

ARM Loans

Know How to Hold 'em!



- Doug Blunck: ARM Loans & Data Quality
- Andrea Bridgeman: Flexible ARMs
- Lori Swanell: Impact to Custodians
- Ken Robertson: ARM Sample

Doug Blunck

ARM Loans & Data Quality



Why ARMs Are Popular

Advantages:

- Affordability
- Flexibility

- ARMs = 34% of applications in 2006
- 5/1 ARMs most popular
- Rate spread has impacted popularity

- Interest Savings
- Loan Qualification
- Benefit from falling rates without refinance

- Competitive Alternative Product
- Qualification Rate
- Qualification Loan Amount
- Limits Risk Related to Cost of Funds

- Priority Reporting:
 - Securities Disclosures
 - Company Financials
 - Housing Goals to HUD
- Expansion of Disclosure Requirements
- Custodian role is key!

GSE Obligations as Issuer, Trustee and Investor

- Complete, Accurate Disclosures
- Fulfilling Trustee Role = Protecting Investors
- Comprehensive QA/QC
- Strong, Transparent Partner Relationships
- Enhancing Disclosure Information

Why Is the Security Disclosure Important?

Security Asset must accurately represent disclosure to:

- Preserve Liquidity
- Ensure Maximum Value
- Help Prevent Legal and Penalty Issues

What is Disclosure?

- Disclosure = Description of Security:
 - Base Prospectus
 - Prospectus Supplement (“At-Issuance”)
 - Pool Data Direct File and ePoolTalk (“On-going”)
 - Other various disclosure documents
- All MBS Disclosures available online

MBS Prospectus Supplement Pre-2002

**FANNIE MAE
GUARANTEED MORTGAGE PASS-THROUGH SECURITIES PROGRAM
ADJUSTABLE MORTGAGE LOANS
SUPPLEMENT TO PROSPECTUS**

Pool Number	LB-612387	Issue Date	01/01/03	Initial Pool Accrual Rate	3.7510
CUSIP Number	31388RJ81	Convertible	N	WTD Avg Maximum Pool Accrual Rate	9.7520
		Transfer Type	W	PTR Method	W
				WTD Avg Minimum Pool Accrual Rate	N/A
				WTD Avg Original Rate	4.3060

--- Distribution Of Pool Loans By First Payment Date ---

--- Additional Analysis ---

DATE	Original Interest Rate	Number of Loans	Issue Date Principal Balance	Current Mortgage Interest Rates	Number of Loans	Issue Date Principal Balance
01/01/03	BELOW 5.00	2	\$ 500,816.25	BELOW 5.00	12	\$ 2,344,116.25
02/01/03	BELOW 5.00	10	1,843,300.00	TOTAL	12	\$ 2,344,116.25
	TOTAL	12	\$ 2,344,116.25	MARGINS		
				2.2500	12	\$ 2,344,116.25
				TOTAL	12	\$ 2,344,116.25

INITIAL INTEREST RATE CHANGE DATE 12/01/03

----- Next Rate Change Date Table -----

DATE	% of bal	MBS Margins		MBS Margin	Net Coupons		WTD Avg Net Coupon	Net Life Caps		Net Life Floor	
		High	Low		High	Low		High	Low	High	Low
12/01/03	21.0000	1.6950	1.6950	1.6950	3.8200	3.6950	3.7530	9.8200	9.6950	0.0000	0.0000
01/01/04	79.0000	1.6950	1.6950	1.6950	4.0700	2.9450	3.7510	10.0700	8.9450	0.0000	0.0000
		WT Avg	1.6950			3.7510		9.7520			0.0000
Weighted Average Months to roll:				12							

--Pool Statistics (As of Issue Date 01/01/03)--

Number of Mortgage Loans	12
Largest Issue Date UPB	\$ 313,000.00
Smallest Issue Date UPB	83,200.00
Average Issue Date UPB	195,343.02
Maturity Date	01/01/2033
Weighted Avg Remaining Term	360
Highest Current Interest Rate	4.6250
Lowest Current Interest Rate	3.5000
Weighted Avg Current Interest Rate	4.3060
% UPB W/ Intrst Only First Distrib	0.00

