multifamily mortgage loans comparable in material respects to the mortgage loan and delivered in accordance with our standards and procedures. The prospectus supplement will identify ARM loan pools as convertible and specify the times when a borrower may convert an ARM loan to a fixed-rate loan.
- *Rate adjustments upon assumption.* If a mortgaged property securing an ARM loan is sold, many multifamily ARM loans permit the new purchaser of the mortgaged property to assume the loan, provided that the purchaser is reasonably satisfactory to the lender. Some loans permit the assumption of the loan at any time during its term while other loans require the expiration of either a prescribed length of time or an initial period of time during which the loan is accruing interest at a fixed rate. For additional information about the rules that apply in this circumstance, see "*—General Characteristics of Multifamily Loans—Assumptions of Multifamily Loans and Transfers of Interests in Borrowers.*" In some cases, the lender is permitted at the time of the assumption to reset the maximum and minimum interest rates and the maximum and minimum payment caps or lifetime interest rate caps, based on then prevailing market

interest rates. The interest rate may never be lower than the related mortgage margin. If a pool includes loans that provide for resets of any of these features at the time a loan is assumed, the prospectus supplement will disclose the specific features that are permitted to be reset at that time.

- *Negative amortization.* Unless we specify otherwise in the prospectus supplement, the pool will contain no loans that have a possibility of negative amortization.
- *Payment change frequency and payment caps for negative amortization loans.* If an ARM loan permits negative amortization, there may be times when the monthly payment is insufficient to pay all of the interest that has accrued during the month. This usually occurs in two instances, when payments are not adjusted as frequently as the interest rate adjusts or when a payment cap applies, or both. Payment caps and floors limit the amount by which the borrower's payment can increase or decrease with each interest rate change. If a payment cap or floor applies, the prospectus supplement will so state. In either case, when this happens, the amount by which the payment is insufficient to pay the interest due is deferred and added to the principal balance of the mortgage loan. Interest then accrues on the new higher mortgage loan balance. Unless the prospectus supplement states otherwise, all payment adjustments on ARM loans will be effective in the month after each interest rate change and no payment caps or floors will apply to the loans in the pool.
- *Periodic reamortization for negative amortization loans.* Some ARM loans that permit negative amortization provide for a full reamortization of principal periodically. Some loans may also provide for reamortization between the planned reamortization dates where the addition of deferred interest to principal would cause the then principal balance of the loan to exceed a specified trigger amount over the original principal balance. Reamortization is the adjustment of the monthly payment amount to an amount sufficient to pay the then remaining principal balance of the loan, together with interest at the then applicable rate, in equal monthly payments for its remaining term. This readjustment is made without regard to the caps on payment adjustments that would otherwise apply. If a loan permits negative amortization, the prospectus supplement will indicate the dates for scheduled reamortizations and the trigger level for unscheduled reamortizations.

### *ARM Indices*

Following an initial fixed rate period, each loan will bear interest at a rate that varies in response to movements in a single specified index. Different loans may use different indexes to calculate the interest rate charged to the borrower on the related loan. Two of the most common indexes are the one-month LIBOR and the three-month LIBOR, which are the British Bankers Association fixing of the London Inter-Bank Offered Rate for one-month and three-month U.S. Dollar-denominated deposits, respectively, as reported by Telerate through electronic transmission

Listed below are some historical values for the one-month LIBOR index and the three-month LIBOR index, dated on or after the 15th of each month, for one-month and three-month U.S. Dollar-denominated deposits, respectively, as reported by Telerate through electronic transmission.

| <u>Date Available</u> | <u>One-Month<br/>Index Value (%)</u> | <u>Three-Month<br/>Index Value (%)</u> | <u>Date Available</u> | <u>One-Month<br/>Index Value (%)</u> | <u>Three-Month<br/>Index Value (%)</u> |
|-----------------------|--------------------------------------|--|-----------------------|--------------------------------------|--|
| June 16, 1997         | 5.68750                              | 5.78125                                | May 15, 1998          | 5.65625                              | 5.69922                                |
| July 15, 1997         | 5.67578                              | 5.75000                                | June 15, 1998         | 5.65234                              | 5.68750                                |
| August 15, 1997       | 5.64453                              | 5.73828                                | July 15, 1998         | 5.65625                              | 5.68750                                |
| September 15, 1997    | 5.62500                              | 5.71875                                | August 17, 1998       | 5.64453                              | 5.68750                                |
| October 15, 1997      | 5.62500                              | 5.75391                                | September 15, 1998    | 5.58203                              | 5.50000                                |
| November 17, 1997     | 5.68750                              | 5.87500                                | October 15, 1998      | 5.40766                              | 5.34328                                |
| December 15, 1997     | 5.96064                              | 5.90625                                | November 16, 1998     | 5.27656                              | 5.40688                                |
| January 15, 1998      | 5.59375                              | 5.59766                                | December 15, 1998     | 5.54438                              | 5.21938                                |
| February 16, 1998     | 5.61719                              | 5.62500                                | January 15, 1999      | 4.95750                              | 4.96984                                |
| March 16, 1998        | 5.68750                              | 5.68359                                | February 15, 1999     | 4.93781                              | 5.00000                                |
| April 15, 1998        | 5.65625                              | 5.68750                                | March 15, 1999        | 4.93750                              | 5.00000                                |

| <u>Date Available</u> | <u>One-Month Index Value (%)</u> | <u>Three-Month Index Value (%)</u> | <u>Date Available</u> | <u>One-Month Index Value (%)</u> | <u>Three-Month Index Value (%)</u> |
|-----------------------|----------------------------------|------------------------------------|-----------------------|----------------------------------|------------------------------------|
| April 15, 1999        | 4.92875                          | 5.00000                            | December 15, 2000     | 6.69500                          | 6.54938                            |
| May 17, 1999          | 4.91375                          | 5.02750                            | January 15, 2001      | 5.91063                          | 5.74125                            |
| June 15, 1999         | 5.00000                          | 5.15500                            | February 15, 2001     | 5.58000                          | 5.41250                            |
| July 15, 1999         | 5.18000                          | 5.31000                            | March 15, 2001        | 5.05625                          | 4.94250                            |
| August 16, 1999       | 5.27875                          | 5.46750                            | April 17, 2001        | 5.04875                          | 4.80875                            |
| September 15, 1999    | 5.38125                          | 5.52000                            | May 15, 2001          | 4.13500                          | 4.10313                            |
| October 15, 1999      | 5.40875                          | 6.19250                            | June 15, 2001         | 3.95000                          | 3.85125                            |
| November 15, 1999     | 5.45875                          | 6.07000                            | July 16, 2001         | 3.83000                          | 3.76000                            |
| December 15, 1999     | 6.46000                          | 6.14000                            | August 15, 2001       | 3.62000                          | 3.56000                            |
| January 17, 2000      | 5.80250                          | 6.03625                            | September 17, 2001    | 3.38375                          | 3.11000                            |
| February 15, 2000     | 5.88000                          | 6.09000                            | October 15, 2001      | 2.51750                          | 2.43125                            |
| March 15, 2000        | 6.03500                          | 6.17250                            | November 15, 2001     | 2.10000                          | 2.10000                            |
| April 17, 2000        | 6.13000                          | 6.28250                            | December 17, 2001     | 1.92000                          | 1.90125                            |
| May 15, 2000          | 6.57000                          | 6.76000                            | January 15, 2002      | 1.74000                          | 1.72375                            |
| June 15, 2000         | 6.64875                          | 6.77750                            | February 15, 2002     | 1.85000                          | 1.91000                            |
| July 17, 2000         | 6.63000                          | 6.74000                            | March 15, 2002        | 1.90000                          | 2.01000                            |
| August 15, 2000       | 6.62000                          | 6.69000                            | April 15, 2002        | 1.86000                          | 1.97000                            |
| September 15, 2000    | 6.62250                          | 6.66000                            | May 15, 2002          | 1.84000                          | 1.92000                            |
| October 16, 2000      | 6.61938                          | 6.77375                            | June 17, 2002         | 1.84000                          | 1.87875                            |
| November 15, 2000     | 6.61975                          | 6.75750                            | July 15, 2002         | 1.83875                          | 1.86000                            |

### General Characteristics of Multifamily Loans

Each prospectus supplement for a pool of multifamily loans will include a schedule of loan information that provides detailed information about the loans included in the pool. In each case, the additional information includes certain data and estimates (“data”) provided by the lender. When you review the data, you should keep in mind the following points:

- We have not independently verified the accuracy of the data.
- We do not guarantee that the data are accurate.
- The data have not been reviewed or passed upon by an independent third party.
- We do not guarantee that the lender has the experience or qualifications to ensure that the data are accurate.

In addition, the lender provides only the data available as of the issue date of the related certificates, which may relate to an earlier period. Thus, after that date, the data may no longer be accurate due to intervening events or conditions.

In addition to any information provided in *The Bond Buyer*, we may choose to publish certain information about the mortgage loans in a pool from time to time through Bloomberg L.P., our Web sites or any other information service.

### Definitions

Defined below are certain terms commonly used for multifamily loans. Subordinate lien mortgage loans, special feature mortgage loans, credit facility loans and negotiated transaction loans may use modified definitions of these terms, some of which are described in this prospectus. The prospectus supplement will describe any modified definitions that are applicable to other loans and that are not set forth in this prospectus.

- The “debt service coverage ratio” for a multifamily loan is the ratio of
  - (a) the net operating income that the lender estimates will be generated by the related mortgaged property during the twelve-month period following the date of origination of the loan, to
  - (b) the product of the amount of the monthly principal and interest payment on the loan in effect at the date of origination of the loan, times 12.



If the loan has been outstanding for a period of time before it was sold to us, the lender will use a recent twelve-month period for determining net operating income from the related mortgaged property to calculate the “debt service coverage ratio.”

- The “loan-to-value ratio” of a loan is the relationship between
  - (a) the principal balance of the loan on the date of origination of the loan and
  - (b) the property value,expressed as a percentage of the property value.

If the loan has been outstanding for a period of time before it was sold to us and the principal of the loan has amortized during that time, the lender will use the principal balance of the loan on the date of issuance of the certificates and a recent determination of property value to calculate the “loan-to-value ratio.”

- The “net operating income” is the revenue that the lender estimates will be generated from the use and operation of the related mortgaged property (primarily estimated market rental rates and other allowable income, if any) less estimated operating expenses (such as utilities, general administrative expenses, management fees, advertising, repairs and maintenance) and less estimated fixed expenses (such as insurance and real estate taxes), all calculated on an annual basis.
- The “property value” is the value of the related mortgaged property as reported to us by the lender based on an appraisal or an alternative valuation method that contains a study of rent and sales comparables and an analysis of economic trends.

