

Basics of Multifamily MBS

July 31, 2012

Fannie Mae creates MBS supported by multifamily residential property mortgages. A pool of one or more multifamily mortgages -- which can be either fixed-rate or adjustable-rate (ARM) -- backs a multifamily MBS.

DUS MBS

In Fannie Mae's Delegated Underwriting and Servicing MBS (MBS/DUS), we describe an MBS option that provides prepayment protection to investors. The DUS MBS offers competitive yields and liquidity, as well.

Structure

Delegated Underwriting and Servicing (DUS™) mortgage-backed securities (MBS) are backed by multifamily loan pools that often consist of one single loan. Loans can be for new construction or refinancing.

The loans underlying traditional DUS MBS can vary significantly in terms of maturities and "lockout" provisions. Loans have traditionally been prepayable with yield maintenance, which is a prepayment deterrent fee.

Investor Benefits

DUS MBS offer many benefits for investors, including:

- prepayment protection,
- competitive yields,
- suitability for diverse investment strategies, and
- late closing loans that get to settlement.

Eligibility

DUS MBS eligibility includes:

- Fixed-rate mortgages with 5-, 7-, 10-, 15-, 18- year balloon maturities;
- Fully amortizing 25-year loans for properties over 10 years old; and
- Fully amortizing 30-year loans for properties less than 10 years old and older properties with fully funded replacement reserves.

Interest Accrual Basis Terms

If interest is calculated 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 and each year assumed to consist of 360 days.

Conditions

For DUS MBS, properties must be income-producing multifamily rental or cooperative, with a minimum of five residential units

MBSenger

An in-depth review of Fannie Mae's DUS program is described in an edition of MBSenger, which details the growth and development of Fannie Mae's DUS program over the past 20 years, highlights the MBS/DUS product and explores the performance features of these securities. The MBSenger edition also provides information on the DUS mortgage loan credit underwriting process; requirements to become and remain a DUS lender; other types of Fannie Mae multifamily MBS products; and links to specific multifamily MBS information that investors often request.

Discount MBS (DMBS)

In Discount MBS (DMBS), we discuss the short-term (less than one year) MBS option that does not bear interest. DMBS are sold to investors at a discount and repaid at par upon maturity. They are also locked out for their full term, thus carrying no prepayment risk.

Structure

Discount MBS (DMBS) are backed by multifamily loan pools consisting of one or more loans. Approved lenders who have the responsibility to underwrite, close, and deliver the loans to Fannie Mae within specific guidelines originate the multifamily loans supporting the DMBS.

The DMBS allows mortgage borrowers to obtain a loan that mimics variable rate financing, at a cost significantly below available conventional variable rate financing.

Investor Benefits

In addition to the qualities and values of all Fannie Mae's MBS, DMBS possess unique attributes:

- DMBS are Fannie Mae's only real estate-backed short-term securities, issued with maturities between three and nine months, in one month increments,
- DMBS are non-interest bearing Fannie Mae MBS, sold to investors at a discount and repaid at par upon maturity, and
- DMBS carry no prepayment risk; they are locked out for their full term.

In the case of DMBS, Fannie Mae guarantees that investors will receive required payments of principal when due (since no interest is owed), whether or not they are actually collected from the borrower.

Mega

In Basics of Mega, we describe a program under which investors may invest in large pools of multifamily MBS backed by smaller pools of MBS called Megas. (Single-Family MBS may also be pooled together to form a Mega.)

Fannie Mae Megas[®] are large pools of Fannie Mae MBS backed by smaller pools of Fannie Mae MBS or by other Fannie Mae-backed Megas. As a result, Megas benefit from lower administrative costs and the potential for greater diversity (e.g., geographic diversity).

As part of the Mega section, users can access a wide range of information, including:

Pooling Requirements

In Pooling Requirements, users can learn how to submit pools, including the use of prefixes for fixed-rate transactions.