--Geographic Distribution of Security Properties--

ARIZONA	1	\$ 193,500.00
COLORADO	2	435,600.00
FLORIDA	1	278,900.00
GEORGIA	1	120,000.00
ILLINOIS	1	233,684.79
INDIANA	2	234,200.00
MASSACHUSETTS	1	100,100.00
MICHIGAN	1	287,131.46
UTAH	1	168,000.00
VIRGINIA	1	313,000.00

Total	12	\$ 2,344,116.25
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MBS Prospectus Supplement Today



FANNIE MAE MORTGAGE-BACKED SECURITIES PROGRAM SUPPLEMENT TO PROSPECTUS DATED APRIL 01, 2003

\$3,635,636.00

ISSUE DATE APRIL 01, 2004

SECURITY DESCRIPTION FNAR 02.6370 LB-123456

2.6370 INITIAL POOL ACCRUAL RATE

FANNIE MAE POOL NUMBER LB-123456

CUSIP123456RKN6

PRINCIPAL AND INTEREST PAYABLE ON THE 25TH OF EACH MONTH
BEGINNING MAY 25, 2004

POOL STATISTICS

SELLER MORTGAGE SERVICER	ABC MORTGAGE COMPANY DEF MORTGAGE COMPANY
NUMBER OF MORTGAGE LOANS	20
AVERAGE LOAN SIZE	\$181,918.76
MATURITY DATE	04/01/2034
INITIAL INTEREST RATE CHANGE DATE	01/01/2005
WEIGHTED AVERAGE MONTHS TO ROLL	12 mo
SUBTYPE	PRM
CONVERTIBLE	NO
TRANSFER TYPE	W
PASS THROUGH METHOD	W
WEIGHTED AVERAGE COUPON RATE	3.2070%
WEIGHTED AVERAGE MAXIMUM POOL ACCRUAL RATE	8.6370%
WEIGHTED AVERAGE MINIMUM POOL ACCRUAL RATE	-
WEIGHTED AVERAGE LOAN AGE	0 mo
WEIGHTED AVERAGE LOAN TERM	360 mo
WEIGHTED AVERAGE REMAINING MATURITY	360 mo
WEIGHTED AVERAGE LTV	72%
WEIGHTED AVERAGE CREDIT SCORE	734
% UPB WITHOUT CREDIT SCORE	0.00%
% UPB WITH INTEREST ONLY FIRST DISTRIBUTION	0.00%

FANNIE MAE MORTGAGE-BACKED SECURITIES PROGRAM SUPPLEMENT TO PROSPECTUS DATED APRIL 01, 2003 FANNIE MAE POOL NUMBER LB-123456 CUSIP123456RKN6 POOL STATISTICS PAGE 2 OF 4

QUARTILE DISTRIBUTION					
Size	Coupon Rate		LTV		Credit Score
\$322,750.00	MAX	3.7500	MAX	95	852
255,600.00	75%	3.6250	75%	85	774
239,000.00	MED	3.3750	MED	79	752
149,500.00	25%	2.7500	25%	64	699
90,600.00	MIN	2.6250	MIN	15	659

Term (Months)	Loan Age (# of Months)	Remaining Maturity (# of Months)
360	MAX 3	MAX 360
360	75% 0	75% 360
360	MED 0	MED 360
360	25% 0	25% 360
360	MIN 0	MIN 357

LOAN PURPOSE			
Type	# of Loans	% of UPB	Aggregate UPB
1	10	46.14	\$1,577,541.30
2	10	53.86	1,958,095.04

PROPERTY TYPE			
Type	# of Loans	% of UPB	Aggregate UPB
1	19	95.90	\$3,496,636.34
4	1	4.10	149,000.00

OCCUPANCY TYPE			
Type	# of Loans	% of UPB	Aggregate UPB
PRINCIPAL RESIDENCE	14	73.04	\$2,656,966.77
SECOND HOME	3	15.21	\$52,803.27
INVESTOR	3	11.75	\$27,266.30

FANNIE MAE MORTGAGE-BACKED SECURITIES PROGRAM SUPPLEMENT TO PROSPECTUS DATED APRIL 01, 2003 FANNIE MAE POOL NUMBER LB-123456 CUSIP123456RKN6 POOL STATISTICS PAGE 3 OF 4

