

## Multifamily DMBS Prospectus



### Guaranteed Discount Mortgage-Backed Certificates (Multifamily Residential Mortgage Loans)

#### The DMBS Certificates

We, the Federal National Mortgage Association, or Fannie Mae, will issue and guarantee the discount mortgage-backed certificates (the “DMBS certificates”). Each issue of DMBS certificates will have its own identification number and will represent the ownership of a pool of one or more multifamily residential mortgage loans secured by multifamily properties that contain at least five residential units or by a pool of participation interests in loans of that type.

#### Fannie Mae Guaranty

We guarantee that the holders of the DMBS certificates will receive payment of the full original stated principal amount of the DMBS certificates on the maturity date of the DMBS certificates. We alone are responsible for making payments under our guaranty. **The DMBS certificates and payments of principal on the DMBS 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.**

**Consider carefully the risk factors section beginning on page 5. Unless you understand and are able to tolerate these risks, you should not invest in the DMBS certificates.**

**The DMBS 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 DMBS certificates or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.**

The date of this Prospectus is January 1, 2005.

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## INFORMATION ABOUT THIS PROSPECTUS AND PROSPECTUS SUPPLEMENTS

We will provide information that supplements this prospectus in connection with each issue of DMBS certificates. This prospectus and the prospectus supplement for each issuance of DMBS certificates will be available in paper form and on our Web site listed below. We will deliver these documents electronically to parties who so request in accordance with our procedures. The disclosure documents for any particular issue of DMBS certificates are this prospectus and the related prospectus supplement, together with any information incorporated in these documents by reference as discussed below under the heading “**Incorporation by Reference.**” We also provide updated information and corrections regarding mortgage loans and mortgage loan pools on our Web site. **In determining whether to purchase any issue of DMBS certificates in any initial offering, you should rely ONLY on the information in this prospectus, the related prospectus supplement and any information that we have otherwise incorporated into these documents by reference. You should not rely on information that may be offered to you by a third party. It may not be reliable.**

The prospectus supplement for each issue of DMBS certificates will include specific information about the pooled multifamily mortgage loan or loans backing that particular issue of DMBS certificates and about the DMBS certificates themselves. Because the prospectus supplement will contain specific information about a particular issue of DMBS certificates, you should rely on the information in the prospectus supplement to the extent it is different from or more complete than the information in this prospectus.

Certificateholders should note that the DMBS certificates are not traded on any exchange and that the market price of a particular issuance of DMBS certificates or a benchmark price may not be readily available.

You may obtain copies of this prospectus and the related prospectus supplement by writing to Fannie Mae, Attention: Fixed-Income Investor Marketing, 3900 Wisconsin Avenue, NW, MS 2H-3S/17, Washington, DC 20016 or by calling the Fannie Mae Helpline at (800) 237-8627. These documents generally will also be available on our Web site at [www.fanniemae.com](http://www.fanniemae.com). We are providing our internet address solely for the information of prospective investors. We do not intend the internet address to be an active link. This means that we are not using this internet link to incorporate additional information into this prospectus or into a prospectus supplement.

## INCORPORATION BY REFERENCE

We are incorporating by reference in this prospectus the documents listed below. This means that we are disclosing information to you by referring you to these documents. These documents are considered part of this prospectus, so you should read this prospectus, the prospectus supplement, and any applicable supplements or amendments, together with these documents.

You should rely only on the information provided or incorporated by reference in this prospectus, the prospectus supplement, and any applicable supplement or amendments.

We incorporate by reference the following documents we have filed, or may file, with the Securities and Exchange Commission (“SEC”):

- our Annual Report on Form 10-K for the fiscal year ended December 31, 2003 (“Form 10-K”);
- all other reports we have filed pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934 since the end of the fiscal year covered by the Form 10-K until the date of this prospectus, excluding any information “furnished” to the SEC on Form 8-K; and
- all proxy statements that we file with the SEC and all documents that we file with the SEC pursuant to Section 13(a), 13(c), 14 or 15(d) of the Securities Exchange Act of 1934 after the

date of this prospectus and before the completion of the offering of the DMBS certificates, excluding any information we “furnish” to the SEC on Form 8-K.