Multifamily MBS-Backed Megs

Pools of Fannie Mae Multifamily MBS or previously issued Multifamily Megs submitted for a Multifamily Mega transaction must have the same prefix and may have the same fixed-rate Fannie Mae MBS coupon or a combination of Fannie Mae MBS coupons. The combination of Multifamily MBS coupons typically will be restricted to an inclusive 100 basis point range from the highest to lowest Multifamily MBS Coupon.

These new weighted average fixed-rate Multifamily Megs will be assigned a new prefix to designate this feature (e.g., "ML" product will be issued as a "YL" Mega; "HY" product will be issued as a "XY" Mega). Multifamily prefixes cannot be mixed except for corresponding Mega prefixes (e.g., ML and YL).

Fannie Mae pools must have a minimum, wireable, original face amount of \$1,000. Securities Industry and Financial Markets Association (SIFMA) good delivery guidelines do not apply to pools submitted for a Mega transaction.

Multifamily Mega-Backed Megs

Previously issued Multifamily Megs are eligible collateral for all new issue Multifamily Megs.

Exceptions

Certain securities are ineligible for re-securitization. For more information, see the Securities Ineligible for Re-Seuritization list.

Transaction Fees

For Mega Transaction Fees, please contact Structured Transactions at (202) 752-7875.

Setting Up a Mega & Pool Numbers

In Setting up a Mega & Pool Numbers, users are given access to Fannie Mae's Structured Transactions Desk and can review information on submitting Megs to Fannie Mae.

To set up a Mega, call our Structured Transactions Desk at (202) 752-7875. Please have available the following:

- pool prefix,
- coupon range for fixed-rate mortgage-backed security,
- current face amount, and
- settlement date.

Upon execution of the Mega, you will receive the following:

- Mega pool number (see below),
- pool information deadline date, and
- Mega transaction fee amount.

Please note that prior to transacting your first Mega, Fannie Mae also must receive from you a signed corporate resolution, a list of authorized traders, and wiring instructions.

Mega Pool Numbers

Megas are identified by the following series of pool numbers:

Fannie Mae Megas	Ginnie Mae Megas
070000 - 070999	100000 - 100299
124000 - 124999	458000 - 458999
190000 - 190999	
303000 - 303999	
310000 - 310999	
313000 - 313999	
323000 - 323999	
535000 - 535999	
545000 - 545999	
555000 - 555999	
725000 - 725999	
735000 - 735999	
745000 - 745999	
888000 - 890999	
995000 - 995999	
AD0000 - AD0999	
AE0000 - AE0999	
AL0000 - AL9999	
FN0000 - FN9999	

Delivery & Settlement Procedures

In Delivery & Settlement Procedures, users can review settlement practices for fixed-rate Megas, deadlines for delivering collateral for the settlement of a Mega, and more.

Each month, settlements on fixed-rate Megas backed by Fannie Mae MBS or other Fannie Mae-backed Megas can occur beginning one business day following the release of trading factors. (Typically, trading factors are released on or about the 4th business day of the month.)

The following deadlines should be kept in mind when delivering collateral for the settlement of a Mega:

72-hour day:

12 noon, ET -- Provide the latest loan maturity to Fannie Mae Securities Trading Operations at (202) 752-4800 and submit pool information via [e-mail](#).

Settlement day:

12 noon, ET -- Wire collateral for receipt by Fannie Mae. (Note: According to Federal Reserve policy, new Megas cannot be wired after 2:30 p.m. ET).

For detailed settlement procedures, call Securities Trading Operations at (202) 752-4800.

Sending a File with Pool Information

In Sending a File with Pool Information, users are instructed on how to create the appropriate text file and the required pool information for sending a file to Fannie Mae.

Investors can send Multifamily Mega pool information files to Fannie Mae via e-mail. To do so, create an Excel spreadsheet using the following pool information formatted in four columns:

- CUSIP
- pool number (with capitalized alphanumeric pools),
- original face value (in \$50 million increments), and
- current face value.