ORIGINATION YEAR				
Year	# of Loans	% of UPB	Aggregate UPB	Aggregate UPB
2003	1	8.83	\$320,962.42	\$3,314,673.92

GEOGRAPHIC DISTRIBUTION					
% of UPB	Aggregate UPB	State	# of Loans	% of UPB	Aggregate UPB
15.30	\$556,429.35	NEW JERSEY	3	13.20	\$480,000.00
16.81	611,325.00	NEW YORK	1	8.83	320,962.42
6.68	250,000.00	NORTH CAROLINA	2	7.15	259,600.00
3.90	141,750.00	SOUTH CAROLINA	3	13.04	474,103.27
6.27	228,000.00	VIRGINIA	2	8.62	313,266.30

SERVICER			
Servicer Name	# of Loans	% of UPB	Aggregate UPB
DEF MORTGAGE COMPANY	20	100.00	\$3,635,636.34

FANNIE MAE MORTGAGE-BACKED SECURITIES PROGRAM SUPPLEMENT TO PROSPECTUS DATED APRIL 01, 2003 FANNIE MAE POOL NUMBER LB-123456 CUSIP123456RKN6 POOL STATISTICS PAGE 4 OF 4

DISTRIBUTION OF LOANS BY FIRST PAYMENT DATE			
Date	Original Interest Rate	# of Loans	Aggregate UPB
03-01-04	BELOW - 5.00	1	\$320,962.42
04-01-04	BELOW - 5.00	3	\$84,499.92
05-01-04	BELOW - 5.00	16	2,730,175.00

CURRENT INTEREST RATES		
Current Mortgage Interest Rates	# of Loans	Aggregate UPB
BELOW - 5.00	20	\$3,383,636.34

GROSS MARGINS		
Gross Margins	# of Loans	Aggregate UPB
2.25	19	\$3,383,636.34
4.80	1	272,000.00

NEXT RATE CHANGE DATE TABLE										
Date	% of UPB	MBS Margin High	MBS Margin Low	MBS Margin	Net Coupon High	Net Coupon Low	Net Avg Net Coupon	Net Life Caps High	Net Life Caps Low	Net Life Floor
3/1/01-05	9.00	1.6500	1.6500	1.6500	2.1500	2.1500	2.1500	8.1500	8.1500	--
3/30/01	16.00	1.6500	1.6500	1.6500	2.2000	2.2000	2.4000	9.3500	9.3500	--
3/40/01	75.00	3.0000	1.6500	1.9540	3.1000	2.2650	2.7260	9.1800	8.2650	--
WA Avg		1.6442		2.6370				8.6370		--

- Freddie Mac provides loan level info:
 - At PC Issuance AND
 - Monthly for post-12/1/05 issue dates.
- These supplement current pool-level disclosures.

PC Disclosure Today: ARM Loan-Level Variables

Convertible	Lookback	Original Loan-to-Value (LTV)
Credit Score	Maturity Date	Original Loan Term
Current Net Note Rate	Maximum Lifetime Rate	Original Note Rate
Current Unpaid Principal Balance (UPB)	Months to Adjust	Original UPB
First Payment Date	Months to Amortize	Periodic Cap %
Gross Mortgage Margin	Net Maximum Lifetime Rate	Prepayment Penalty Mortgage (PPM) Flag
Index	Net Mortgage Margin	Product Type
Initial Fixed Rate Period for Hybrid ARMs	Net Note Rate	Property State
Initial InterestSM First Principal and Interest (P&I) Date	Next Adjustment Date	Property Type
Initial Cap Down %	Adjustable-rate Mortgage Loan-level Variables	Rate Adjustment Frequency
Initial Cap Up %	Note Rate as of PC Issuance	Remaining Months to Maturity
Interest-only (IO) Flag	Number of Units	Seller Name
Loan Age	Occupancy Status	Servicer Name
Loan Purpose	Original Loan Amount	Third Party Origination Flag

Prospectus Supplement Corrections - MBS

Supplement to Prospectus Supplement dated April 1, 2004

Guaranteed Mortgage Pass-Through Certificates
(Residential Mortgage Loans)

THE CERTIFICATES AND PAYMENTS OF PRINCIPAL AND INTEREST ON THE CERTIFICATES ARE NOT GUARANTEED BY THE UNITED STATES, AND DO NOT CONSTITUTE A DEBIT OR OBLIGATION OF THE UNITED STATES OR OF ANY OFFICIAL INSTRUMENTALITIES OTHER THAN FANNIE MAE.

