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**APPENDIX IV-23**  
**FORM HUD 11712-II**  
**PROSPECTUS - GINNIE MAE II MORTGAGE-BACKED SECURITIES**  
**(GROWING EQUITY MORTGAGES)**

- Applicability:** Ginnie Mae II MBS Program only.
- Purpose:** To provide a standard form of prospectus for securities backed by GA or GD pools.
- Prepared by:** Issuer, unless the pool is submitted by GinnieNET or is a multiple issuer pool. If the pool is submitted by GinnieNET or is a multiple issuer pool, then the CPTA prepares the prospectus.
- Prepared in:** Number of copies needed for distribution below. The issuer or the CPTA, as appropriate, should reproduce this form HUD 11712-II as needed.
- Distribution:** Each primary purchaser of securities from the issuer. Unless the pool is submitted by GinnieNET or is a multiple issuer pool, the issuer must submit one copy to the PPA at a time consistent with the pool processing time requirements set forth in Section 10-7 of the Guide for the type of pool involved.
- Completion Instructions:** The circled numbers on the attached form correspond to the numbers listed below.
1. Aggregate original principal amount of proposed issue.
  2. Interest rate, per annum, stated on the securities.
  3. Full legal name of issuer, in the case of a custom pool, or “Multiple Issuer,” in the case of a multiple issuer pool.
  4. Commitment number previously assigned by Ginnie Mae, followed by the suffix “C” or “M” and by the applicable program suffix (either “GA” or “GD”).
  5. The first day of the month of issue.
  6. The 20th day of the month following the month of issue.
  7. The 20th day of the month in which the latest maturity of a mortgage listed on the Schedule of Pooled Mortgages, form HUD 11706, occurs.
  8. Full legal name of Central Paying and Transfer Agent.
  9. Check the appropriate block.

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10. Insert each different percentage rate by which the annual payment increases for loans included in the pool.
  11. Insert the number of years over which the annual payment increases for each rate shown in item 10.
  12. Insert the percent of the loans included in the pool, based on the aggregate initial principal amount of the loans in each rate category and the aggregate initial principal amount of the pool for each rate shown in item 10. These must total 100 percent.
  13. If one or more loans are buydowns, type the following statement on the “Annex — Special Disclosure,” which is attached to the prospectus.

“Some or all of the pooled mortgages are growing equity mortgages for which funds have been provided to reduce the borrowers’ monthly payments during the early years of the loans.”

14. If more than 10 percent of the pooled mortgages have maturities shorter than 20 years (see Section 24-2(B)(3)(c) of the Guide), type the following statement on the “Annex — Special Disclosure,” which is attached to the prospectus.

“This pool contains mortgages with maturities that differ from those required under Ginnie Mae’s standard program requirements.”

15. If the pool is a multiple issuer pool, the CPTA will type the following table and the required information on the “Annex - Special Disclosure”:

<u>Multiple Issuer Pool</u>		
<u>Name of Issuer</u>	<u>Number of Loans Contributed</u>	<u>Aggregate Original Principal Amount Contributed</u>

**Prospectus**  
**Ginnie Mae II**  
**Growing Equity Mortgages**

U.S. Department of Housing  
 and Urban Development  
 Government National Mortgage Association

OMB Approval No. 2503-0018 (Exp. 04/30/2004)

**Public reporting burden** for this collection of information is estimated to average 15 minutes per response, including the time for reviewing instructions, searching existing data sources, gathering and maintaining the data needed, and completing and reviewing the collection of information. This agency may not collect this information, and you are not required to complete this form, unless it displays a currently valid OMB control number.

The information is required by Sec. 306(g) of the National Housing Act or by Ginnie Mae Handbook 5500.3, Rev. 1.

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② % Ginnie Mae II Mortgage-Backed Securities  
 (Growing Equity Mortgages)

Guaranteed as to the Timely Payment of Principal and Interest  
 by the Government National Mortgage Association  
 (Backed by the Full Faith and Credit of the United States)

Issued by: ③

Ginnie Mae Pool No.: ④	First Payment Due: ⑥
Issue Date: ⑤	Maturity Date: ⑦
Depository: The Federal Reserve Bank of New York	Central Paying and Transfer Agent: ⑧

The securities offered hereby (the “Securities”) provide for the timely payment of principal and interest on the twentieth day of each month, except as stated herein, commencing in the month following the month of issuance. Interest will accrue on the Securities at the per annum rate specified above; installments of principal will be payable in relation to payments of principal on the underlying pool of mortgages described herein. The maturity date for the Securities is based on the mortgage with the latest maturity. See “Maturity, Prepayment, and Yield” herein for a discussion of certain significant factors that should be considered by prospective investors in the Securities offered hereby.