Then, send the file via e-mail to sto_megas@fanniemae.com

Wiring Instructions & Disclosure Documents

Finally, in Wiring Instructions & Disclosure Documents, users get information about the delivery of disclosure-related documents by Fannie Mae.

Collateral for Mega settlements is to be delivered "free" according to the following instructions:

- For Fannie Mae collateral: FMAE DC MBS/FNCTRL ABA# 021039539

The Mega will be wired to you versus the Mega fee.

Disclosure Documents

The Mega Prospectus and any applicable Mega Prospectus Supplement will be sent to you prior to the Mega settlement date. A Final Data Statements/Collateral can be obtained after settlement on our Web site or by calling 1-800-237-8627.

Guaranteed MBS Pass-through Securities (Fannie Mae GeMS)

Fannie Mae's Guaranteed MBS Pass-through Securities (Fannie Mae GeMS) program includes DUS REMICs and syndicated DUS Megas. Syndicated Mega deals are managed by broker-dealers and offered in issuance sizes similar to DUS REMIC transactions.

Fannie Mae's Guaranteed MBS Pass-through Securities (Fannie Mae GeMS) program will include DUS REMICs and syndicated DUS Megas. Syndicated Mega deals will be managed by broker-dealers and offered in issuance sizes similar to DUS REMIC transactions. The program expansion builds upon Fannie Mae's successful DUS REMIC issuances, providing additional Fannie Mae GeMS products with similar features and liquidity.

- **Fannie Mae Multifamily DUS REMICs**
 - Also referenced in the marketplace as ACES® (Alternative Credit Enhancement Securities) or FNA (Pneumonic on Bloomberg)
 - Type of multiclass mortgage-related security in which interest and principal payments from mortgages are structured into separately traded securities
 - Underlying collateral is selected by Fannie Mae
 - Straightforward, sequential structures including principal, interest, floater, and inverse floater classes

- **Fannie Mae Multifamily DUS Megs**
 - Pass-through securities in which the underlying collateral are groups of existing Fannie Mae MBS or other Fannie Mae-backed Megs wherein the cash flows from the underlying Fannie Mae MBS provide the cash flows for the Mega pool
 - Pools of DUS securities with the same prefix and the same fixed-rate coupon or a combination of Fannie Mae MBS coupons pulled together, typically restricted to an inclusive 100 basis point range from the highest to the lowest coupon
 - Provides for operational efficiency
 - Fannie Mae GeMS Megs are identifiable by their unique pool numbers, beginning with [FN]

Investor Benefits

- Fannie Mae guaranty of timely payment of principal and interest
- Superior call protection due to prepayment premiums in the form of yield maintenance which tends to create positive convexity
- Higher yields over comparable duration high-grade corporate securities
- Potential geographic and borrower diversity
- Block size
- Ability to customize cash flows based on duration, average life, coupon, convexity profile, yield and price
- Lower spread volatility relative to other products with similar collateral
- More consistent underwriting compared to non-agency CMBS
- Typically priced near par
- Enhanced liquidity by the large number of dealers engaged in market making
- Timely disclosure information to assist in modeling securities

MAST

In MAST, we provide information on Multifamily Assured Schedule Payment Trust™ (MAST)™ securities -- which are multiple-class, call-protected securities that restructure interest and principal payments from DUS MBS into distinct classes (otherwise known as tranches). Fannie Mae guarantees to pay scheduled principal and interest to investors through to maturity regardless of any event on the underlying loans, including default, casualty, or condemnation.

Fannie Mae guarantees to pay scheduled principal and interest to investors through to maturity on the securities issued by Fannie Mae's Multifamily Assured Schedule Payment Trust™ (MAST™), regardless of any event on the underlying loans, including default, casualty, or condemnation.