Subsequent to the delivery and publication of the original prospectus supplement, certain information was revised, deleted, or supplemented. Attached are the revised portions of the prospectus supplement with boxes around the changes, showing information that changed from the original prospectus supplement.

Before you decide to invest in the certificates, carefully read the prospectus, especially the "risk factors" section contained in each. If you cannot understand, evaluate and bear these risks, you should not invest in the certificates.

We are not required to register the certificates under the Securities Act of 1933, as amended and therefore have not filed a registration statement with the U.S. Securities and Exchange Commission. The certificates are "unregistered securities" within the meaning of the Securities Exchange Act of 1934, as amended.

The agreement to the prospectus supplement does not contain complete information regarding this offering and should be read only in conjunction with the prospectus supplement and the prospectus referenced herein.

The date of this Supplement to Prospectus Supplement is March 29, 2004

Supplement to Prospectus Supplement in the past contains included herein

Guaranteed Mortgage Pass-Through Certificates
(Residential Mortgage Loans)

THE CERTIFICATES AND PAYMENTS OF PRINCIPAL AND INTEREST ON THE CERTIFICATES ARE NOT GUARANTEED BY THE UNITED STATES, AND DO NOT CONSTITUTE A DEBIT OR OBLIGATION OF THE UNITED STATES OR OF ANY OFFICIAL INSTRUMENTALITIES OTHER THAN FANNIE MAE.

We will cause each mortgage to be certified. Each certificate represents an undivided ownership interest in a pool of residential mortgage loans. We offer each certificate by this prospectus supplement and the prospectus referenced in the past contains included herein.

The past master in the past contains of this prospectus supplement identifies the pool of residential mortgage loans in which the certificates relate.

The certificates are issued under the terms of the trust agreement dated as of December 1, 1993, as amended. We have executed for your information an accurate copy of said Trust Agreement. All other supplements regarding trust information and the trust agreement in the past contain the terms of the trust agreement of this prospectus supplement.

We have reproduced for the convenience of the mortgage loans in the past. Even though we will pay to the certificateholders the scheduled distribution of principal on the mortgage loans in the past, together with interest on the pass-through rate. We guarantee to pay this amount, whether or not the borrower makes the mortgage loan payments. If we do not make an mortgage loan, we also cover your contribution for the full principal balance of the loan area if we receive a loan amount.

Before you decide to invest in the certificates, carefully read the prospectus, especially the "risk factors" section. If you cannot understand, evaluate and bear these risks, you should not invest in the certificates.

We are not required to register the certificates under the Securities Act of 1933, as amended and therefore have not filed a registration statement with the U.S. Securities and Exchange Commission. The certificates are "unregistered securities" within the meaning of the Securities Exchange Act of 1934, as amended.

The past master of this prospectus supplement contains material information about the pool, including a profile in the past master that identifies the specific type of mortgage loans in the pool.

This prospectus supplement does not contain complete information regarding this offering and should be read only in conjunction with the prospectus supplement and the prospectus referenced herein.

Original

FANNIE MAE
MORTGAGE-BACKED SECURITIES PROGRAM
SUPPLEMENT TO PROSPECTUS DATED APRIL 01, 2003

\$34,161,640.00
ISSUE DATE APRIL 01, 2004
PROPERTY DESCRIPTION FNMS 05.0000 CL-123456
10000 PERCENT PASS-THROUGH RATE
FANNIE MAE POOL NUMBER CL-123456
CUSIP12345PPA3

INTEREST PAYABLE ON THE 25TH OF EACH MONTH
BEGINNING MAY 25, 2004

POOL STATISTICS

MORTGAGE CORPORATION
MORTGAGE CORPORATION

ISSUE DATE APRIL 01, 2004
PROPERTY DESCRIPTION FNMS 05.0000 CL-123456
10000 PERCENT PASS-THROUGH RATE
FANNIE MAE POOL NUMBER CL-123456
CUSIP12345PPA3