#### ***Method for Calculating Interest***

Each mortgage note related to a multifamily mortgage loan specifies the method to be used for calculating interest on the loan. Interest is generally calculated on a 30/360 basis or on an actual/360 basis, although other methods may also be used. Calculation of the total monthly principal and interest payment for a loan using the 30/360 method is the same as the calculation for a loan using the actual/360 method. The difference between the 30/360 and actual/360 methods is that the amount of each monthly payment that is allocated to interest will be based on 30 days in a month for the 30/360 method and the actual number of calendar days during the month for the actual/360 method. In a 31-day month, more of the monthly payment amount will be allocated toward interest using the actual/360 method than will be allocated using the 30/360 method. Under the actual/360 method, the amount allocated to interest for each month will vary depending on the actual number of calendar days during the month. Because there are actually 365 or 366 days in a year, loans using the actual/360 method amortize more slowly and generate more interest than a loan at the same note rate using the 30/360 method. As a result, a fully amortizing loan accruing interest on the 30/360 method will have no balance payable at the stated maturity date of the loan while the same loan accruing interest on the actual/360 basis will have a balloon payment of all unpaid principal and accrued interest payable on the stated maturity date of the loan.

The prospectus supplement will specify the method for calculating interest on the loan and, if the method used is not the 30/360 basis or the actual/360 basis, will define and describe the method being used.

#### ***Amortization, Maturity Date and Payments***

Multifamily loans generally require monthly payments of principal and interest or payments of interest only. Whether the loan will be paid in full at the scheduled maturity date will depend upon the basis used for calculating interest on the loan, the original loan term, the original amortization term, and the type of monthly payments being made on the loan (for example, interest-only payments for part or all of the term, principal and interest payments sufficient to cover all accrued interest and all

scheduled principal over the original amortization term, which may be equal to or longer than the original loan term). The related prospectus supplement will provide this information for each loan and will identify any loan for which payments are scheduled to be made less frequently than monthly.

### ***Underwriting and Servicing***

Many multifamily mortgage loans originated and delivered to us soon after origination have been underwritten in accordance with one of our Guides. Other multifamily mortgage loans, either newly originated or outstanding for a time, may have been underwritten in accordance with the requirements of the originator or other party. We review a representative sample of the mortgage loan files being delivered to us. All multifamily mortgage loans purchased by us are serviced in accordance with one of our Guides, subject to waivers that we may grant from time to time.

### ***Existing Encumbrances on a Mortgaged Property***

Sometimes a new multifamily mortgage loan is secured by a property that is encumbered by one or more senior or subordinate mortgage liens. The prospectus supplement will identify any loan secured by a property that is encumbered by another mortgage lien on the issue date of the related certificates. When a new multifamily mortgage loan secured by an encumbered property is included in your pool, the modified definitions found under “—*Subordinate Lien Mortgage Loans*” will apply.

### ***Later Encumbrances on a Mortgaged Property***

A mortgaged property that secures a mortgage loan backing the related certificates may be further encumbered at a later date by a subordinate lien mortgage loan. With the exception of DUS loans (see “—*DUS Loans—Future Encumbrances on a DUS Mortgaged Property*”) and credit facilities (see “—*Credit Facilities—Assumption and Further Encumbrance*”), we may permit a new subordinate lien mortgage loan on the mortgaged property where the new subordinate loan, the existing mortgage loan related to the certificates, and all other senior and subordinate lien mortgage loans secured by the property have both (a) a combined debt service coverage ratio that is equal to or greater than the debt service coverage ratio that originally applied to the existing mortgage loan and (b) a combined loan-to-value ratio that is equal to or less than the loan-to-value ratio that originally applied to the existing mortgage loan.

An event of default under a subordinate lien mortgage loan (i) may trigger an event of default under the existing mortgage loan in a pool or any other mortgage loans senior to the subordinate lien mortgage loan and (ii) may entitle the holder of the subordinate mortgage lien to foreclose on and sell the mortgaged property subject to the lien of the existing mortgage loan in a pool and any other mortgage loans senior to the subordinate lien mortgage loan. If this occurred, we would be entitled to declare the entire unpaid principal balance of the existing mortgage loan due and payable. If we did so, you would receive an early payment of principal from the existing mortgage loan related to the certificates. If the existing mortgage loan is the only loan in the pool at that time, the pool would be terminated and the stated principal balance of the loan would be paid to you.

### ***Prepayment Restrictions, Early Receipt of Principal and Prepayment Premiums***

Prepayments or other early receipt of principal of the loans contained in your pool may affect, in some cases significantly, your effective yield on the related certificates. We guarantee that we will pay principal and interest on the certificates when due, whether or not the borrower on a loan pays us. We will not guarantee the payment to you of any yield maintenance fees or other prepayment premiums paid in connection with an early prepayment. We cannot predict whether and to what extent any loan or any certificates actually will experience early prepayment of principal.

Many multifamily mortgage loans prohibit voluntary partial prepayments at all times. Most multifamily mortgage loans permit voluntary prepayment in full during all or a portion of their terms but require payment of a yield maintenance fee or other prepayment premium. The related prospectus

supplement will include information for each loan concerning the ability of borrowers to prepay, the presence of any yield maintenance fees or other prepayment premiums, and the method used to calculate the yield maintenance fees or the other prepayment premium.

Multifamily mortgage loans may experience involuntary prepayments. An involuntary prepayment means the early receipt of all or a portion of the principal of a loan other than as a result of a voluntary prepayment by the borrower. Most multifamily notes provide that the borrower will not be required to pay a prepayment premium if an involuntary prepayment results from receipt of casualty insurance proceeds or a condemnation award affecting the related mortgaged property. Generally, if the loan is not then in material default, any casualty insurance proceeds will be applied to restore or repair the mortgaged property and not to reduce the principal balance of the related loan, provided that in our determination: (i) there are sufficient funds to restore the mortgaged property to a satisfactory condition, (ii) rental income from the mortgaged property, after it has been restored, will be sufficient to meet all project obligations, and (iii) the repair or restoration of the mortgaged property will be completed within one year of the casualty event or before the maturity date of the loan, whichever occurs first. The related prospectus supplement will identify any loans that require payment of a prepayment premium in these instances, that require a different application of the casualty insurance proceeds or that reamortize principal after a partial involuntary prepayment (which could affect your yield).

An involuntary prepayment may also result if we apply collateral or other security to the repayment of all or any portion of the unpaid principal balance of a loan. If the loan has not been accelerated, the prepayment will be a partial prepayment. We are generally entitled to collect a prepayment premium in this event, which will be calculated as described in the prospectus supplement. If we do collect the prepayment premium, we will not pay any portion of the premium to certificateholders.

We generally will waive payment or modify the amount of a prepayment premium when an asset audit, conducted in accordance with our servicing requirements, determines that a loan is in default due to legitimate cash flow deficiencies and that the default does not result from an attempt to avoid payment of the prepayment premium. If we do require a borrower to pay a prepayment premium, we generally will deduct and retain the prepayment premium from the proceeds of the collateral or other security and apply the balance of the proceeds to repayment of all or any portion of the unpaid principal balance of the related loan. The prospectus supplement will describe any different manner in which the terms for collection or application of prepayments differ from those explained in this base prospectus.

Some states have laws that limit the amounts that a lender may collect from a borrower as an additional charge if a mortgage loan is prepaid. In addition, the enforceability of prepayment premiums in the case of an involuntary prepayment is unclear under the laws of many states. We cannot ensure whether the imposition of a prepayment premium is enforceable or collectible under the laws of any state or territory.

See “—*DUS Loans*” for a description of how yield maintenance fees or other prepayment premiums are determined for DUS loans.

#### ***Cross-Default and Cross-Collateralization Provisions***

A pool may contain two or more loans that are related because the loans have either a common borrower or different borrowers that are owned by a common entity. In many cases, the lender requires each of the loans to be cross-defaulted and/or cross-collateralized with each of the other loans in the pool. The prospectus supplement will specify if the loans in a pool are cross-collateralized and/or cross-defaulted with each other.

If the loans are cross-defaulted, the occurrence of an event of default under one loan will trigger an event of default under each of the other loans in the pool. In this case, not only may we declare the



defaulted mortgage loan immediately due and payable but we may also declare one or more of the other mortgage loans immediately due and payable. If one or more of the mortgage loans is paid in full, you would receive an early prepayment of principal from the loan or loans.

If the loans are cross-collateralized, the mortgaged property securing one loan will also serve as additional collateral for each of the other loans in the pool. Each mortgage loan, therefore, is secured not only by a first priority lien on the related mortgaged property but also by a lien on each of the other mortgaged properties, which is either equal or junior in priority to the first priority mortgage on the property. Cross-collateralization provisions expand the collateral available for repayment of one mortgage loan to include not only the related mortgaged property but also each of the other mortgaged properties securing loans in the pool. If an event of default occurs under one of the loans, the related mortgaged property and one or more of the other mortgaged properties may be sold to satisfy the outstanding debt obligations. If a mortgaged property were sold, you would receive an early prepayment of principal from the related loan or loans.

If prepaid loans are the only mortgage loans in the related pool at the time of prepayment, the pool would be terminated and the stated principal balance of the remaining loans would be paid to you.

A pool may also contain loans that are cross-defaulted and/or cross-collateralized with loans that are not in the pool, that contain provisions allowing loans to be released from the cross-collateralization/cross-default provisions, or that require special cross-collateralization and/or cross-default provisions. In any of these cases, the prospectus supplement will describe the terms of the cross-default and/or cross-collateralization provisions applicable to the loans in the pool.

#### ***Assumptions of Multifamily Loans and Transfers of Interests in Borrowers***

We generally permit multifamily mortgage loans to be assumed by new borrowers/transferees and to permit existing borrowers to transfer interests in the borrower, in both cases subject to our review and approval. A common permitted property transfer involves the payment to us of a transfer fee equal to 1% of the outstanding principal balance of the loan being transferred and the execution of an assumption agreement by a new borrower/transferee that meets our customary standards of creditworthiness and management ability. If we do receive any transfer fee in connection with a transfer of a mortgaged property related to a loan, we will retain that transfer fee. We will not pay any portion of the transfer fee to you. In some cases, as a condition to the assumption, the maximum and minimum interest rates and the maximum and minimum payment caps or lifetime interest rate caps may be reset based on then prevailing market interest rates. Special policies apply to assumptions by a successor borrower in connection with a defeasance election under a DUS defeasance loan. (See “—*Defeasance Mortgage Loans.*”)

#### ***Equity Interests in Mortgaged Properties***

A pool may contain one or more mortgage loans secured by mortgaged properties in which we indirectly either currently hold or in the future may acquire an equity interest. We typically hold an equity interest in a property only when unaffiliated third parties also own equity interests in the property. Servicing of these mortgage loans is generally performed by one of the other owners or an unaffiliated third party, although in some cases we may have the right to remove the servicer and to service the loans directly.