The Government National Mortgage Association (“Ginnie Mae”) guarantees the timely payment of principal and interest on the Securities. The Ginnie Mae guaranty is backed by the full faith and credit of the United States of America.

The Securities are exempt from the registration requirements of the Securities Act of 1933, as amended, and are “exempted securities” within the meaning of the Securities Exchange Act of 1934., as amended.

## **Ginnie Mae Guaranty**

Ginnie Mae is a wholly-owned corporate instrumentality of the United States of America within the Department of Housing and Urban Development with its principal office at 451 Seventh Street, S.W., Washington, D.C. 20410. Timely payment of principal of and interest on the Securities is guaranteed by Ginnie Mae pursuant to Section 306(g) of the National Housing Act of 1934, as amended (the “National Housing Act”). Section 306(g) provides that “[t]he full faith and credit of the United States is pledged to the payment of all amounts which may be required to be paid under any guaranty under this subsection.” An opinion, dated December 9, 1969, of William H. Rehnquist, Assistant Attorney General of the United States, states that such guaranties under Section 306(g) of mortgage-backed securities of the type offered hereby are authorized to be made by Ginnie Mae and “would constitute general obligations of the United States backed by its full faith and credit.”

## **Borrowing Authority–United States Treasury**

Ginnie Mae, in its corporate capacity under Section 306(d) of the National Housing Act, may issue to the United States Treasury its general obligations in an amount outstanding at any one time sufficient to enable Ginnie Mae, with no limitations as to amount, to perform its obligations under its guaranty of the timely payment of the principal of and interest on the Securities offered hereby. The Treasury is authorized to purchase any obligations so issued.

The Treasury Department has indicated that it will make loans to Ginnie Mae, if needed, to implement the aforementioned guaranty as stated in the following letter:

<p>The Secretary of the Treasury Washington</p>	<p>February 13, 1970</p>
<p>Dear Mr. Secretary:</p>	
<p>I wish to refer to your letter of November 14, 1969 asking whether the timely payment of principal and interest on mortgage-backed securities of the pass-through type guaranteed by the Government National Mortgage Association under Section 306(g) of the National Housing Act under its management and liquidating function is a function for which the Association may properly borrow from the Treasury.</p>	
<p>It is the opinion of the Treasury Department that the Association may properly borrow from the Treasury for the purpose of assuring the timely payment of principal and interest on guaranteed pass-through type mortgage-backed securities as described in Chapter 3 paragraph 6 of the Mortgage-Backed Securities Guide dated December 1969. Accordingly, the Treasury will make loans to the Association for the foregoing purposes under the procedure provided in subsection (d) of Section 306 of Title III of the National Housing Act.</p>	
<p>Sincerely, DAVID M. KENNEDY</p>	
<p>The Honorable George Romney Secretary of the Department of Housing and Urban Development Washington, D.C. 20410</p>	

## Growing Equity Mortgages

The Securities are based on and backed by a pool of mortgage loans (the “Mortgages”) described below. The Issuer has represented that the Mortgages are single-family, growing equity mortgages (“GEM”) insured by the Federal Housing Administration (“FHA”) or guaranteed by the Department of Veterans Affairs (“VA”). The term “mortgage,” as used herein, includes both a note and the mortgage or deed of trust by which it is secured.

The Issuer has also represented, except as otherwise disclosed in the “Annex—Special Disclosure” (the “Annex”), that (a) there is no age limitation on the first scheduled monthly payment for each Mortgage, (b) if the pool is a custom pool, at least 80% of the original principal amount of the pool constitutes Mortgages that have maturities that are within 30 months of the maturity of the Mortgage with the latest stated maturity, (c) at least 90% of the original principal amount of the pool constitutes Mortgages that have original maturities of 20 years or more, (d) each Mortgage bears interest at a fixed rate of interest throughout the term thereof, which exceeds the interest rate of the Securities by at least 0.25% but not more than 0.75%, and (e) no Mortgage is more than 60 days delinquent as to scheduled payments as of the Issue Date.

If any of the foregoing representations, or any other representation made by the Issuer, is incorrect with respect to any Mortgage, the Issuer may be required by Ginnie Mae to purchase the Mortgage from the pool. Additionally, if any Mortgage comes into default and continues in default for a period of 90 days or more, the Issuer is permitted to purchase it from the pool. In either event, the remaining principal balance of the Mortgage will be passed through to the Security Holders as an unscheduled recovery of principal. See “Maturity, Prepayment, and Yield” herein.