INTEREST PAYABLE ON THE 25TH OF EACH MONTH
BEGINNING MAY 25, 2004

POOL STATISTICS

MORTGAGE CORPORATION
MORTGAGE CORPORATION

Revised 03/29/04

FANNIE MAE
MORTGAGE-BACKED SECURITIES PROGRAM
SUPPLEMENT TO PROSPECTUS DATED APRIL 01, 2003

\$33,961,853.00
ISSUE DATE APRIL 01, 2004
PROPERTY DESCRIPTION FNMS 05.0000 CL-123456
10000 PERCENT PASS-THROUGH RATE
FANNIE MAE POOL NUMBER CL-774517
CUSIP12345PPA3

INTEREST PAYABLE ON THE 25TH OF EACH MONTH
BEGINNING MAY 25, 2004

POOL STATISTICS

MORTGAGE CORPORATION
MORTGAGE CORPORATION

Revised 03/29/04

FANNIE MAE
MORTGAGE-BACKED SECURITIES PROGRAM
SUPPLEMENT TO PROSPECTUS DATED APRIL 01, 2003

FANNIE MAE POOL NUMBER CL-123456
CUSIP12345PPA3

POOL STATISTICS PAGE 3 OF 3

COBINATION YEAR

COBINATION YEAR	# OF LOANS	% OF LPS	Appropriation LPS
2003	81	52.28	\$17,524,434.83
2004	177	52.28	\$17,524,434.83

GEOGRAPHIC DISTRIBUTION

STATE	# OF LOANS	% OF LPS	Appropriation LPS
MISSISSIPPI	1	0.18	\$64,100.00
MISSOURI	1	0.58	\$9,483.24
NEW HAMPSHIRE	3	0.18	\$28,442.52
NEW JERSEY	1	0.58	\$1,211,891.89
NEW YORK	2	0.58	\$28,442.52
CAROLINA	1	0.58	\$28,442.52
FLORIDA	1	0.58	\$28,442.52
ILLINOIS	1	0.58	\$28,442.52
INDIANA	1	0.58	\$28,442.52
IOWA	1	0.58	\$28,442.52
KANSAS	1	0.58	\$28,442.52
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MISSOURI	1	0.58	\$28,442.52
MONTANA	1	0.58	\$28,442.52
NEBRASKA	1	0.58	\$28,442.52
NEVADA	1	0.58	\$28,442.52
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NEW HAMPSHIRE	3	0.18	\$28,442.52
NEW JERSEY	1	0.58	\$28,442.52
NEW YORK	2	0.58	\$28,442.52
CAROLINA	1	0.58	\$28,442.52
FLORIDA	1	0.58	\$28,442.52
ILLINOIS	1	0.58	\$28,442.52
INDIANA	1	0.58	\$28,442.52
IOWA	1	0.58	\$28,442.52
KANSAS	1	0.58	\$28,442.52
KENTUCKY	1	0.58	\$28,442.52
LOUISIANA	1	0.58	\$28,442.52
MARYLAND	1	0.58	\$28,442.52
MASSACHUSETTS	1	0.58	\$28,442.52
MICHIGAN	1	0.58	\$28,442.52
MINNESOTA	1	0.58	\$28,442.52
MISSOURI	1	0.58	\$28,442.52
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NEW JERSEY			

- Inaccuracies getting more obvious and can:
 - Impact multiple Securities
 - Adversely impact Security liquidity
 - Create additional cost if pools must be dissolved
- Security Data Quality Metrics:
 - Pools re-opened to make corrections
 - Pools re-disclosed due to corrections
 - Pools dissolved due to errors

Better Disclosures = Better Price & Performance

- Investors crave reliability.
- Investors need accuracy.
- Reliability, Accuracy = Better Price for Lenders.
- Makes everyone a winner!



Andrea Bridgeman

Flexible ARMs: How They Work



Adjustable Rate Mortgage:

Any mortgage with an interest rate and/or payments that can change over the life of the loan.

- Note: ARMs are typically assumable; fixed-rate mortgages are not.