#### **Defeasance Mortgage Loans**

A multifamily fixed-rate loan is a defeasance loan if it is so identified in the prospectus supplement. During an initial lockout period, a borrower may not elect to defease or voluntarily prepay a defeasance loan. After the expiration of the lockout period and during the defeasance period, a borrower may elect to defease the loan but may not voluntarily prepay the loan. Some defeasance loans have defeasance periods that continue until the maturity date of the loan and that never permit voluntary prepayments. Other defeasance loans have defeasance periods that end before the maturity

date of the loan and that permit voluntary prepayment of the loan after the defeasance period and before the maturity date. The prospectus supplement will specify for each defeasance loan the lockout period and any period in which voluntary prepayments may be made.

A defeasance loan may be involuntarily prepaid, in full or in part, through the receipt of proceeds from a casualty, condemnation or sale of collateral or other security. Involuntary prepayments may be made at any time during the term of the loan other than during the defeasance period. See “—*General Characteristics of Multifamily Mortgage Loans—Prepayment Restrictions, Early Receipt of Principal and Prepayment Premiums.*”

Under defeasance, the borrower may elect, after the initial lockout period, to defease the loan and release the mortgaged property from the lien of the related mortgage. If the borrower elects to defease, the borrower delivers to us substitute collateral (federal government or agency securities) acceptable to us and structured to provide principal and interest payments identical to those on the defeasance loan over the remaining term of the loan. After delivery of the substitute collateral, a third-party successor borrower may assume all liability under the related mortgage note and assume the interest of the borrower, subject to our security interest, in the acceptable substitute collateral. (The successor borrower may be a partnership, trust, corporation or other entity and may be owned in whole or in part by Fannie Mae. ) The original borrower then will be released from liability under the mortgage note and the mortgaged property securing the loan will be released from the lien of the mortgage. After defeasance, the mortgage loan, secured by the acceptable substitute collateral, remains in the pool and the acceptable substitute collateral funds the scheduled principal and interest on the loan for the remainder of the term. Because defeasance does not result in any prepayment of principal on the loan, the pool containing the defeased loan will not terminate as a result of defeasance even if the defeased loan is the only loan in the pool. See “*Federal Income Tax Consequences—Special Tax Attributes—Defeasance Mortgage Loans*” for a discussion of the possible tax implications of replacing the mortgaged property collateral for the mortgage loan with acceptable substitute collateral.

### **Subordinate Lien Mortgage Loans**

A “subordinate lien mortgage loan” is a loan secured by a subordinate lien on a mortgaged property that is also encumbered on the issue date of the certificates by one or more liens of higher priority and, in some cases, by one or more liens of lower priority. The following modified definitions apply to subordinate lien mortgage loans:

- The “debt service coverage ratio” (sometimes referred to as the “combined debt service coverage ratio”) is the ratio of:
  - (a) the net operating income that the lender estimates will be generated by the related mortgaged property during the 12-month period following the date of origination of the new mortgage loan, to
  - (b) the product of the sum of the combined monthly payments on the new mortgage loan and on all other senior and subordinate lien mortgage loans as of the origination date, times 12.

If the subordinate loan has been outstanding for a period of time before it was sold to us, the lender will use a recent twelve-month period for determining net operating income from the related mortgaged property to calculate “debt service coverage ratio.”

- The “loan-to-value ratio” (sometimes referred to as the “combined loan-to-value ratio”) is the relationship between
  - (a) the sum of the unpaid principal balance of the new mortgage loan and the unpaid principal balances of all other senior and subordinate lien mortgage loans as of the issue date of the related certificates, and

- (b) the related property value,  
expressed as a percentage of the property value.

If the subordinate loan has been outstanding for a period of time before it was sold to us and the principal of the loan has amortized during that time, the lender will use the current principal balance of the loan as of the date of issuance of the certificates and a recent determination of property value to calculate the “loan-to-value ratio.”

If (i) a mortgage loan that is higher in priority is paid in full before the subordinate lien mortgage loan is paid in full and (ii) the borrower obtains a new mortgage loan secured by the related mortgaged property, we may approve, at our discretion, a request to subordinate the lien of the subordinate lien mortgage loan to the lien of the new mortgage loan.

Generally, an event of default on a mortgage loan that is either senior in priority to or lower in priority to a subordinate lien mortgage loan will trigger an event of default on the subordinate lien mortgage loan. The occurrence of an event of default would entitle us to declare the entire unpaid principal balance of the subordinate lien mortgage loan due and payable. If we did so, and the unpaid principal balance were paid in full, you would receive an early prepayment of principal.

The related prospectus supplement will indicate whether a pool includes a subordinate lien mortgage loan, will specify the relative priorities of the various liens and will describe all material terms of the loan.

### **Special Feature Mortgage Loans**

Some loans have special features that distinguish them from standard multifamily loans. The special features may include the type of multifamily mortgaged property securing the loan, the income level of the tenants, or the type of loan that may be placed upon the related mortgaged property.

#### ***Multifamily Affordable Housing Loans (Low-Income Housing Tax Credit Loans)***

A “multifamily affordable housing loan” is a multifamily loan on a mortgaged property encumbered by a regulatory agreement that limits rents, imposes income restrictions on tenants or places other restrictions on the use of the property. Multifamily affordable housing loans include but are not limited to loans on mortgaged properties where the property owner is entitled to receive low-income housing tax credits under section 42 of the Internal Revenue Code of 1986, as amended (the “Code”).

Section 42 provides a tax credit for owners of residential rental properties that meet the definition of “low-income housing” where the owner has received a tax credit allocation from the state or local allocating agency. The total amount of tax credits the owner is entitled to receive is based upon the percentage of total units made available to qualified tenants.

For a property to qualify under section 42, the owner of the property securing the loan must make an irrevocable election at the time that the property is “placed in service” (that is, when the first unit is available for occupancy) of one of the following options:

- (i) at least 20% of all units must be rented to tenants with households earning 50% or less of the annual HUD median income for that area (as adjusted for family size), or
- (ii) at least 40% of all units must be rented to tenants with households earning 60% or less of the annual HUD median income for that area (as adjusted for family size).

Median income is determined by the U.S. Department of Housing and Urban Development, or HUD, for each metropolitan area or county in the United States and is adjusted annually.

In addition, section 42 requires that gross rent for each unit not exceed 30% of the annual HUD median income for the area, adjusted for family size. The gross rent charged for a unit must take into

account an allowance for utilities. If utilities are paid by the tenant, the maximum allowable tax credit rent is reduced according to utility allowances, as provided in Treasury regulations.

Under the tax credit provisions, a property owner must comply with the tenant income restrictions and rental restrictions over a 15-year compliance period. Moreover, agreements governing the property may require an “extended use period” that has the effect of extending the income and rental restrictions for an additional period (typically 15 years).

If a tax credit mortgaged property is acquired through foreclosure or deed in lieu of foreclosure, section 42 generally requires the holder of the related mortgage to permit all tenants in low-income units to continue to occupy the units for three years after the acquisition.

If a tax credit mortgaged property does not maintain compliance with the tax credit restrictions on tenant income or rental rates, the owners of the tax credit project may lose the tax credits related to the period of the noncompliance and face the partial recapture of previously taken tax credits. This could lead to an event of default under the mortgage, acceleration of the mortgage loan and the early prepayment of the related certificates.

Many tax credit properties also benefit from other federal, state or local subsidies which may impose additional encumbrances and restrictions which may differ from those required by section 42.

We may also occasionally purchase multifamily affordable housing mortgage loans secured by properties that are not financed with tax credits and do not comply with section 42 but receive other subsidies from specific federal, state or local agencies or organizations. Encumbrances and restrictions on these properties may differ from those required by section 42.

We make no representation as to whether certificates backed by multifamily affordable housing mortgage loans will receive positive consideration in a banking institution’s examination under the Community Reinvestment Act of 1977 (the CRA). An investor must make its own determination as to whether a certificate of a particular issue meets the CRA objectives of the investor or meets other objectives relevant to that investor.

The related prospectus supplement will indicate whether a pool includes a multifamily affordable housing loan and/or a low-income housing tax credit loan and describe all material terms of the loan.

### ***Seniors’ Housing Loans***

A “seniors’ housing loan” is a multifamily loan where the related mortgaged property is intended to be used by elderly residents for whom the owner or operator provides special services that are typically associated with either “independent congregate living” or “assisted living.” For congregate care facilities, these services generally include recreational activities, one to three meals each day through central dining services, weekly housekeeping and laundry. Assisted living facilities include these services as well as services for personal care, assistance with activities of daily living and, in some cases, monitoring of medication. In both cases, the services are part of a basic service package paid for by a resident and included as a part of the rental and service income of a property.

The rental payments received from congregate care facilities and assisted living facilities include amounts related to the special services described above. As a result, “net operating income” is specially defined for seniors’ housing loans as the revenue that the lender estimates will be generated from the use and operation of the related mortgaged property (primarily estimated market rental rates for facilities that provide “independent congregate living” or “assisted living”) less estimated operating expenses (such as utilities, food service, housekeeping, laundry, general administrative expenses, management fees, advertising, repairs and maintenance) and estimated fixed expenses (such as insurance and real estate taxes), all calculated on an annual basis.

The related prospectus supplement will indicate whether a pool includes a seniors’ housing loan and describe all material terms of the loan.

### ***Cooperative Blanket Loans***

A “cooperative blanket loan” is a multifamily loan made to a cooperative housing corporation and secured by a first or subordinate lien on a cooperative multifamily housing project that contains five or more units. The cooperative housing corporation borrower owns the cooperative multifamily housing project, including all the individual dwelling units as well as the common areas, and owns (or leases) the land on which the project is built. The cooperative housing corporation manages the project and generally is responsible for paying real property taxes and hazard and liability insurance premiums on the project. Unlike owners under traditional mortgage loans, the owners of the cooperative housing corporation (the “tenant-owners”) do not buy their respective dwelling units but rather acquire interests in the cooperative housing corporation with rights to occupy their units. In some cases, the cooperative housing corporation itself may hold the rights to one or more of the units, which are made available for rental.