Under each Mortgage’s amortization schedule, principal is repaid faster than under a comparable level payment mortgage. Although the first year’s Mortgage payments are equal to those of a comparable level payment mortgage, on the first and specified anniversaries of the initial Mortgage payment date, the borrower’s monthly installments of principal and interest are increased at specified annual rates. Both the rate and term of the payment increases are established when the loan is originated. The amount of any particular installment increase will equal the product of the appropriate fixed percentage of annual increase expressed in the chart presented below applied to the monthly installment of principal and interest scheduled for the prior year. The full amount of the installment increase is allocated to principal. Scheduled interest due on a Mortgage for any given month is then computed upon the adjusted principal balance of the Mortgage at the end of the prior month. The accelerated repayment of principal is designed to result in the earlier repayment of a GEM than a comparable level payment mortgage.

The characteristics of mortgages included in a GEM pool are indicated generally by the two letter suffix appearing in the security’s pool number listing and in its security number. The two suffixes for growing equity mortgage-backed securities are as follows:

**GA:** pooled mortgages consist solely of those GEMs whose monthly payments of principal and interest increase annually by four (4) percent for the full term of the mortgage; and

GD: pooled mortgages include any combination of loans whose rate and term of annual increases have been approved by the relevant Federal insuring or guaranteeing authority.

The following chart expresses the rate of annual payment increases and the number of years over which annual payments are increased for each Mortgage.

Pool Type (Check One)	Annual Percentage Increase in Payment	Number of Years of Increases	Percentage of Pool
GA <sup>⑨</sup>	4%	Full Term	100%
GD <sup>⑨</sup>	<sup>⑩</sup> % % %	<sup>⑪</sup>	<sup>⑫</sup> % % %
			GD 100%

If any Mortgage is also a buydown mortgage, the Issuer is required to state that fact in the Annex. A buydown mortgage is a mortgage loan for which funds have been provided by someone other than the borrower to reduce the borrower's monthly payments during the early years of the loan. A buydown loan is based on an assessment that the borrower will be able to make higher payments in later years. Increases in the required monthly payments on such loans may result in a higher prepayment rate than that of non-buydown, single-family, level payment loans. Consequently, this may accelerate the payment of principal of the Securities. If the pool is a multiple issuer pool, no more than 10% of the original principal amount of the pool consists of buydown mortgage loans.

### Book-Entry Registration

The Securities initially will be issued and maintained in uncertificated, book-entry form, except that Securities issued in conversion of Ginnie Mae I securities may be issued in certificated form. Subsequent to closing, an investor may request that its book-entry Security be issued in certificated form. So long as they are maintained in book-entry form, the Securities may be transferred only on the book-entry system of the Depository. In the case of the book-entry Securities, Ginnie Mae guarantees only that payments will be made to the Depository in whose name the Security is registered.

Investors in book-entry Securities will ordinarily hold such Securities through one or more financial intermediaries, such as banks, brokerage firms, and securities clearing organizations. An investor in a Security held in book-entry form may transfer its beneficial interest only by complying with the procedures of the appropriate financial intermediary and must depend on its financial intermediary to enforce its rights with respect to a book-entry Security.

### Certificated Registration

By request made through the Issuer or a securities dealer, accompanied by a transfer fee, an investor in book-entry Securities may receive from the central paying and transfer agent ("CPTA") for the Securities a Security in fully registered, certificated form.

Securities held in fully registered, certificated form will be fully transferable and assignable, but only on the security register maintained by the CPTA (the "Security Register"). A Security Holder of a fully registered, certificated Security or its designated representative may transfer ownership or obtain a denominational exchange of its Security on the Security Register upon surrender of the Security to the CPTA at its Ginnie Mae transfer window, or through the mail, if the Security is duly endorsed by the Security Holder using the form of assignment on the reverse side thereof or any other written instrument of transfer acceptable to Ginnie Mae. A service charge in an amount determined by Ginnie Mae will be imposed for any registration of transfer or denominational exchange of a Security, and payment sufficient to cover any tax or governmental charge in connection therewith will also be required.

### **Payments of Principal and Interest**

The Securities will provide for payments to Security Holders to be made by the CPTA using funds provided by the Issuer. Payments of principal and interest are required to be made to registered holders of the Securities in monthly installments by the twentieth calendar day of each month (or, in the case of payments on book-entry Securities, if such twentieth day is not a business day, on the next following business day). The first such payment is required to be made by such day in the month following the month in which the Issue Date occurs.