Any information incorporated by reference in this prospectus is deemed to be modified or superseded for purposes of this prospectus to the extent information contained or incorporated by reference in this prospectus modifies or supersedes such information. In that case, the information will constitute a part of this prospectus only as so modified or superseded.

We file annual, quarterly and current reports, proxy statements and other information with the SEC. You can obtain copies of the periodic reports we file with the SEC without charge by calling or writing our Office of Investor Relations, Fannie Mae, 3900 Wisconsin Avenue, NW, Washington, DC 20016, telephone: (202) 752-7115. The periodic and current reports that we file with the SEC are also available on our Web site at [www.fanniemae.com](http://www.fanniemae.com). Information appearing on our Web site is not incorporated in this prospectus except as specifically stated in this prospectus.

In addition, you may read our SEC filings and other information about Fannie Mae at the offices of the New York Stock Exchange, the Chicago Stock Exchange and the Pacific Exchange. Our SEC filings also will be available at the SEC’s Web site at [www.sec.gov](http://www.sec.gov). You also may read and copy any document we file with the SEC by visiting the SEC’s Public Reference Room at 450 Fifth Street, NW, Washington, DC 20549. Please call the SEC at (800) SEC-0330 for further information about the operation of the Public Reference Room. We are providing the address of the SEC’s internet site solely for the information of prospective investors. Information on the SEC’s Web site is not incorporated in this prospectus except as specifically stated in this prospectus.

## SUMMARY

This summary highlights information contained elsewhere in this prospectus. As a summary, it speaks in general terms without giving details or discussing any exceptions. Before buying any issue of DMBS certificates, you should have the information necessary to make an investment decision. For that, you must read this prospectus (as well as any documents to which we refer you in this prospectus) in its entirety as well as any related prospectus supplement for that issue.

Title of Security . . . . . Guaranteed Discount Mortgage-Backed Certificates (Multi-family Residential Mortgage Loans).

Issuer and Guarantor . . . . . Fannie Mae, a federally chartered and stockholder-owned corporation.

**Neither the DMBS certificates nor payments of principal on the DMBS certificates are guaranteed by the United States, and the DMBS certificates do not constitute a debt or obligation of the United States or any of its agencies or instrumentalities other than Fannie Mae. Fannie Mae alone is responsible for making payments on its guaranty.**

Description of DMBS Certificates . . . . . The certificates are issued as discount mortgage-backed securities (“DMBS”), which are short-term mortgage-backed securities that do not bear interest and that have terms of one year or less. Investors purchase DMBS certificates at a discount. Each DMBS certificate will represent an ownership interest in a pool of one or more multifamily mortgage loans or a pool of participation interests in multifamily mortgage loans. Fannie Mae will issue the DMBS certificates in book-entry form on the book-entry system of the U.S. Federal Reserve Banks. The book-entry DMBS certificates will not be convertible into physical certificates.

Minimum Denomination . . . . . We will issue the DMBS certificates in minimum denominations of \$1,000 with additional increments of \$1.

Issue Date . . . . . The issue date of the DMBS certificates is the first day of the month in which the DMBS certificates are issued.

Settlement Date . . . . . The settlement date for the DMBS certificates will occur no later than the last business day of the month in which the issue date occurs.

Maturity Date . . . . . The maturity date of the DMBS certificates is specified in the prospectus supplement for each issue of DMBS certificates (“maturity date”).

Payments . . . . . We will pay you the full original stated principal amount of your DMBS certificates on the maturity date. The DMBS certificates will not be prepaid in whole or in part.

Guaranty . . . . . Fannie Mae guarantees the payment of the full original stated principal amount of the DMBS certificates on the maturity date of the DMBS certificates.