The tenant-owners generally must pay a proportional share of the payments on the cooperative blanket loan and the expenses of the cooperative project. If a tenant-owner fails to do so, the cooperative housing corporation can terminate the tenant-owner’s occupancy rights. A substantial portion of the cooperative housing corporation borrower’s cash flow is received from the required payments by the tenant-owners and from rental payments by tenants occupying the borrower-owned units. When an unanticipated expenditure is required, the cooperative housing corporation borrower may need to declare special assessments on the tenant-owners. The borrower must then collect the special assessment from each of the tenant-owners and must pay the special assessments levied on the rental units owned by the borrower. If the cooperative housing corporation’s cash flow is adversely affected, it may default on its loan. In that case, the lender may foreclose on the cooperative multifamily housing project and terminate the occupancy rights of the cooperative housing corporation.

Special definitions generally apply to cooperative blanket loans. Unless otherwise defined in the related prospectus supplement, the following definitions will apply to cooperative blanket loans:

- The “net operating income” for a cooperative blanket loan is the rental revenue that the lender estimates would be derived from the use and operation of the related mortgaged property if the property were being operated as multifamily rental property (assuming, with certain exceptions, that the units in the property would be available for rental at prevailing market rental rates), less the estimated operating expenses (such as utilities, general administrative expenses, management fees, advertising, repairs and maintenance) and estimated fixed expenses (such as insurance and real estate taxes), all calculated on an annual basis.
- The “property value” for a cooperative blanket loan is the value of the related mortgaged property as reported to us by the lender based on an appraisal or alternative valuation method that contains a study of rent and sales comparables and an analysis of economic trends determined as if the mortgaged property was used and operated as a multifamily rental property (assuming, with certain exceptions, that the units in the property would be available for rental at prevailing market rental rates).

The related prospectus supplement will indicate whether a pool includes a cooperative blanket loan and will describe all material terms of the loan.

### ***Manufactured Housing Community Loans***

A “manufactured housing community loan” is a loan secured by a residential development that consists of sites for manufactured homes and that includes utilities, roads and other infrastructure and, in some cases, landscaping and various other amenities such as a clubhouse, swimming pool, tennis and/or sports courts. A manufactured housing community leases its sites to owners of manufactured homes and furnishes a connection to the utilities that it provides. In some limited circumstances, the owner of the manufactured housing community also may own manufactured homes



that are then leased to tenants or that are used as a rental center, clubhouse, laundrette or other amenity. The tenants pay ground rent for the use and occupancy of their sites and, generally, for the use of the utilities, common facilities and any amenities. The owner of the manufactured housing community, in turn, pays the cost to maintain and operate the common areas and amenities, real property taxes, insurance, including hazard and comprehensive general liability, and any utilities that are not otherwise separately metered or billed to the tenants. The related prospectus supplement will indicate whether a pool includes a manufactured housing community loan and will describe all material terms of the loan.

### ***Dedicated Student Housing Loans***

A “dedicated student housing loan” is a loan secured by an on-campus student housing property or by a dedicated off-campus student housing property that is within a prescribed distance from the campus or is located on a direct transportation line. Student housing loans are generally made only on properties having a tenant base comprised of at least 80% undergraduate or graduate students, although that figure may change from time to time. The property may have been specifically constructed as student apartments or may have been built as a typical multifamily project that now functions as student housing. Students generally must sign one-year leases. Students often do not remain in the same units during the following school year. Student housing loans are considered separately because of the concentration of students as tenants, the expenses incurred in repairing and refurbishing the units so that they are available for re-rental and the rapid turnover of tenants. The related prospectus supplement will indicate whether a pool includes a dedicated student housing loan, will specify any additional requirements applicable to the loan and will describe all material terms of the loan.

### **DUS Loans**

A substantial portion of the multifamily mortgage loans that we acquire are originated by lenders as Delegated Underwriting and Servicing loans (“DUS loans”). Most DUS loans are first lien mortgage loans that are secured by apartment buildings containing five or more units. Most DUS loans permit prepayments upon the payment of prepayment premiums. Defeasance loans, subordinate lien loans and all of the loans discussed under “—*Special Feature Mortgage Loans*” also may be originated and sold as DUS loans. We permit only multifamily lenders that have been specifically approved by us to act as DUS lenders and deliver DUS loans. Our current DUS lenders are identified on our corporate Web site at [www.fanniemae.com](http://www.fanniemae.com) and our business-to-business Web site at [www.efanniemae.com](http://www.efanniemae.com).

We delegate to the DUS lenders the responsibility for underwriting and servicing DUS loans. In return, the DUS lenders are required to bear a share of any losses on the DUS loans they deliver and/or service. The guide relating to the underwriting and servicing of DUS loans (the “DUS Guide”) sets forth specific requirements for DUS lenders and DUS loans.

A DUS lender originates and underwrites each DUS loan generally to conform to our DUS loan product requirements as described in the DUS Guide. DUS lenders and borrowers sometimes request that we waive one or more requirements of the DUS Guide with respect to a specific DUS loan. We grant these waivers in our discretion.

The DUS Guide provides that each DUS loan when purchased is assigned to one of several underwriting tiers (“tiers”). Each tier has minimum debt service coverage ratio and maximum loan-to-value ratio requirements. A DUS loan is placed in a tier depending upon the loan’s debt service coverage ratio and loan-to-value ratio.

If the principal balance of a DUS loan on the issue date of the certificates is less than \$3,000,000, the DUS lender may deliver the loan to us under our 3MaxExpress<sup>SM</sup> Streamlined Mortgage Loan Product. While the 3MaxExpress underwriting requirements generally conform to DUS standards, they are streamlined to reflect the smaller loan sizes and are contained in a separate guide. For



purposes of this prospectus, references to DUS, DUS loans and the DUS Guide are deemed to include DUS loans underwritten pursuant to 3MaxExpress.

The related prospectus supplement will indicate whether a pool contains DUS loans and provide all material information about the DUS loans contained in the pool.

### ***Future Encumbrances on a DUS Mortgaged Property***

Where permitted under the DUS Guide, a borrower may place one or more subordinate or supplemental loans secured by additional liens on a property already encumbered by a DUS loan. The DUS Guide generally permits supplemental mortgage loans only where the senior DUS loan, any other senior mortgage loans and all junior supplemental mortgage loans on a mortgaged property have a combined debt service coverage ratio and a combined loan-to-value ratio that are within the limits of the tier originally applicable to the senior DUS loan. (This does not apply to a senior DUS loan that is a “tier drop eligible mortgage loan.” See “—*Tier Drop Eligible DUS Loans.*”) An event of default under a junior, or subordinate, lien mortgage loan (i) may trigger an event of default under the related DUS loan and (ii) may entitle the holder of the subordinate mortgage lien to foreclose on and sell the mortgaged property subject to the lien of the DUS loan. If this occurs, we may be entitled to declare the entire unpaid principal balance of the DUS loan due and payable. If we decided to do so, you would receive an early prepayment of principal from the DUS loan. If the DUS loan is the only mortgage loan in the related pool at that time, the pool would be terminated and the stated principal balance of the DUS loan would be paid to you.

### ***Tier Drop Eligible DUS Loans***

A “tier drop eligible DUS loan” is a loan that permits a “tier drop subordinate loan” to be placed on the related mortgaged property. A “tier drop subordinate loan” is a subordinate DUS loan that, when combined with the related senior DUS loan, has a combined loan-to-value ratio greater than, and/or a combined debt service coverage ratio less than, the respective ratios (i) set forth in the prospectus supplement related to the certificates backed by the senior DUS loan and (ii) required by the tier applicable to the senior DUS loan on the issue date of the certificates. The related prospectus supplement will indicate whether a pool includes a tier drop eligible DUS loan.

### ***Prepayment Premiums for DUS Fixed-Rate Loans***

#### ***Voluntary Prepayments***

DUS loans prohibit voluntary partial prepayments at all times. Unless a DUS fixed-rate loan is a defeasance loan, a borrower may voluntarily prepay a DUS fixed-rate loan in full, but only in full, during a yield maintenance period upon the payment of a yield maintenance fee designed to reflect the lost value of the loan’s yield. The yield maintenance fee equals the greater of (a) or (b):

- (a) 1% of the unpaid principal balance of the DUS loan; or
- (b) the product obtained by multiplying (1) the unpaid principal balance of the mortgage note at the time of prepayment, times (2) the difference obtained by subtracting from the interest rate on the mortgage note the yield rate on the U.S. Treasury Security, referred to as the specified U.S. Treasury security, with a maturity date and yield as set forth in the prospectus supplement as “security due date” and “U.S. Treasury yield rate,” respectively, as the yield rate is reported in *The Wall Street Journal* on the twenty-fifth business day preceding (i) when the prepayment is voluntary, the date the borrower stated to be the intended prepayment date in its notice of prepayment given to the lender, or (ii) in any other case, the date on which the DUS lender accelerates the unpaid principal balance of the mortgage note

or otherwise accepts a prepayment of the mortgage note from the application of collateral, times (3) a present value factor calculated using the following formula:

$$\frac{1-(1+r)^{-n}}{r}$$

r = yield rate

n = the number of years, and any fraction thereof, remaining between the prepayment date and the expiration of the yield maintenance period (where “prepayment date” means (A) in the case of a voluntary prepayment, the date on which the prepayment is made, and (B) in any other case, the date on which the DUS lender accelerates the unpaid principal balance of the mortgage note or otherwise accepts a prepayment of the mortgage note from the application of collateral).

If no yield rate is published for the specified U.S. Treasury security, then the nearest equivalent U.S. Treasury security will be selected at our discretion in the manner provided in the mortgage note. If *The Wall Street Journal* discontinues publishing the yield rates, we will determine the yield rates from another source. The related prospectus supplement will identify the specified U.S. Treasury security and set forth the lockout period and the yield maintenance period for each DUS fixed-rate loan. The related prospectus supplement will also describe any modifications to the prepayment provisions and prepayment premium calculations described above.

If the amount determined in (b) above is less than 1% of the unpaid principal balance of the DUS loan, we may, but are not required to, permit the yield maintenance fee to equal that lesser amount.

After the yield maintenance period and until 90 days before the maturity date of a fixed-rate DUS loan, the borrower may prepay the DUS loan in full upon payment of a prepayment premium equal to 1% of the unpaid principal balance of the DUS loan. We may, but are not required to, waive imposition of the 1% prepayment premium. During the last 90 days before the maturity date of the fixed-rate DUS loan, the borrower may prepay the DUS loan without payment of any prepayment premium.

#### *Involuntary Prepayments*

The borrower on a fixed-rate DUS loan will not be required to pay a prepayment premium if the involuntary prepayment results from the receipt of casualty insurance proceeds or a condemnation award affecting the related mortgaged property. See “—*General Characteristics of Multifamily Loans—Prepayment Restrictions, Early Receipt of Principal and Prepayment Premiums*” for a discussion of the application of the proceeds received.