Amounts payable on each Security in respect of interest on each monthly payment date will equal the product of (i) one-twelfth of the interest rate specified on the cover page hereof, and (ii) the remaining principal balance of such Security at the end of the prior month. Principal payments on each monthly payment date will equal the sum of (i) all scheduled principal payments due on the Mortgages on the first day of the month of such payment date, and (ii) all unscheduled payments (including prepayments) and other recoveries received on the Mortgages during the preceding month. The maturity date for the Securities is set forth on the cover page hereof and is based on the latest maturity date of any Mortgage included in the pool.

The Issuer is required to make available to the CPTA the full amount described above prior to each monthly payment date regardless of whether sufficient amounts have been collected on the Mortgages.

Monthly payments on the Securities will be allocated among the holders of each Security in the proportion that the original principal amount of such Security bears to the aggregate original principal amount of the Securities.

Monthly payments on Securities held in book-entry form will be paid to the Depository for allocation and payment to the investors in accordance with the Depository's procedures.

Monthly payments on Securities held in fully registered, certificated form will be paid to the Security Holder in whose name the Securities are registered on the last day of the month preceding the month in which the payment is made. Payments will be made by check or in such other manner as may be prescribed by Ginnie Mae. The CPTA will issue a single check (or otherwise consolidate payments) to each Security Holder each month for all payments due the Security Holder for all of its Ginnie Mae II securities. Final payment on a fully registered, certificated Security will be made only upon surrender of the outstanding certificate.

## **Denominations**

The Securities will be issued in minimum dollar denominations representing initial principal balances of \$25,000 and in multiples of \$1 in excess thereof, except that Securities issued in conversion of Ginnie Mae I securities may be issued in amounts less than \$25,000.

## **Servicing of the Mortgages**

If the suffix of the pool number on the cover hereof includes a “C,” the pool is a “custom” pool, which means that the Mortgages were all pooled by a single Issuer, who is named on the cover hereof and on each Security. The Issuer of a custom pool is responsible for servicing all of the Mortgages.

If the suffix of the pool number on the cover hereof includes an “M,” the pool is a multiple issuer pool, which normally means that the Mortgages consist of two or more “loan packages,” each contributed by a different Issuer (a multiple issuer pool may contain only a single loan package in some cases). If the Mortgages constitute a multiple issuer pool, the term “Multiple Issuer” appears on the cover hereof and on each Security, and each Issuer is named, and the portion of the pool it contributed is stated, on the “Annex — Special Disclosure.”

If the Mortgages constitute a multiple issuer pool, each Security is backed by all of the Mortgages and not merely the Mortgages contributed by a single Issuer. Each Issuer, however, has undertaken to service only the Mortgages it contributed to the pool and to perform certain administrative duties only with respect to those Mortgages. No Issuer is responsible for performing such functions with respect to Mortgages contributed by another Issuer, and no Issuer is responsible for any act or omission of any other Issuer.

Under contractual arrangements between the Issuer and Ginnie Mae, an Issuer is responsible for servicing and otherwise administering the Mortgages that it contributed to the pool in accordance with FHA or VA requirements, as applicable, Ginnie Mae requirements, and servicing practices generally accepted in the mortgage lending industry.

As compensation for its servicing and administrative duties, an Issuer will be entitled to retain from each interest payment collected on a Mortgage that it contributed to the pool an amount equal to the product of one-twelfth times the difference between the interest rate on the Securities and the interest rate on the Mortgage (which difference will be not less than 0.25% or more than 0.75%) times the actual principal amount of such Mortgage. Late payment fees and similar charges collected will be retained by the Issuer as additional compensation. The Issuer will pay (a) to Ginnie Mae monthly a guaranty fee of not more than one-twelfth of 0.06% of the outstanding principal amount of such Mortgages and (b) all other costs and expenses incident to the servicing of such Mortgages.

## **Custodial Agent**

The underlying loan documentation for the Mortgages will be held in custody by a document custodian acceptable to Ginnie Mae.



## **Termination of Pool Arrangement**

If the Mortgages constitute a custom pool, the pool arrangement may be terminated at any time prior to the maturity date of the Securities, provided that the Issuer and all holders of the outstanding Securities have entered into an agreement for such termination. Upon formal notification with satisfactory evidence that all parties to the termination agreement have concurred, and return of all certificated Securities to Ginnie Mae for cancellation, the guaranty will be terminated.

## **Federal Income Tax Aspects**

A Security Holder generally will be treated as owning a pro rata undivided interest in each of the Mortgages. Accordingly, each Security Holder will be required to include in income its pro rata share of the entire income from the Mortgages, including interest (without reduction for servicing fees, to the extent those fees represent reasonable compensation for services) and discount, if any. The income must be reported in the same manner and at the same time as it would have been reported had the Security Holder held the Mortgages directly.

