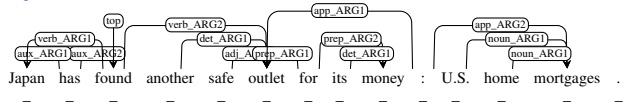
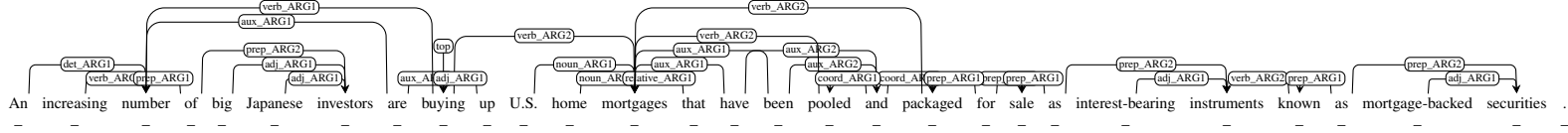


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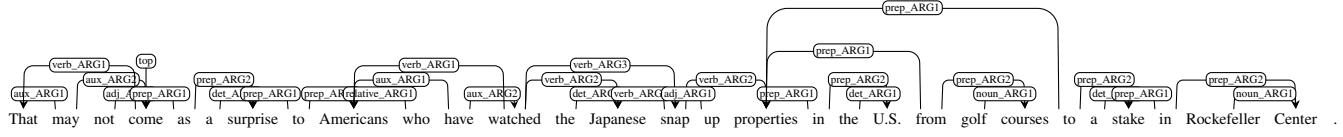
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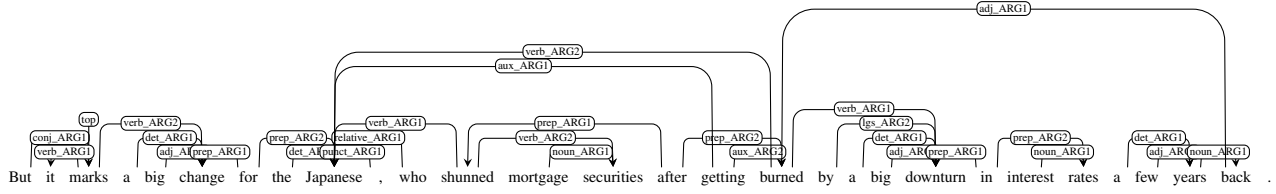
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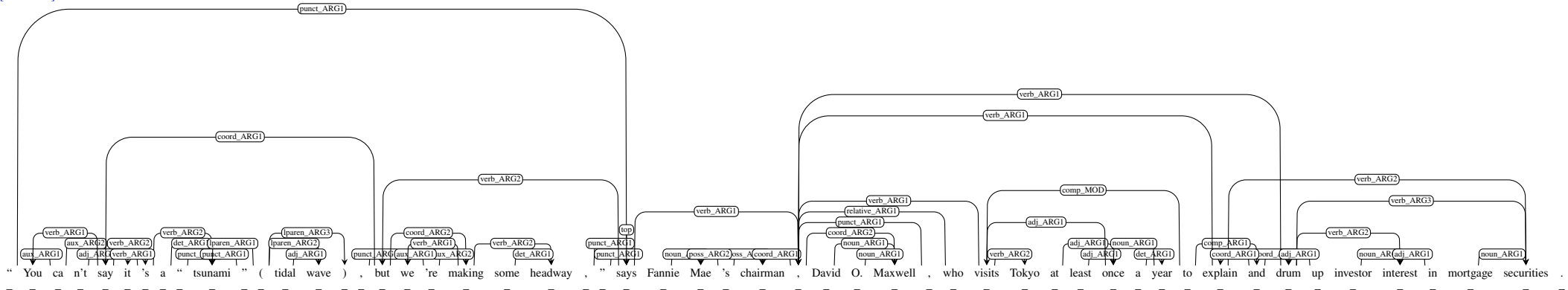
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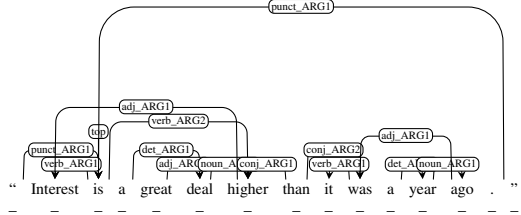