An involuntary prepayment may also result if we apply collateral or other security to the repayment of all or any portion of the unpaid principal balance of a loan. If the loan has not been accelerated, the prepayment will be a partial prepayment. We are generally entitled to collect a prepayment premium in this event, which will be calculated and distributed in accordance with the formula set forth above under “—*Voluntary Prepayments*,” unless the loan is a defeasance mortgage loan. If the loan is a defeasance mortgage loan prepaid for this reason before a defeasance election is made, the prepayment premium will be calculated and distributed in accordance with the formula set forth in the related mortgage note. We will deduct and retain the amount of the prepayment premium from the proceeds of the collateral or other security and will apply the balance of the proceeds to repayment of all or a portion of the unpaid principal balance of the related mortgage note. **If we collect any prepayment premium, we will not pay any portion of the prepayment premium to certificateholders.**

#### *Payment of Prepayment Premiums to Certificateholders*

Unless the related prospectus supplement provides otherwise, if a borrower voluntarily prepays a fixed-rate DUS loan during the yield maintenance period, we will pay you a portion, as calculated in

accordance with the formula set forth below, of the yield maintenance fee actually received by us as a prepayment premium from the servicer of the DUS loan prepaid by the borrower. If a borrower prepays a fixed-rate DUS loan during the yield maintenance period and we decide that the yield maintenance fee should equal 1% even though the amount determined in (b) above is less than 1%, you will be entitled to share only in the amount determined in (b) above, to the extent collected, and not in the full 1%. If a borrower prepays a fixed-rate DUS loan after expiration of the yield maintenance period, we will not pay any portion of the prepayment premium to you.

We will calculate the yield maintenance fee and check the actual amount of the fee that is collected. We will then determine the share of the collected yield maintenance fee to be held by us (“our portion”) and the share of the yield maintenance fee to be paid to you (“your portion”) as follows:

Your portion will equal

- (1) the unpaid principal balance of the mortgage note at the time of prepayment, times
- (2) the difference obtained by subtracting the yield rate from the pass-through rate, times
- (3) the present value factor.

Our portion will equal the yield maintenance fees collected by us less the amount calculated as your portion of the collected fee. We will pay you your portion only to the extent that collected yield maintenance fees remain after we have deducted our full portion. **We do not guarantee the payment to you of any prepayment premiums.**

#### ***Prepayment Premiums for DUS Adjustable-Rate Loans***

##### *Voluntary Prepayments*

DUS ARM loans generally prohibit voluntary prepayments, in whole or in part, during an initial lockout period. After expiration of the lockout period, the borrower may voluntarily prepay the DUS ARM loan in full, but only in full, so long as it gives the DUS lender at least 30 days’ prior notice of the prepayment and pays the applicable prepayment premium. The borrower may choose one of two options for determining the prepayment premium when a DUS ARM loan is being repaid. Under the first option, the 1% Prepayment Schedule, the prepayment premium is equal to 1% of the unpaid principal balance of the loan being prepaid. Under the second option, the Declining Prepayment Premium Schedule, the prepayment premium is determined by multiplying the unpaid principal balance of the loan being prepaid times the applicable percentage specified in the prospectus supplement for the loan year in which the loan is being prepaid. Each percentage specified under that heading corresponds to a loan year. The initial “loan year” is the 12-month period beginning on the date that the proceeds of a DUS ARM loan are disbursed and ending on the day before the DUS loan’s first interest rate change date for the next 12-month period. After the initial loan year, a “loan year” is each succeeding 12-month period during the term of the DUS loan.

No prepayment premium is payable for any prepayment made within the last 90 days before the maturity date of a DUS ARM loan. We may, but are not required to, waive that portion of the prepayment premium equal to up to 1% of the unpaid principal balance of the DUS ARM loan. The related prospectus supplement will specify the lockout period, the permitted prepayment period and the type of prepayment premium (a fixed 1% or a declining premium formula). Unless the related prospectus supplement provides otherwise, no portion of any prepayment premium paid by the borrower or received by the lender will be paid to you. **We do not guarantee the payment to you of any prepayment premiums.**

Some DUS ARM loans permit the loan to convert into a fixed-rate loan. See “—*Multifamily Mortgage Loans—Adjustable Rate Loans (ARM Loans)—Types of ARM Loans.*” Although the conversion will result in a full prepayment of the certificates backing the DUS ARM loan, no prepayment premium will be due or collected from the borrower.

### *Involuntary Prepayments*

The borrower on a DUS ARM loan will not be required to pay a prepayment premium if the involuntary prepayment results from the receipt of casualty insurance proceeds or a condemnation award affecting the related mortgaged property. See “—*General Characteristics of Multifamily Loans—Prepayment Restrictions, Early Receipt of Principal and Prepayment Premiums*” for a discussion of the application of the proceeds received. Involuntary prepayments may also result if we apply collateral or other security to the payment of all or any portion of the unpaid principal balance of a DUS ARM loan. For discussion of our policies on prepayment premiums in these circumstances, see “—*Prepayment Premiums for DUS Fixed-Rate Loans—Involuntary Prepayments*,” above. If a prepayment premium is due, it will be calculated according to the formula set forth in the related mortgage note. **If we collect any prepayment premium, we will not pay any portion of the prepayment premium to certificateholders.**

### **Credit Facilities**

Under our credit facility loan product, we purchase participation interests in mortgage loans that are being financed under a credit facility arrangement. Under a credit facility arrangement, a pool of cross-collateralized and cross-defaulted mortgages serves as collateral for short-term borrowings that have terms of less than one year (typically nine months or less) and for intermediate- and long-term financing. The credit facility arrangement permits a borrower to add, substitute and release properties over time. This flexibility makes credit facility arrangements attractive to owners of multiple multifamily properties. Significant characteristics of credit facility arrangements are described below.

#### *Advances Under the Master Credit Facility Agreement*

The lender and the borrower will enter into a Master Credit Facility Agreement (referred to as the “credit agreement”) under which the lender is committed to make advances to the borrower. Advances made to the borrower under the credit agreement may be evidenced by a single mortgage note if the advances are made at an adjustable rate and several mortgage notes if the advances are made at a fixed rate. Each advance delivered to us is represented by a participation certificate that equals 100% of the unpaid principal balance of the advance and that contains the specific terms of that advance. We hold the participation certificate in trust for the benefit of the holders of the related MBS/DMBS certificates. Ownership of an MBS/DMBS certificate provides a holder of the certificate with a fractional undivided beneficial interest in a pool containing a single participation certificate.

Some advances have terms of less than one year (typically nine months or less) and may not bear interest. In this case, the advance is disbursed to the borrower in a discounted amount that is less than 100% of the original stated principal balance of the advance. Each short-term advance is placed in a pool evidenced by a DMBS purchased at a discount. The credit agreement may provide that short-term advances may be borrowed, repaid, and reborrowed over the term of the credit agreement. A short-term advance requires the borrower to make a single payment equal to the original stated principal balance of the short-term advance on the maturity date.

Other advances may be intermediate-term or long-term advances having terms of five to ten years and bearing interest at fixed rates. Each of these advances provides for monthly payments of principal and interest and a balloon payment of all remaining principal to be paid on its maturity date. Each intermediate-term or long-term advance is placed in a pool evidenced by an MBS, *not* a DMBS.

All advances under a credit agreement are equally secured by one or more mortgages on one or more multifamily properties specified in the related prospectus supplement. A default under one advance will constitute a default under all of the other advances made under the credit agreement, which allows us to declare due and payable the entire unpaid principal balance under each advance. If we decide to declare one or more advances due and payable, and the entire principal balance of any of the advances is then paid in full, holders of MBS related to a prepaid advance would receive an early

payment of principal while holders of DMBS related to a prepaid advance would not receive an early payment of principal.

If an advance underlying a DMBS is prepaid for any reason (including default) before its maturity date, we will not pay the prepayment to holders of the related DMBS until the maturity date of the DMBS. As a result, provisions contained elsewhere in this prospectus discussing prepayment risks (including prepayments resulting from defaults, casualties or condemnation affecting the related mortgaged properties or from repurchases from the pool) and the associated effect on yields to investors do not apply to DMBS certificates.

The related prospectus supplement will indicate whether the certificates are DMBS certificates or MBS certificates, will describe all material terms of the advances in the pool, and will specify the maturity date of the DMBS.

#### ***Increase in Commitment***

The credit agreement may provide that the borrower has the right to increase the dollar amount of the lender's commitment to make advances, but no increase in outstanding advances may cause the resulting aggregate debt service coverage ratio to be less than, or the resulting aggregate loan-to-value ratio to be greater than, the aggregate limits on the ratios set forth in the related credit agreement.

#### ***Addition, Release and Substitution of Mortgaged Property***

The credit agreement may provide that the borrower has the right to add, release or substitute mortgaged properties as long as certain conditions are satisfied. These conditions generally include

- the underwriting of the proposed mortgaged property to be added or substituted must be performed in accordance with our standards;
- the lender must be satisfied that after the addition, release or substitution of a mortgaged property, the aggregate debt service coverage ratio will not be less than, and the loan-to-value ratio will not be greater than, the respective ratios set forth in the related credit agreement;
- the borrower must not be in default under the credit agreement and other loan documents; and
- title, survey and all documents necessary to release, add or substitute the mortgaged property must be prepared to lender's satisfaction.

The prospectus supplement will disclose the specific conditions to be satisfied before a borrower may add, release or substitute a mortgaged property.

#### ***Additional Collateral***

The credit agreement may grant the borrower a right to add additional collateral. Additional collateral may be multifamily properties that meet our underwriting standards, subject to any waivers that we deem appropriate, and/or certain types of liquid investments or a letter of credit.

#### ***Assumption and Further Encumbrance***

The credit agreement generally prohibits an advance to be assumed by a new mortgagor or a mortgaged property to be further encumbered by a subordinate mortgage lien. In addition, most transfers of ownership interests in the borrower and transfers of ownership interests or changes of control of certain affiliates of the borrower are defaults under the credit agreement.

#### ***Continued Reporting and Updating of Data***

For the mortgage loans made under a credit agreement, the lender periodically will recalculate the occupancy percentage, the aggregate loan-to-value ratio, the aggregate debt service coverage ratio, the net operating income and the property value. The lender will report the recalculated figures to us.



Each time that an advance is made, we will issue a new schedule of loan information for the advance and update each schedule of loan information that was originally part of the related prospectus supplement. The specific data concerning each advance and the related mortgaged properties that are either set forth in the prospectus supplement related to a specific issuance of certificates or that are updated after the certificates are issued represent the data most recently reported to us by the lender.