Structure

MAST securities are multiple-class, call-protected securities that restructure interest and principal payments from Delegated Underwriting and Servicing mortgage-backed securities (MBS/DUS™) into distinct tranches:

- a bond that matures in approximately 10 years, which receives interest-only monthly payments during the term and principal at maturity;
- a bond with an average life of approximately five years, which receives monthly payments of interest and scheduled amortized principal; and
- an interest-only (IO) strip bond which, unlike typical IO's, has predetermined cash flow.

Investor Benefits

Credit quality: The credit quality of the underlying loans' cash flow is further enhanced by Fannie Mae's guaranty to continue scheduled payments to investors through to maturity, regardless of any default on the underlying loans.

Call protection: Fannie Mae guarantees full and timely payments protected from prepayment. If a borrower seeks to have the property released from the loan before maturity, the loan's defeasance provision requires that the original payment schedule be maintained through to maturity, by having the borrower purchase and substitute a matching Fannie Mae debt obligation. In addition, Fannie Mae will guarantee the continuation of originally scheduled payments in the event of any other prepayment events, including default, casualty, or condemnation.

Liquidity: Fannie Mae MBS/DUS has established market reputation and liquidity.

Previously Issued MAST Securities

Name	Issue Date Balance	Issue Date	Maturity Date
<u>Multifamily Grantor Trust 2000-T5</u> (PDF, 196KB, 44 pages)	\$510,767,585	9/29/2000	5/2010
<u>Multifamily Grantor Trust 2001-T2</u> (PDF, 176KB, 42 pages)	\$636,818,778	2/28/2001	11/2010
<u>Multifamily Grantor Trust 2001-T6</u> (PDF, 178KB, 42 pages)	\$642,014,870	6/29/2001	5/2011
<u>Multifamily Grantor Trust 2001-T11</u> (PDF, 177KB, 43 pages)	\$747,882,285	10/30/2001	9/2011
<u>Multifamily Grantor Trust 2002-T3</u> (PDF, 184KB, 43 pages)	\$734,239,700	2/28/2002	12/2011
<u>Multifamily Grantor Trust 2002-T11</u> (PDF, 186KB, 42 pages)	\$523,433,812	7/30/2002	4/2012

<u>Multifamily Grantor Trust 2003-T1</u> (PDF, 180KB, 42 pages)	\$589,607,566	2/27/2003	11/2012
<u>Multifamily Grantor Trust 2003-T5</u> (PDF, 183KB, 41 pages)	\$318,359,919	10/30/2003	3/2013

MBS/DUS

The loans backing the Fannie Mae MBS/DUS that underlie MAST securities are originated under Fannie Mae's Alternative Defeasance Product. Alternative Defeasance is offered through Fannie Mae's Delegated Underwriting and Servicing Program and protects the loans from voluntary prepayments, through to maturity.

This is not a sale or an offer or a solicitation thereof. The securities described herein are available only from qualified dealers per the terms of the prospectus.

REMICs

In the REMIC section, we provide information on the collateral backing Multifamily REMIC securities. Collateral for Fannie Mae's multifamily REMICs may include multifamily mortgage loans that have been pooled together as Fannie Mae MBS, classes from other REMICs, whole loans, and other acceptable collateral such as FHA participation certificates.

Fannie Mae issues both REMICs and WAS REMICs backed by multifamily mortgage-related collateral. Consult information under the heading "Basics of REMICs" for more specific information about the REMIC securities.

Wisconsin Avenue Securities (WAS) REMICs

Wisconsin Avenue Securities (WAS) is the trade name for Fannie Mae's senior/subordinated REMIC security. Collateral can include either single-family or multifamily mortgages. Senior/subordinated REMICs are a type of whole loan REMIC transaction in which both cash flows and credit losses are passed through to investors.

The senior bonds pass through principal and interest to investors, but do not absorb any credit losses because they are fully guaranteed by Fannie Mae. The subordinated bonds receive principal and interest payments as well; however, they will absorb credit losses from the collateral by having their balances reduced when losses are realized.