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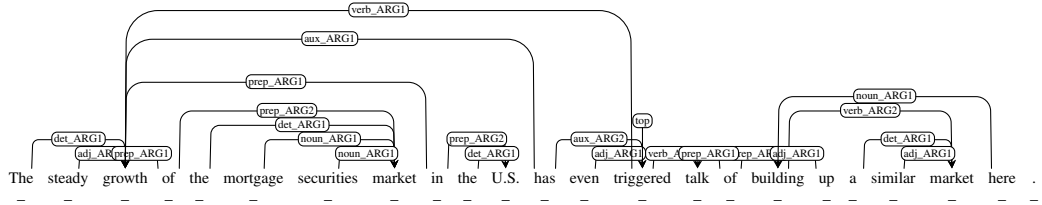
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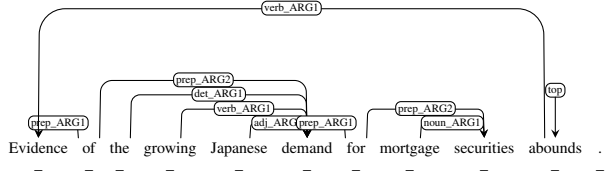
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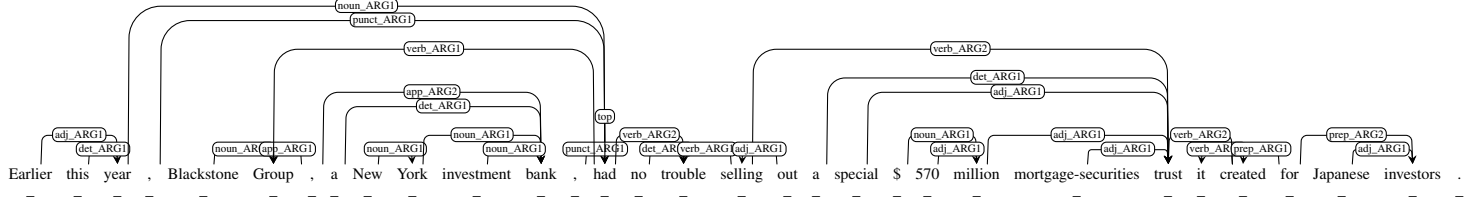
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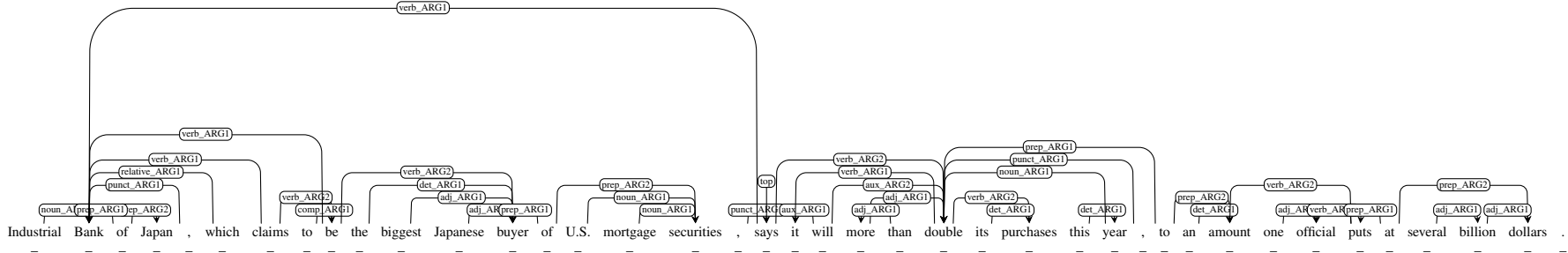