Whenever we update the schedule of loan information, the revised schedule will provide information about the existence and total value of any additional collateral. The additional collateral may cause the certificates not to qualify as real property for purposes of applicable Internal Revenue Service regulations during certain periods. See *“Federal Income Tax Consequences.”*

### **Negotiated Transactions**

Eligible lenders may sell to us newly originated mortgage loans and portfolios of seasoned loans under our negotiated transactions loan product. Many newly originated negotiated transaction mortgage loans are underwritten to comply with the provisions of our Negotiated Transactions Guide (the “NT Guide”), while seasoned mortgage loans sold to us under our negotiated transactions product line were often underwritten without regard to the underwriting provisions of the NT Guide. We will review all or a representative sample of the loan origination files, depending upon the number of loans being purchased, for the loans that were not underwritten in compliance with the NT Guide. While the lenders are not subject to the standard DUS loss sharing obligations, most lenders delivering negotiated transactions loans share with us in all or a portion of any loss that may result if a loan becomes delinquent or experiences some other type of default.

As the name suggests, the terms of each loan sale are negotiated with respect to, among other matters, the extent to which the requirements of the NT Guide apply. The terms of the loans purchased in one negotiated transactions loan sale may differ significantly from the terms of the loans purchased in another negotiated transactions loan sale. The prospectus supplement will describe all material terms of the negotiated transactions loans included in a particular pool.

### **Mortgage Loan Documents**

Each mortgage loan in a pool is evidenced by a promissory note and secured by a deed of trust, mortgage or similar security instrument creating a first lien (or, if the prospectus supplement so states, a subordinate lien) on a multifamily residential property. The loans bear interest at either a fixed or an adjustable rate. Each mortgage loan requires the borrower to make monthly payments of principal and interest, except as provided otherwise in the related prospectus supplement. Our pools include loans originated for the purpose of purchase, refinancing and rehabilitation of multifamily residential properties, including apartment buildings, cooperative housing projects that contain five or more units, multifamily affordable housing, seniors’ housing, manufactured housing communities and student housing.

We generally hold, for your benefit as a certificateholder, the original note endorsed to us and a filed or recorded assignment to us of the mortgage or deed of trust, although we may permit variations in certain cases. We either take possession of these documents ourselves or, at our option, have a custodian take possession of these documents for us. If we use a custodian, the custodian may be an institution that is supervised and regulated, or a subsidiary or affiliate of an institution that is supervised and regulated, by the Comptroller of the Currency, the Board of Governors of the Federal Reserve System, the Office of Thrift Supervision, the Federal Deposit Insurance Corporation, the National Credit Union Association, a state insurance commissioner or, in some cases, by another entity. In all cases, the custodian must be approved by Fannie Mae.



## FANNIE MAE PURCHASE PROGRAM

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. See “*Fannie Mae*,” above, for information regarding the Charter Act and the charter purpose.

### **Multifamily Guides**

Our eligibility criteria and policies, summarized below, are set forth in our DUS Guide and our NT Guide 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.

### **Multifamily Mortgage Loan Eligibility Standards**

#### ***Dollar Limitations***

The Charter Act does not establish any maximum original principal balance dollar limitations for the multifamily mortgage loans that we purchase.

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

Our loan-to-value ratio requirements for loans we purchase vary depending upon a variety of factors which, for example, can include the type of loan, the loan purpose, loan amount, number of dwelling units in the property securing the loan, repayment terms and borrower credit history. Depending upon these factors, the loan-to-value ratio of the standard conventional multifamily mortgage loan does not typically exceed 80%. The loan-to-value ratio of some special feature loans, such as multifamily affordable housing loans, may be as high as 90%.

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

We have established underwriting guidelines for mortgage loans that we purchase. These guidelines are designed to provide a comprehensive analysis of the characteristics of a mortgage loan and the mortgaged property, including such factors as the appraised value of the property, borrower’s credit history, past and current operations of the property, debt service coverage ratios and loan amount.

We review and change our underwriting guidelines, from time to time, including expanding our underwriting criteria to make multifamily loans accessible to borrowers that provide rental housing to low and moderate income families, rural residents and people with special housing needs. In our discretion, we may grant waivers from our underwriting guidelines when we purchase any particular mortgage loan.

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 maximum loan-to-value ratio for FHA-insured mortgage loans we purchase is the maximum established by the FHA for the particular program under which the mortgage was insured. FHA-insured mortgage loans that we purchase must be originated in accordance with the applicable FHA requirements and underwriting standards. Each insured loan that we purchase must have in effect a valid mortgage insurance certificate.

## **Seller and Servicer Eligibility**

Before we approve a company to become a seller or servicer for us, we require that the company demonstrate to our satisfaction that it:

- has a proven ability to originate or service, as applicable, the type of mortgages for which our approval is being requested;
- employs a staff with adequate experience in that area;
- has as one of its principal business purposes the origination or servicing, as applicable, of multifamily residential mortgages;
- is properly licensed, or otherwise authorized, to originate, sell or service, as applicable, multifamily residential mortgages in each of the jurisdictions in which it does business;
- has a financial condition that is acceptable to us;
- has quality control and management systems to evaluate and monitor the overall quality of its loan production and servicing activities; and
- is covered by a fidelity bond and errors and omissions insurance acceptable to us.

We enter into a written mortgage selling and servicing contract with each seller and servicer we approve, under which, among other things, it agrees to maintain the foregoing attributes to our satisfaction. DUS lenders must be specially approved and enter into additional agreements with us. See “*Multifamily Mortgage Loan Pools—DUS Loans.*”

## **Servicing Arrangements**

We are responsible for servicing and administering the mortgage loans. In most cases, we contract with other entities to perform those functions under our supervision and on our behalf. The entity with whom we contract is often the seller of the loans. Even if we hire a servicer, we will remain responsible to certificateholders for all the servicing and administrative functions related to the mortgage loans. In some instances, however, we may own a mortgage loan secured by a property in which we also own an equity interest. If so, one of the other equity owners or an unaffiliated third party may be responsible for servicing the related mortgage loan.

Servicers must meet the eligibility standards and performance obligations in our Guides. All servicers are obligated to diligently perform all services and duties customary to servicing mortgage loans. We regularly review the servicer’s performance and we have the right to remove any servicer at any time we consider its removal to be in best interest of you as a certificateholder. Duties performed by the servicer include general loan servicing responsibilities, collection and remittance of payments on the mortgage loans, administration of mortgage escrow accounts, collection of insurance claims and foreclosure, if necessary.

## **Servicing Compensation and Payment of Certain Expenses**

Each month, we retain the portion of interest collected on the loans that is not required to be paid to certificateholders in order to pay various expenses of the related trust, including the amount of the fee payable to the servicer and the fee payable to us for providing our guaranty. We also retain certain prepayment premiums, assumption fees, late payment charges and other similar charges, to the extent they are collected from borrowers, as additional servicing compensation unless the prospectus supplement states otherwise. We pay all the expenses we incur in connection with our servicing responsibilities, including (but not limited to) fees for any party with which we contract to service the mortgage loans on our behalf. We are not entitled to reimbursement for such expenses from the related trust fund except for our servicing compensation and guaranty fees described above.

## **Seller Representations and Warranties**

Our sellers make representations and warranties to us about the mortgage loans we purchase. In general, the representations and warranties relate to:

- compliance with our eligibility standards and with our underwriting guidelines;
- characteristics of the mortgage loans in each pool;
- compliance with applicable federal and state laws and regulations in the origination of the loans, including consumer protection laws;
- authority of the lender to do business in the jurisdiction where the property is located;
- the right of the lender to sell the loan free of liens of lender's creditors;
- validity and enforceability of the loan documents; and
- the lien position of the mortgage.

We rely on these representations and warranties at the time of purchase to ensure that loans meet our eligibility standards. After purchase, we perform random quality control reviews of selected loans to monitor compliance with our guidelines, our eligibility standards and applicable laws and regulations. We can require a seller to repurchase a loan if we find that the seller has breached its representations and warranties. For a discussion of how these repurchases can affect the performance of the certificates, see *“Risk Factors—We could repurchase one or more multifamily mortgage loans from the pool due to a breach of representations and warranties, accelerating the rate at which you receive your return of principal”* above.

## **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 reflects 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 by beneficial owners 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 may be supplemented by a discussion in any applicable prospectus supplement.
- 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.

For purposes of this discussion, the term mortgage loan, in the case of a participation interest, means the interest in the underlying mortgage loan represented by that participation interest; and in

applying a federal income tax rule that depends on the origination date of a mortgage loan or the characteristics of a mortgage loan at its origination, the term mortgage loan means the underlying mortgage loan and not the participation interest.

### **Internal Revenue Service Guidance Regarding the Certificates**

In Revenue Ruling 84-10, 1984-1 C.B. 155, the Internal Revenue Service set forth certain federal income tax consequences relating to investments in the certificates issued with respect to a pool. Pursuant to Revenue Ruling 84-10, a pool will not be classified as an association taxable as a corporation for federal income tax purposes. Instead, a pool will be classified as a trust under subpart E of part I of subchapter J of the Code, and each beneficial owner of a certificate will be considered to be the beneficial owner of a pro rata undivided interest in each of the mortgage loans included in that particular pool.

Although Revenue Ruling 84-10 does not specifically address participation interests in mortgage loans, other IRS pronouncements clearly indicate that the holdings of Revenue Ruling 84-10 are equally applicable to a certificate backed by a pool consisting (in whole or in part) of participation interests. Revenue Ruling 84-10 also does not contemplate the mandatory repurchase of ARMs from pools subsequent to a borrower's exercise of an option to convert an ARM to a fixed-rate mortgage loan. However, our special tax counsel, Arnold & Porter, has rendered an opinion to us that the conclusions of Revenue Ruling 84-10 will be applicable to ARM pools.

### **Application of Revenue Ruling 84-10**

Pursuant to the holdings of Revenue Ruling 84-10, a beneficial owner of a particular issue of certificates must report on its federal income tax return its pro rata share of the entire income from each mortgage loan in that particular pool, consistent with the beneficial owner's method of accounting. The items of income from a mortgage loan include interest, original issue discount (discussed below), prepayment premiums, assumption fees and late payment charges, plus any amount paid by us as interest under our guaranty. A beneficial owner can deduct its pro rata share of the expenses of the trust as provided in section 162 or section 212 of the Code, consistent with its method of accounting and subject to the discussion below.