Fannie Mae guarantees the timely payment of principal and interest to investors for only the senior bonds. Fannie Mae does not guarantee the subordinated bonds issued as Wisconsin Avenue Securities (WAS). Therefore, investors in the subordinated bonds bear the credit risk.

Fannie Mae Aces Wisconsin Avenue Securities REMICs

Under Wisconsin Avenue Securities (WAS) REMIC, the investor swaps/sells a portfolio of multifamily whole loans or one or more MBS for Fannie Mae guaranteed and unguaranteed REMIC certificates (or senior and subordinate bonds, respectively). The aggregate amount of the unguaranteed bonds is equal to Fannie Mae's required first loss coverage (or subordination) on the portfolio of multifamily mortgage loans. As losses occur on the underlying mortgage loans, they will be passed through to the subordinate bonds.

Multifamily Structured Facilities

The Multifamily Structured Facilities section discusses an option that provides multifamily borrowers with both long- and short-term financing at competitive prices. These transactions use one or more pools of multifamily mortgage loans, which may be cross-collateralized and cross-defaulted as the collateral for securities. The securities may consist of fixed-rate MBS, adjustable rate MBS, and/or DMBS

Structured Facilities can provide both intermediate/long-term and short-term financing at a competitive price. The structure may use one or more pools of cross-collateralized and cross-defaulted multifamily mortgages ("collateral") as security. Structures may also be available for uncrossed assets. Typical borrowers include REITs, pension funds and their affiliates, and other regional or national multifamily owners.

Transactions are typically at least \$50,000,000, typically have LTVs of 50% to 65%, typically have DSCRs of 1.55 to 1.35, and typically have maturities of 5 to 15 years.

A Structured Facility may consist of an intermediate/long-term portion ("fixed-rate" portion) and/or a short-term portion ("variable-rate" portion). The fixed-rate portion generally backs a fixed-rate multifamily Fannie Mae MBS. The variable-rate portion backs a discount MBS (DMBS).

Basics of MBS Market & Pools

- In MBS Structure, users can access information about how Fannie Mae MBS work, including the securities' geographical information, liquidity, and unique structural features.
- In Understanding Yield, users can get introduction/information about yield, weighted-average life, and pricing of mortgage-backed securities. There is also a discussion of mortgage-backed securities' cash flows and an example of the yield-to-maturity for an 8 percent, 30-year mortgage-backed security.
- In Credit Quality, users will note that the quality and value of Fannie Mae MBS hinge on several factors, including Fannie Mae's guaranty of full and timely payment of both principal and interest; the investment quality of the underlying mortgages; the quality of information provided to investors; and more.
- Selecting a Mortgage-Backed Security Investment reviews certain factors an investor may wish to consider when evaluating a Fannie Mae MBS. The section also provides an overview of standard Fannie Mae MBS products, from fixed-rate to adjustable-rate to biweekly Fannie Mae MBS and more.
- Finally, in Other MBS Products, users can review information relating to Fannie Majors®, Fannie Megas®, and SMBS.

In general, mortgage-backed securities are commonly called "MBS" or "Pools" but they can also be called "mortgage pass-through certificates." An investor in a mortgage-backed security -- the certificateholder -- owns an undivided interest in a pool of mortgages that serves as the underlying asset for the security. Interest payments and principal repayments from the individual mortgage loans are grouped and paid out to investors.

The mortgages that back a Fannie Mae MBS are held in a trust on behalf of Fannie Mae MBS investors and are not Fannie Mae assets. As a Fannie Mae MBS investor, the certificateholder receives a pro rata share of the scheduled principal and interest from mortgagors on the loans backing the security. Interest is paid at a specific interest rate. The certificate holder also receives any unscheduled payments of principal.