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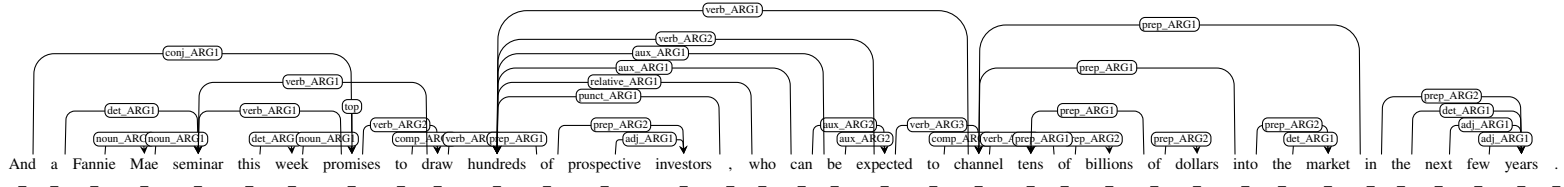
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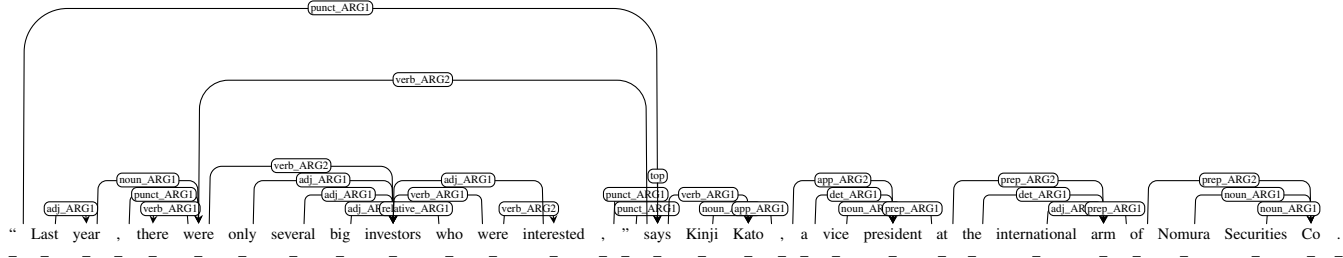
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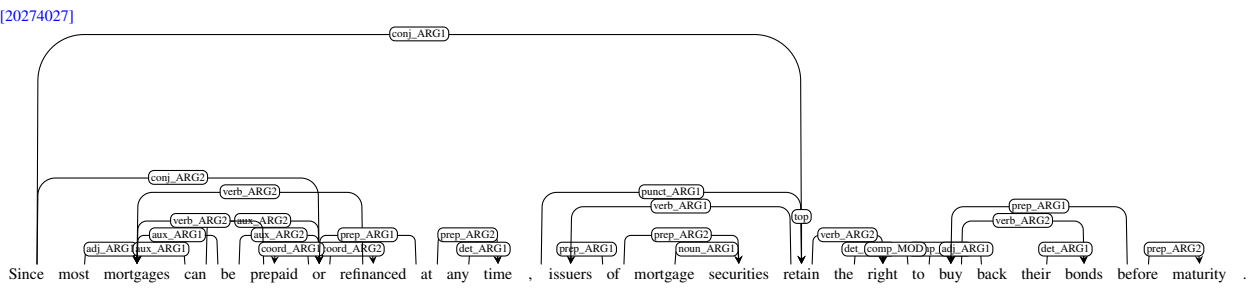
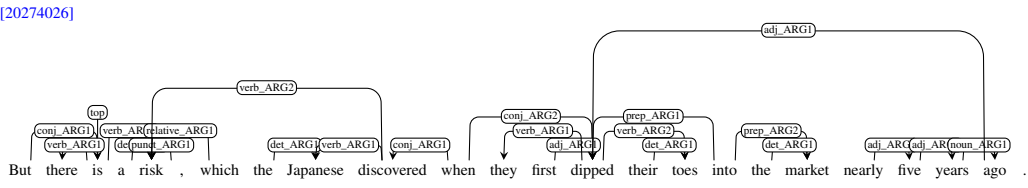
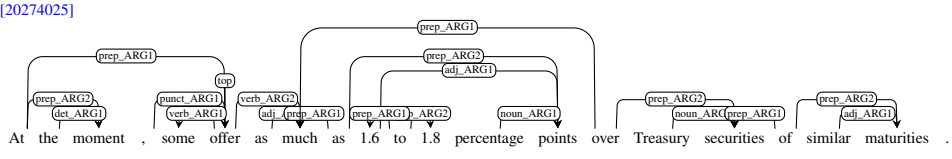
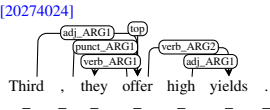