A beneficial owner must also allocate its basis in a certificate among the mortgage loans included in that pool in proportion to the relative fair market values of those mortgage loans. If the basis allocated to a mortgage loan is less than the principal amount of that mortgage loan, the beneficial owner may have market discount with respect to that mortgage loan, and if the basis exceeds the principal amount, the beneficial owner may have premium with respect to that mortgage loan. (Market discount and premium are discussed below.)

#### ***Original Issue Discount***

Certain mortgage loans may be issued with original issue discount within the meaning of section 1273(a) of the Code. Original issue discount generally arises only with respect to ARMs that provide for an incentive interest rate (sometimes referred to as a teaser rate) or mortgage loans, including ARMs, that provide for the deferral of interest. If a mortgage loan is issued with original issue discount, a beneficial owner must include the original issue discount in income as it accrues, generally in advance of the receipt of cash attributable to such income.

#### ***Market Discount***

A beneficial owner that acquires a mortgage loan for less than its principal amount generally has market discount in the amount of the difference between the principal amount and the beneficial owner's basis in that mortgage loan. In general, three consequences arise if a beneficial owner acquires an interest in a mortgage loan with market discount. First, the beneficial owner must treat any principal payment with respect to a mortgage loan acquired with market discount as ordinary income

to the extent of the market discount that accrued while such beneficial owner held an interest in that mortgage loan. Second, the beneficial 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 Certificates.*” Third, a beneficial owner that incurs or continues indebtedness to acquire a 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 beneficial 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 beneficial owner makes this election, the beneficial owner must also apply the election to all debt instruments acquired by the beneficial owner on or after the beginning of the first taxable year to which the election applies. A beneficial owner may revoke the election only with the consent of the IRS.

A beneficial owner must determine the amount of accrued market discount for a period using a straight-line method, based on the maturity of the mortgage loan, unless the beneficial owner elects to determine accrued market discount using a constant yield method. The IRS has authority to provide regulations for determining the accrual of market discount in the case of debt instruments, including mortgage loans, that provide for more than one principal payment, but has not yet issued such regulations. In addition, the legislative history to the Tax Reform Act of 1986 states that market discount on certain types of debt instruments may be treated as accruing in proportion to remaining accruals of original issue discount, if any, or if none, in proportion to remaining payments of interest. You should consult your own tax advisors regarding the method a beneficial owner should use to determine accrued market discount.

Notwithstanding the above rules, market discount on a mortgage loan is considered to be zero if the discount is less than 0.25 percent of the principal balance of the mortgage loan multiplied by the number of complete years from the date the beneficial owner acquires an interest in the mortgage loan to the maturity of the mortgage loan (referred to as the market discount de minimis amount). The IRS has authority to provide regulations to adjust the computation of the market discount de minimis amount in the case of debt instruments, including mortgage loans, that provide for more than one principal payment, but has not yet issued such regulations. The IRS could assert, nonetheless, that the market discount de minimis amount should be calculated using the remaining weighted average life of a mortgage loan rather than its final maturity. You should consult your own tax advisors regarding the ability to compute the market discount de minimis amount based on the final maturity of a mortgage loan.

### ***Premium***

A beneficial owner that acquires a mortgage loan for more than its principal amount generally has premium with respect to that mortgage loan in the amount of the excess. In that event, the beneficial owner may elect to treat the premium as amortizable bond premium. This election is available only with respect to an undivided interest in a mortgage loan that was originated after September 27, 1985. If the election is made, a beneficial owner must also apply the election to all debt instruments the interest on which is not excludible from gross income (fully taxable bonds) held by the beneficial owner at the beginning of the first taxable year to which the election applies and to all fully taxable bonds thereafter acquired by the beneficial owner. A beneficial owner may revoke the election only with the consent of the IRS.

If a beneficial owner makes this election, the beneficial owner reduces the amount of any interest payment that must be included in the beneficial owner’s income by the portion of the premium allocable to the period based on the mortgage loan’s yield to maturity. Correspondingly, a beneficial owner must reduce its basis in the mortgage loan by the amount of premium applied to reduce any interest income. The amount of premium to be allocated among the interest payments on an ARM is determined by reference to an equivalent fixed-rate debt instrument constructed as of the date the beneficial owner acquires an interest in the ARM.



If a beneficial owner does not elect to amortize premium, (i) the beneficial owner must include the full amount of each interest payment in income, and (ii) the premium must be allocated to the principal distributions on the mortgage loan and, when each principal distribution is received, a loss equal to the premium allocated to that distribution will be recognized. Any tax benefit from premium not previously recognized will be taken into account in computing gain or loss upon the sale or disposition of the certificate. See “—*Sales and Other Dispositions of Certificates.*”

### ***Short-Term Obligations***

A beneficial owner of a DMBS certificate that is an accrual basis taxpayer, a bank, a regulated investment company or another class of beneficial owner described in section 1281 of the Code generally is required to include original issue discount on a DMBS certificate in income as it accrues on a straight-line basis, regardless of its method of accounting. Alternatively, such a beneficial owner may make an irrevocable election to accrue such original issue discount on the basis of the DMBS certificate’s yield to maturity and daily compounding.

A beneficial owner not described in section 1281 of the Code generally will include accrued original issue discount in income only when the DMBS certificate is sold or matures. The beneficial owner, however, may be required to defer deductions for all or a portion of the interest expense on any indebtedness incurred or continued to purchase the DMBS certificate, in an amount not exceeding the deferred interest income, until such deferred interest income is recognized.

In addition, any beneficial owner may make the accrual method election described below.

### ***Accrual Method Election***

A beneficial owner may elect to include in income its entire return on a mortgage loan (i.e., the excess of all remaining payments to be received on the mortgage loan over the amount of the beneficial owner’s basis in the mortgage loan) based on the compounding of interest at a constant yield. Such an election for a mortgage loan with amortizable bond premium (or market discount) will result in a deemed election to amortize premium for all the beneficial owner’s debt instruments with amortizable bond premium (or to accrue market discount currently for all the beneficial owner’s debt instruments with market discount) as discussed above.

### ***Expenses of the Trust***

A beneficial owner’s ability to deduct its share of the fee payable to the servicer, the fee payable to us for providing our guaranty and other expenses to administer the pool is limited under section 67 of the Code in the case of (i) estates and trusts, and (ii) individuals owning an interest in a certificate directly or through an investment in a pass-through entity (other than in connection with such individual’s trade or business). Pass-through entities include partnerships, S corporations, grantor trusts, certain limited liability companies and non-publicly offered regulated investment companies, but do not include estates, nongrantor trusts, cooperatives, real estate investment trusts and publicly offered regulated investment companies.

Generally, a beneficial owner can deduct its share of these costs only to the extent that these costs, when aggregated with certain of the beneficial owner’s other miscellaneous itemized deductions, exceed two percent of the beneficial owner’s adjusted gross income. For this purpose, an estate or nongrantor trust computes adjusted gross income in the same manner as in the case of an individual, except that deductions for administrative expenses of the estate or trust that would not have been incurred if the property were not held in such trust or estate are treated as allowable in arriving at adjusted gross income.

In addition, section 68 of the Code may provide for certain limitations on itemized deductions otherwise allowable for a beneficial owner who is an individual. Further, a beneficial owner may not be able to deduct any portion of these costs in computing its alternative minimum tax liability.



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

Upon the sale, exchange or other disposition of a 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. The adjusted basis of a certificate generally will equal the cost of the certificate to the beneficial owner, increased by any amounts of original issue discount and market discount included in the beneficial owner's gross income with respect to the certificate, and reduced by distributions on the certificate previously received by the beneficial owner as principal and by any premium that has reduced the beneficial owner's interest income with respect to the certificate. Any such gain or loss generally will be capital gain or loss, except (i) as provided in section 582(c) of the Code (which generally applies to banks) or (ii) to the extent any gain represents original issue discount or accrued market discount not previously included in income (to which extent such gain would be treated as ordinary income). Any capital gain (or loss) will be long-term capital gain (or loss) if at the time of disposition the beneficial owner held the certificate for more than one year. The ability to deduct capital losses is subject to limitations.

The Taxpayer Relief Act of 1997 amended section 1271 of the Code to provide that amounts received by a beneficial owner on retirement of any mortgage loan of a natural person are considered to be amounts received in exchange therefor. The legislation applies to mortgage loans originated after June 8, 1997, and any interest in a mortgage loan acquired after June 8, 1997. The application of section 1271 to a retirement of a mortgage loan that was acquired at a discount is unclear, and you should consult your own tax advisors regarding the application of section 1271 to a certificate in such a case.

## **Special Tax Attributes**

In Revenue Ruling 84-10, the IRS ruled on the status of the certificates under specific sections of the Code. In particular, the IRS ruled as follows:

1. A certificate owned by a domestic building and loan association is considered as representing loans secured by an interest in real property within the meaning of section 7701(a)(19)(C)(v) of the Code, provided the real property underlying each mortgage loan is (or, from the proceeds of the mortgage loans, will become) the type of real property described in that section of the Code.
2. A certificate owned by a real estate investment trust is considered as representing real estate assets within the meaning of section 856(c)(5)(B) of the Code, and the interest income is considered interest on obligations secured by mortgages on real property within the meaning of section 856(c)(3)(B) of the Code.

The special tax attributes discussed above do not apply to a mortgage loan to the extent that its principal amount exceeds the value of the real property securing it. We believe that the fair market value of the real property securing each mortgage loan exceeds the principal balance of that mortgage loan as of the issue date of the certificates based upon the lender's representation that each mortgage loan complied with underwriting guidelines with respect to property value and loan-to-value ratio. The principal security for each mortgage loan is a first lien (or, in the case of a subordinate lien mortgage loan, a subordinate lien) on real property. However, the mortgage loans may also be secured by a security interest in related tangible personal property (e.g., equipment and furniture) and in related intangible personal property such as rents and revenues, insurance proceeds, condemnation awards or settlements, contract rights, deposits, permits, accounts, licenses, and so forth. If the principal balance of the mortgage loan exceeds the fair market value of the real property securing the mortgage loan, the certificates will retain the special tax attributes discussed above in proportion to the value of the real property remaining as security for the mortgage loan.

### ***Seniors' Housing Loans***

Based upon the holdings of Revenue Ruling 84-10, a certificate representing an interest in a pool that contains seniors' housing loans will be considered as representing loans secured by an interest in

educational, health or welfare institutions or facilities within the meaning of section 7701(a)(19)(C)(vii) of the Code, provided the collateral securing each mortgage loan is the type of property described in that section of the Code.

