

Part IIa -GSE

[Excerpts] Fannie Mae 2006 Prospectus¹

Guaranteed Mortgage Pass-Through Certificates (Single-Family 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 residential mortgage loans secured by single-family (one to four-unit) dwellings, or by a pool of 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. 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. Why is the taxpaying bailing out a private corporation?*

The certificates are exempt from registration under the Securities Act of 1933, as amended, and are ""exempted securities" under the Securities Exchange Act of 1934, as amended. Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved these certificates or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

Security Type - Each mortgage loan will be secured by a first or subordinate lien on residential real property containing one to four dwelling units (including manufactured housing) or on a share in a cooperative housing corporation representing the right to occupy a residential dwelling.

No Optional Termination - We have no clean-up call option. That is, we have no right to terminate the trust early when the unpaid principal balance of a pool reaches a certain amount or reaches a certain percentage of the original issue date unpaid principal balance of a pool

CREDIT FACTORS: If we fail 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. If, however, we become unable to pay, or fail to pay for any reason, the payments of principal and/or interest that you receive as a certificateholder will be reduced as a result of borrowers' late payments or failure to pay their loans.

THE MORTGAGE LOANS

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...

We or our custodian either takes possession of the original note endorsed in blank (or a duplicate copy of the original note along with a lost note affidavit, in the case of notes that have been lost or are missing). If we use a custodian, the custodian must be one of our sellers or their

¹ http://www.efanniemae.com/syndicated/documents/mbs/mbspros/SF_January_1_2006.pdf

affiliates, a mortgage banker or 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 or the National Credit Union Administration. Before issuing a series of certificates, we review the mortgage loan schedule for that series, and afterwards we may, from time to time, conduct random spot checks to confirm that the related documents are held by the custodian.

Buydown Mortgage Loans

*To induce people to buy homes, builders and sellers of homes, or other interested parties, including lenders, **may agree to pay some of the costs of the loan, including subsidizing the monthly mortgage payments for an agreed period of time.** This arrangement, which we refer to as a "buydown," may enable borrowers to qualify for loans, even though their available funds ordinarily would not enable them to do so. {At least this advance of money is known not to have to be repaid, whereas grandma's aiding is not known as to be repayable or not.}*

On With the Procedure:

Owner/Payee (OP1) of the Secured Mortgage Note executes a true sale of the Secured Mortgage Note per GSE direction:

Originator prior or concurrently with registering on the MERS registry:

a) Current industry practice: Originator (OP1)

(1) Scans the Mortgage Loan Package which consists of the Secured Mortgage Note, verifiable proof the Security Instrument has been permanently perfected of record in OP1's name, and all accompanying documents into a purported transferable record.

- i. ESIGN, UETA or the UCC does not provide supporting law for scanning of a negotiable instrument into a transferable record.
- ii. ESIGN and UETA both specifically exclude negotiable instrument as defined in UCC Article 3.

(2) Stores the tangibles with a custodian for future benefit of subsequent purchaser of the transferable record. With the note endorsed "in blank" and an assignment of the lien prepared "in blank."

(3) Or worse, destroys the tangibles.

(4) Prepares a process request to transfer of control over the authoritative copy as registered within the MERS registry to the GSE.

- (5) GSE agrees to purchase the OP1 loan and enters data on the MERS registry that GSE will purchase the loan.
 - (6) Upon OP1's receipt of funding and notification given to the MERS registry, the MERS registry executes the transfer of control over the transferable record from OP1 to the GSE.
 - (7) MERS executes the process request to transfer control of the transferable record to GSE. Here the MERS registry acts as a Bailor between OP1 and the GSE.
 - (8) The prepared "in blank" assignment of the lien is not filed of record to perfect the GSE's name of record.
- b)
- c) It may be a legal possibility that a transferable record can be created electronically, but where such transferable record is secured by a real property lien, to be in compliance with many states real property recording laws, the GSE as subsequent owner of the transferable record must perfect of record his interest in the real property so as not to break the chain of title (chain of secured party's.)
 - d) Prior or concurrently with the GSE purchase,
 - i) Copies of the transferable records are transmitted to the rating agencies.
 - (2) Rating Agency rates the contents of the transferable record.
 - (3) Rating Agency does not rate the legality of the purchase.
 - ii) Copies of the transferable are transmitted to insurer for garnering credit enhancement.
 - (2) Insurer values the coverage based upon contents of the transferable record. (SWAP coverage/Credit Enhancement)
 - (3) Insurer does not consider the legality of the purchase.
 - e) As noted above, there potentially could be two (2) concurrent existing copies of the authoritative copy (transferable record) being most likely in PDF, XML or a Smartdoc format floating around in cyberspace.

- a. For cyber junkies who evolved with the electronic cyber era, it is known that file copying can be accomplished at the binary level of 0s and 1s. If duplication is done in such fashion it would be impossible to ascertain from the original authoritative copy that a copy of the authoritative copy exists.
- b. The duplicate authoritative copy would be an exact copy of the source authoritative copy.
- c. As it is possible that an exact duplicate of the authoritative copy can exist at the same time as the authoritative copy, it would be impossible to claim any authoritative copy is the one and only.
 - i. The MERS registry as being unmonitored would lack a definitive method of determining if one and only one authoritative copy exist.
 - d. Current security measures available would only detect a change in the file structure of the file under review; such security measure(s) would not be able to determine if other copies of the authoritative copy exist.
 - e. Therefore, it is impossible to state any particular transferable record is the one and only authoritative copy as copies technically could exist.
- f) Here, the GSE or counsel argue, UCC 9 attachment and perfection apply to a transferable record governing personal property also applies to real property factors, if one looks closer, one would see that the transferable record process of attempting to convey interest in real property is not in compliance with all applicable laws.

Conclusion Part IIa

The buying and selling of a scanned transferable record is not the same as the buying and selling of a Secured Negotiable Instrument nor does UCC Article 9 apply to real property liens.