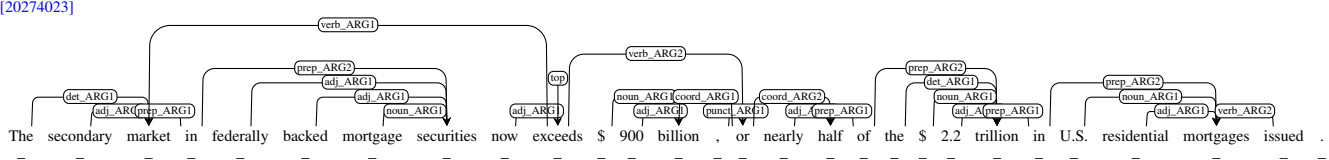
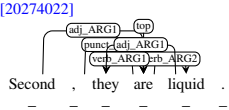
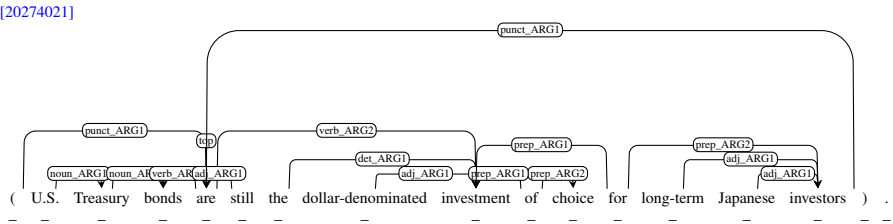
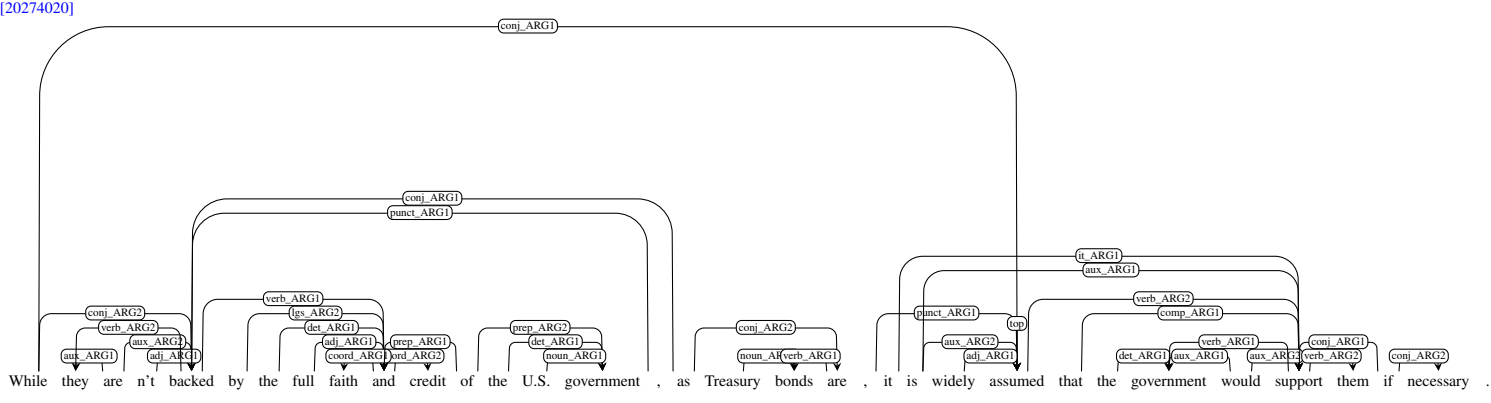
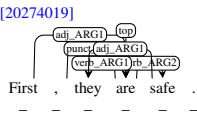
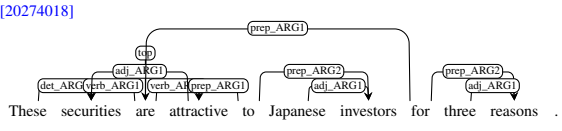
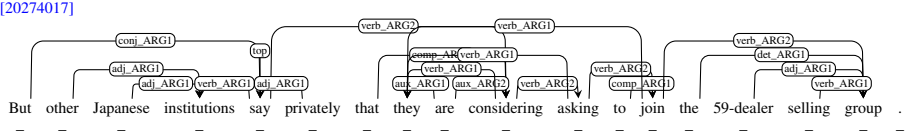
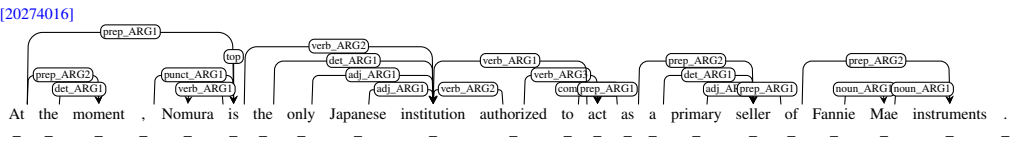
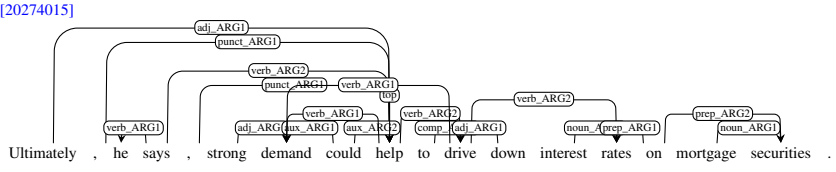
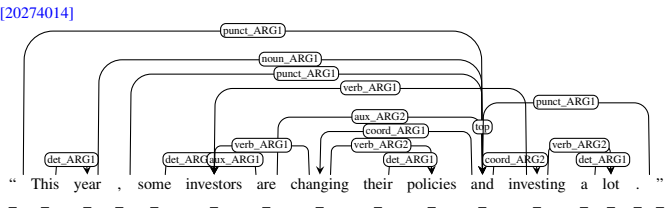