### ***Defeasance Mortgage Loans***

With respect to a defeasance mortgage loan, if there is a release of the mortgaged property as discussed under “*Multifamily Mortgage Loan Pools—Defeasance Mortgage Loans*”, that mortgage loan will no longer qualify as a “loan secured by an interest in real property” within the meaning of section 7701(a)(19)(C)(v) of the Code or a “real estate asset” within the meaning of section 856(c)(3)(B). Thus, upon the release of the mortgaged property securing a defeasance mortgage loan underlying the certificates, the rulings discussed above regarding the application of these Code sections would be limited to the remaining mortgage loans underlying the certificates that are secured by an interest in real property.

### **Multifamily Mortgage Loan Servicing**

The IRS issued guidance on the tax treatment of mortgage loans in cases in which the fee retained by the servicer of the mortgage loans exceeds what is established under tax law to be reasonable compensation for the services to be performed. This guidance is directed primarily to servicers and, in most cases, should not have a significant effect on beneficial owners of mortgage loans.

Under the IRS guidance, if a servicing fee on a mortgage loan is determined to exceed reasonable compensation, the payments of the excess servicing fee are treated as a series of stripped coupons and the mortgage loan is treated as a stripped bond within the meaning of section 1286 of the Code. In general, if a mortgage loan is treated as a stripped bond, any discount with respect to that mortgage loan will be treated as original issue discount. Any premium with respect to such a mortgage loan may be treated as amortizable bond premium regardless of the date the mortgage loan was originated, because a stripped bond is treated as originally issued on the date a beneficial owner acquires the stripped bond. See “—*Application of Revenue Ruling 84-10—Premium.*” In addition, the excess portion of servicing compensation will be excluded from the income of owners and thus will not be subject to the limitations on the deductibility of miscellaneous itemized deductions. See “—*Application of Revenue Ruling 84-10—Expenses of the Trust.*”

A mortgage loan is effectively not treated as a stripped bond, however, if the mortgage loan meets either the 100 basis point test or the de minimis test. A mortgage loan meets the 100 basis point test if the total amount of servicing compensation on the mortgage loan does not exceed reasonable compensation for servicing by more than 100 basis points. A mortgage loan meets the de minimis test if (i) the discount at which the mortgage loan is acquired is less than 0.25 percent of the remaining principal balance of the mortgage loan multiplied by its weighted average remaining life; or (ii) in the case of wholly self-amortizing mortgage loans, the acquisition discount is less than  $\frac{1}{6}$  of one percent times the number of whole years to final stated maturity.

The IRS guidance contains a number of ambiguities. For example, it is not clear whether the rules described above are to be applied on an individual loan or an aggregate basis. You should consult your tax advisors about the IRS guidance and its application to investments in the certificates.

### **Information Reporting and Backup Withholding**

With each distribution, we will furnish to each certificateholder a statement setting forth the portions of such distribution allocable to principal and to interest. In addition, we will furnish or make available, within a reasonable time after the end of each calendar year, to each certificateholder who at any time during such year received a distribution from us, a statement setting forth that holder’s pro rata share of income and administrative expense for such calendar year.

Payments of interest and principal, as well as payments of proceeds from the sale of certificates, may be subject to the backup withholding tax under section 3406 of the Code if the recipient of the payment is not an exempt recipient and fails to furnish certain information, including its taxpayer

identification number, to us or our agent, or otherwise fails to establish an exemption from such tax. Any amounts deducted and withheld from such a payment would be allowed as a credit against the beneficial owner's federal income tax. Furthermore, certain penalties may be imposed by the IRS on a holder or owner who is required to supply information but who does not do so in the proper manner.

### **Foreign Investors**

Additional rules apply to a beneficial owner that is not a U.S. Person (a "Non-U.S. Person"). "U.S. Person" means a citizen or resident of the United States, a corporation, partnership or other entity created or organized in or under the laws of the United States or any political subdivision thereof, an estate the income of which is subject to U.S. federal income tax regardless of the source of its income, or a trust if a court within the United States can exercise primary supervision over its administration and at least one U.S. Person has the authority to control all substantial decisions of the trust.

Payments on a certificate made to, or on behalf of, a beneficial owner that is a Non-U.S. Person generally will be exempt from U.S. federal income and withholding taxes, provided the following conditions are satisfied:

- the beneficial owner does not hold the certificate in connection with its conduct of a trade or business in the United States;
- the beneficial owner is not, with respect to the United States, a personal holding company or a corporation that accumulates earnings in order to avoid U.S. federal income tax;
- the beneficial owner is not a U.S. expatriate or former U.S. resident who is taxable in the manner provided in section 877(b) of the Code;
- the beneficial owner is not an excluded person (i.e., a 10-percent shareholder of Fannie Mae within the meaning of section 871(h)(3)(B) of the Code or a controlled foreign corporation related to Fannie Mae within the meaning of section 881(c)(3)(C) of the Code);
- the beneficial owner signs a statement under penalties of perjury certifying that it is a Non-U.S. Person or, in the case of an individual, that the beneficial owner is neither a citizen nor resident of the United States, and provides the name, address and taxpayer identification number, if any, of the beneficial owner;
- the last U.S. Person in the chain of payment to the beneficial owner (the withholding agent) receives such non-U.S. beneficial ownership statement from the beneficial owner or a financial institution holding on behalf of the beneficial owner and does not have actual knowledge that such statement is false; and
- the certificate represents an undivided interest in a pool of mortgage loans all of which were originated after July 18, 1984.

That portion of interest income of a beneficial owner who is a Non-U.S. Person on a certificate that represents an interest in one or more mortgage loans originated before July 19, 1984 will be subject to a U.S. withholding tax at the rate of 30 percent or lower treaty rate, if applicable. Regardless of the date of origination of the mortgage loans, backup withholding will not apply to payments made to a beneficial owner that is a Non-U.S. Person if the beneficial owner or a financial institution holding on behalf of the beneficial owner provides a non-U.S. beneficial ownership statement to the withholding agent.

A non-U.S. beneficial ownership statement may be made on an IRS Form W-8BEN or a substantially similar substitute form. The beneficial owner or financial institution holding on behalf of the beneficial owner must inform the withholding agent of any change in the information on the statement within 30 days of such change.

## **ERISA CONSIDERATIONS**

The Employee Retirement Income Security Act and the Code impose 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 some entities in which these benefit plans or arrangements invest. We refer to these plans, arrangements and entities, collectively, as plans. Any person who is a fiduciary of a plan also is subject to the requirements imposed by ERISA and the Code. Before a plan invests in any certificate, the plan fiduciary must consider whether the governing instruments for the plan permit the investment, whether the certificates are a prudent and appropriate investment for the plan under its investment policy and whether such an investment might result in a transaction prohibited under ERISA or the Code for which no exemption is available.

The U.S. Department of Labor has issued a 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 mortgage loans 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 the prohibited transaction provisions of ERISA or section 4975 of the Code in providing services with respect to the mortgages in the pool. Our counsel, Morrison & Foerster LLP, has advised us 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 provisions of ERISA and the Code.

## **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, the issue supplement and the trust indenture for that issue.

### Frequently Used Multifamily MBS Pool Prefixes

Below is a listing of some of the most frequently used multifamily pool prefixes. For a complete listing and description of pool prefixes, please refer to our corporate Web site at [www.fanniemae.com](http://www.fanniemae.com) and our business to business Web site at [www.efanniemae.com](http://www.efanniemae.com).

| <u>Pool Prefix</u> | <u>Description of Prefix</u>   |
|--------------------|--|
| AM . . . . .       | Conventional, adjustable-rate mortgages.   |
| H2 . . . . .       | Conventional, fixed-rate, second lien mortgages, actual/360 interest day basis calculation; maturity dates may vary.   |
| HL . . . . .       | Conventional, fixed-rate, long-term, actual/360 interest day basis calculation, level-payment mortgages; maturing or due in twenty-five (25) years or more.  |
| HN . . . . .       | Conventional, fixed-rate, short-term, balloon, actual/360 interest day basis calculation, level-payment mortgages; maturing or due in ten (10) years or less.  |
| HS . . . . .       | Conventional, fixed-rate, short-term, actual/360 interest day basis calculation, level-payment mortgages; maturing or due in ten (10) years or less.   |
| HT . . . . .       | Conventional, fixed-rate, intermediate-term, actual/360 interest day basis calculation, level-payment mortgages; maturing or due in twenty (20) years or less.   |
| HX . . . . .       | Conventional, fixed-rate, short-term, balloon, actual/360 interest day basis calculation; maturing or due in seven (7) years or less.  |
| HY . . . . .       | Conventional, fixed-rate, balloon, actual/360 interest day basis calculation; maturing or due in seven (7) years or more.  |
| JM . . . . .       | Non-standard mortgages; maturity dates may vary.   |
| MA . . . . .       | Government (FHA) long-term, fixed-rate, level-payment project mortgages; fully amortizing within forty (40) years.   |
| MB . . . . .       | Conventional, adjustable-rate balloon mortgages; maturity dates may vary.  |
| MI . . . . .       | Conventional, fixed-rate, intermediate-term, level-payment mortgages; maturing or due in fifteen (15) years or less.   |
| ML . . . . .       | Conventional, fixed-rate, long-term, level-payment mortgages.  |
| MN . . . . .       | Conventional, fixed-rate, short-term, level-payment mortgages; maturing or due in ten (10) years or less.  |
| MS . . . . .       | Conventional, fixed-rate, short-term, level-payment mortgages; maturing or due in seven (7) years or less.   |
| MT . . . . .       | Conventional, fixed-rate, intermediate-term, level-payment mortgages; maturing or due in twenty (20) years or less.  |
| MX . . . . .       | Conventional, fixed-rate, level-payment, balloon mortgages; maturity dates vary.   |
| MY . . . . .       | Conventional, fixed-rate, balloon, level-payment mortgages; maturing or due in seven (7) years or more.  |
| QI . . . . .       | Conventional, fixed-rate, intermediate term, actual/360 interest day basis calculation and P&I based on note rate multiplied by 365 and then divided by 360, level-payment mortgages; maturing or due in fifteen (15) years or less. |
| QN . . . . .       | Conventional, fixed-rate, short-term, actual/360 interest day basis calculation and P&I based on note rate multiplied by 365 and then divided by 360, level-payment mortgages; maturing or due in ten (10) years or less.            |
| QT . . . . .       | Conventional, fixed-rate, intermediate term; actual/360 interest day basis calculation and P&I based on note rate multiplied by 365 and then divided by 360, level-payment mortgages; maturing or due in twenty (20) years or less.  |
| QY . . . . .       | Conventional, fixed-rate, balloon; actual/360 interest day basis calculation and P&I based on note rate multiplied by 365 and then divided by 360, level-payment mortgages; maturing or due in seven (7) years or more.              |