- Pre-Depression: “Bullet Mortgages”
 - Short term
 - All interest due at repayment
- Amortization Arrives: Installment payments
- Post-WWII: Fixed Rate terms lengthen to 30 yrs.
- Late 70’s/Early 80’s: Inflation, high interest → ARMs
- Mid-80’s – Present: Increased ARM Complexity
 - Balloons bridge the fixed/ARM divide

Monthly P&I Payments Based On:

- Original Principal Balance
- Loan Term (# of Payments)
- Interest Rate

Fixed Rate Mortgages: Sample

Fixed-Rate Mortgage					
Year	UPB	Rate	Interest	End Prin	Monthly Payment
1	200,000	6.25%	12,434	197,656	1,231
2	197,656	6.25%	12,283	195,162	1,231
3	195,162	6.25%	12,122	192,507	1,231
4	192,507	6.25%	11,952	189,682	1,231
5	189,682	6.25%	11,770	186,674	1,231
.....					
.....					
10	172,583	6.25%	10,670	168,475	1,231

Rate adjusts periodically based on:

- Index Value (as of Lookback Date)
 - Common Indices = CMT, LIBOR
 - Common Lookbacks = 45 Days, 1st day of month...
- Specified Margin

Index Value + Margin = Adjusted Note Rate

- Ceiling (Max Note Rate): All ARMs have
 - May be called ‘Lifetime Cap’
 - State Usury Laws
- Periodic Cap (or Rate Cap): Most ARMs have
 - Limits rate change at each adjustment
 - Ex: New rate can’t be more than 2% + or – original rate
 - Some variations exist
- Floor (Min Note Rate): Many ARMs have
 - Cannot be less than Margin

- Rounding
- Frequency of Periodic Adjustments
 - Initial fixed-rate periods vary
 - ARMs with long fixed periods may perform like fixed
 - Impact on borrowers, investors and servicers
- Reamortization at Each Adjustment
 - Pre-payments reduce P&I payments at next adjustment
- Loan terms may change when assumed.
 - Ceiling may go up

Rate Capped ARMs: Sample

Rate Capped ARM - 5/2					
Year	UPB	Rate	Interest	End Prin	Monthly Payment
1	200,000	5.25%	10,433	197,180	1,104
2	197,180	10.25%	20,167	196,140	1,767
3	196,140	10.25%	20,055	194,989	1,767
4	194,989	10.25%	19,931	193,713	1,767
5	193,713	10.25%	19,794	192,301	1,767
6	192,301	8.25%	15,808	190,773	1,445
7	190,773	6.25%	11,984	190,514	1,187
8	190,514	4.25%	8,035	187,302	937
9	187,302	3.00%	5,566	183,391	790
10	183,391	3.00%	5,447	179,362	790

- Payments interest-only for specified period:
 - Smaller initial payments at first
 - Later, shorter amortization period = higher payments
- (Same principals apply to fixed-rate IOs.)
- Payment Capped or Option ARMs...

Recent Innovations: Interest-Only ARMs

IO Rate Capped ARM - 5/2					
Year	UPB	Rate	Interest	End Prin	Monthly Payment
1	200,000	5.75%	11,433	200,000	1,167
2	200,000	5.75%	11,433	200,000	1,167
3	200,000	5.75%	11,433	200,000	1,167
4	200,000	5.75%	11,433	200,000	1,167
5	200,000	5.75%	11,433	200,000	1,167
6	200,000	10.75%	21,454	199,051	1,867
7	199,051	10.75%	21,347	197,994	1,867
8	197,994	10.75%	21,228	196,818	1,867
9	196,818	10.75%	21,095	195,509	1,867
10	195,509	10.75%	20,947	194,052	1,867

Lori Swanell

ARMs: Impact to Custodians

**WELLS
FARGO**



ARMs require special consideration:

- Greater complexity
- Longer timeframes
- Specific knowledge/analysis

What makes ARMs “special”?

- Calculated Fields
- Data Field Terminology
- More Data Fields
- Data Provided vs. Requirements
- ‘Switching Gears’: Varying Product Types

Training Tips:

- Be detailed, thorough.
- Emphasize understanding (not memorizing) fields.
- Explain logic of components.

‘QC’ Considerations:

- Increase QC scope.
- Allow more QC time.
- Additional training and QC with each update.

- Many (specific) data storage fields preferable!
- Otherwise, increased data-mapping.

Certification/Pooling Tips

'Pooling' Tips:

- Data accuracy is KEY!
- Communicate changes internally.
- Seek Investor/Lender/Custodian agreement.
- Re-reviews possible for existing inventory.

Ken Robertson

ARM Sample: Go Figure!





Q&A