A Security Holder will generally be entitled to deduct its pro rata share of servicing fees, to the extent those fees represent reasonable compensation for services. However, an individual, trust, or estate that holds a Security directly or through a pass-through entity (e.g., a partnership) must treat servicing fees as miscellaneous itemized deductions, which are deductible only to a limited extent in computing taxable income and which are not deductible in computing alternative minimum taxable income.

Interest paid on the Securities will qualify as portfolio interest. Consequently, payment of interest to a Security Holder who is a non-resident alien or a foreign corporation will not be subject to withholding tax provided that the Security Holder properly certifies to the withholding agent the Security Holder's status as a foreign person.

**THE FOREGOING REPRESENTS ONLY A SUMMARY OF CERTAIN FEDERAL INCOME TAX CONSEQUENCES RELATED TO AN INVESTMENT IN A SECURITY.**

**PROSPECTIVE INVESTORS SHOULD CONSULT THEIR OWN TAX ADVISORS REGARDING THE TAX TREATMENT OF THE ACQUISITION, OWNERSHIP, AND DISPOSITION OF A SECURITY.**

## **Maturity, Prepayment, and Yield**

An investor considering a purchase of the Securities should consider the following factors.

1. The rate of principal payments (including prepayments) of the Mortgages underlying the Securities will affect their weighted average lives and the yields realized by investors in the Securities. The Mortgages do not contain "due-on-sale" provisions. Any Mortgage may be prepaid in full or in part at any time without penalty. The rate of payments (including prepayments and recoveries in respect of liquidations) on the Mortgages depends on a variety of economic, geographic, social, and other factors, including prevailing market interest rates. The

rate of prepayments with respect to single-family mortgage loans has fluctuated significantly over the years. Also, there is no assurance that prepayment patterns for the Mortgages will conform to patterns for conventional fixed-rate mortgage loans. In general, if prevailing mortgage interest rates fall materially below the stated interest rates on the Mortgages (giving consideration to the cost of refinancing), the rate of prepayment of those Mortgages would be expected to increase. If mortgage interest rates rise materially above the stated interest rates on the Mortgages, the rate of prepayment of those Mortgages would be expected to decrease.

2. All the Mortgages included in the pool are GEMs. As a result, principal of the Securities will be distributable at a more rapid rate than would be the case if the pool consisted of comparable level payment mortgages (absent prepayment and default considerations).

3. Following any Mortgage default and the subsequent liquidation of the underlying mortgaged property, Ginnie Mae guarantees that the principal balance of the Mortgage will be paid to Security Holders. As a result, defaults experienced on the Mortgages will accelerate the distribution of principal of the Securities. Prepayments may also result from the repurchase of any Mortgage as described herein.

4. The yields to investors will be sensitive in varying degrees to the rate of prepayments (including liquidations and repurchases) on the Mortgages. In the case of Securities purchased at a premium, faster than anticipated rates of principal payments could result in actual yields to investors that are lower than the anticipated yields. In the case of Securities purchased at a discount, slower than anticipated rates of principal payments could result in actual yields to investors that are lower than the anticipated yields.

5. Rapid rates of prepayments on the Mortgages are likely to coincide with periods when prevailing interest rates are lower than the interest rates on the Mortgages. During such periods, the yields at which an investor may be able to reinvest amounts received as principal payments on the investor's Securities may be lower than the yield on those Securities. Slow rates of prepayments on the Mortgages are likely to coincide with periods when prevailing interest rates are higher than the interest rates on the Mortgages. During such periods, the amount of principal payments available to an investor for reinvestment at such high rates may be relatively low.

6. It is highly unlikely that the Mortgages will prepay at any constant rate until maturity or that all of the Mortgages will prepay at the same rate at any one time. The timing of changes in the rate of prepayments may affect the actual yield to an investor, even if the average rate of principal prepayments is consistent with the investor's expectation. In general, the earlier a prepayment of principal on the Mortgages, the greater the effect on an investor's yield. As a result, the effect on an investor's yield of principal prepayments occurring at a rate higher (or lower) than the rate anticipated by the investor during the period immediately following the Issue Date is not likely to be offset by a later equivalent reduction (or increase) in the rate of principal prepayments.

7. The effective yield on any Security will be less than the yield otherwise produced by its stated interest rate and purchase price because interest will not be paid to the Security Holder until the twentieth calendar day of the month following the month in which interest accrues on the Security.

Annex

Special Disclosure

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