Basics of Multifamily MBS provides links to general information about multifamily securities, multifamily MBS Prospectus Supplement templates, loan level data for Standard MBS (including DUS), and Multifamily Real Estate Mortgage Investment Conduits (REMICs).

Fannie Mae MBS Prospectuses and Related Documents

Fannie Mae publishes documents related to each Fannie Mae MBS. For a particular Fannie Mae MBS, the disclosure documents include:

- relevant MBS Prospectus - Each MBS Prospectus contains general information about pools issued during its effective period. The information includes the nature of the guaranty, yield considerations, and the mortgage purchase programs. For example, the September 1, 2007 Multifamily MBS Prospectus (PDF) will relate to Fannie Mae MBS pools issued on or after September 1, 2007 but before October 1, 2010 (i.e., the date that the next Fannie Mae Multifamily MBS Prospectus was released).
- relevant Prospectus Supplement - The Prospectus Supplement contains information about a specific issuance, the mortgage loans or other collateral that back that issue, and information about the certificates. A pool's prospectus supplement is generally available two business days before the settlement date of the Fannie Mae MBS pool. The information in the prospectus supplement may be different or more complete than the information in the prospectus because it describes a specific issue of certificates.
- the most recent Annual Report on Form 10-K (PDF) filed with the Securities and Exchange Commission (SEC) - The Annual Report on Form 10-K (PDF) describes the business and operations of Fannie Mae and our financial condition as of a specified date. It contains audited financial information and is filed with the SEC annually. Fannie Mae also files quarterly and current reports, among other documents, with the SEC.
- certain reports filed with the SEC subsequent thereto.
- MBS Trust Indentures (and/or Trust Agreements for pools issued after June 1, 2007) create the trust holding the assets backing the mortgage-backed security. The Trust Indenture or the Trust Agreement outlines the rights and responsibilities of Fannie Mae and of the mortgage certificate holders in relation to a trust.

Other Useful MBS Information

Fannie Mae provides additional information related to Fannie Mae MBS, including:

PoolTalk®, an online tool, provides information about Fannie Mae MBS, SMBS, Megas, REMICs, and Grantor Trusts. PoolTalk includes current and historical factors, CUSIP numbers, original issue balances, interest rates, issue and maturity dates, weighted-average coupons, weighted-average maturities, and other data.

The Single-Family ARM MBS Subtypes files include definitions of the different adjustable-rate mortgage pool characteristics. These files summarize certain key features (otherwise known as "subtypes") of the adjustable-rate mortgages backing Single-Family Fannie Mae MBS.

The Multifamily Securities Locator Service provides a central location for obtaining multifamily MBS disclosure information. Users can locate and download information on multifamily securities, create a portfolio to track specific securities, view reports of loan activity, and choose to receive e-mail updates on changes to pools.

The Pool Prefix Glossary provides access to the pool prefixes for each individual issue of Fannie Mae MBS or Fannie Mega securities. The prefix identifies the type of loans in a pool, the original term of those loans, and other information regarding a pool's characteristics.



MBS Structured

Fannie Mae has played a vital role in the growth and development of today's expanding secondary mortgage market by introducing innovative products.

Money managers, thrift institutions, commercial banks, trust departments, insurance companies, pension funds, securities dealers, other major corporations, and private investors are all players in this market.

Fannie Mae MBS offer investors high-quality investments with attractive yields to fit their portfolio needs or investment strategies. This section introduces the reader to the Fannie Mae MBS and an array of investor support services we offer. This is a good starting point; however, investors should exercise care to understand fully the value of any mortgage investment. They should have the capability to evaluate the investment, to understand the tax issues involved, and to appreciate -- and be able to bear -- all the risks involved in a particular security. Investors interested in Fannie Mae MBS should always carefully read the applicable disclosure documents and discuss the potential risks versus rewards with their investment advisors.

Contact Information

Investors can obtain Multifamily MBS documents from our Web site at www.fanniemae.com or by calling 1-800-2FANNIE, Option 2.