[20274012]



[20274013]





[20274028]

That 's a headache for long-term investors , since it forces them to reinvest their money -- usually at lower rates than the original mortgage securities carried .

[20274029]

" Two or three years ago , the problem was that people did n't understand the prepayment risk , " says Nomura 's Mr. Kato .

[20274030]

" So they were surprised and very disappointed by prepayment . "

[20274031]

Compounding the trouble to Japanese investors , mortgage securities pay interest monthly , since most mortgages require homeowners to make monthly payments .

[20274032]

But Japanese institutional investors are used to quarterly or semiannual payments on their investments , so the monthly cash flow posed administrative problems .

[20274033]

As a result , Japanese investors steered clear of the mortgage securities .

[20274034]

But they did n't lose touch with the U.S. issuers .

[20274035]

Since 1985 , Japanese investors have bought nearly 80 % of \$ 10 billion in Fannie Mae corporate debt issued to foreigners , money that Fannie Mae uses to buy mortgages from U.S. banks .

[20274036]

And Japanese investors took up nearly all of two \$ 200 million Real Estate Mortgage Investment Conduits , a kind of collateralized mortgage obligation , that were offered to foreigners this year .

[20274038]

Freddie Mac for years has offered a so-called participation certificate that guarantees it wo n't be prepaid for a set number of years and offers semiannual payments .