Servicing . . . . . Fannie Mae is responsible for servicing the multifamily mortgage loans in each pool. We typically contract with mortgage lenders to perform many servicing functions for Fannie Mae.

Trustee .....	Fannie Mae issues the DMBS certificates in each pool under a trust indenture. Fannie Mae serves as the trustee for each issuance of DMBS certificates pursuant to the terms of the trust indenture.
Termination .....	The trust will terminate on the maturity date of the related DMBS certificates. We do <i>not</i> have any option to cause an early termination of the trust.
Federal Tax Consequences .....	We take the position for U.S. federal income tax purposes that the DMBS certificates are interests in grantor trusts that own the underlying mortgage loans. As a result, it is our position that each beneficial owner of a DMBS certificate will be treated as the owner of a pro rata undivided interest in each of the mortgage loans included in the related mortgage pool. Each such beneficial owner will be required to include in income its pro rata share of the income from the mortgage loans in the pool and generally will be entitled to deduct its pro rata share of the expenses of the grantor trust, subject to the limitations described in <b>“Certain Federal Income Tax Consequences—Expenses of the Trust.”</b> Notwithstanding the foregoing, there can be no assurance that for U.S. federal income tax purposes the Standard DUS DMBS certificates or Bulk Delivery DMBS certificates will not instead be treated as debt instruments secured by the underlying mortgage loans (or as grantor trust interests in such debt instruments), in which case different and possibly adverse tax consequences would apply to beneficial owners who are domestic building and loan associations, real estate investment trusts, or real estate mortgage investment conduits. See <b>“Certain Federal Income Tax Consequences—Standard DUS DMBS Certificates and Bulk Delivery DMBS Certificates.”</b> Potential purchasers of the Standard DUS DMBS certificates and the Bulk Delivery DMBS Certificates should consult their tax advisors regarding the appropriate U.S. federal income tax treatment of those DMBS certificates.
ERISA Considerations .....	Before investing in any DMBS certificates, a fiduciary of an employee benefit plan subject to ERISA or a plan subject to Section 4975 of the Code should consider whether the investment is permissible under the terms of the plan, whether the investment is consistent with the standards of fiduciary conduct prescribed by ERISA and whether the investment is permissible under the prohibited transaction rules of ERISA and Section 4975 of the Code.

## RISK FACTORS

We have listed below some of the risks associated with an investment in the DMBS certificates. Because each investor has different investment needs and a different tolerance for risk, you should consult your own financial and legal advisors to determine whether the DMBS certificates are suitable investments for you.

### INVESTMENT FACTORS:

**The DMBS certificates may not be a suitable investment for you.**

The DMBS certificates are complex financial instruments. They are not suitable for every investor. Before investing, you should

- have sufficient knowledge and experience to evaluate (either alone or with the help of a financial or legal advisor) the merits and risks of the DMBS certificates and the information contained in this prospectus, the applicable prospectus supplement, and the documents incorporated by reference;
- understand thoroughly the terms of the DMBS certificates;
- be able to evaluate (either alone or with the help of a financial or legal advisor) the economics and other factors that may affect your investment;
- have sufficient financial resources and liquidity to bear all risks associated with the DMBS certificates; and
- investigate any legal investment restrictions that may apply to you. You should exercise particular caution if your circumstances do not permit you to hold the DMBS certificates until maturity.

### LIQUIDITY FACTORS:

**There may be no market for the DMBS certificates of a particular issue, and no assurance can be given that a market will develop and continue.**

We cannot be sure that each new issue of DMBS certificates, when created, will have a ready market, or, if a market does develop, that the market will remain active during the entire term for which the DMBS certificates are outstanding. Therefore, it is possible that if you wish to sell your DMBS certificates in the future, you may have difficulty finding potential purchasers. Some of the factors that may affect the resale of DMBS certificates include:

- the age and unpaid principal balances of the multifamily mortgage loans in the pool;
- the outstanding principal amount of the DMBS certificates of that series;
- the amount of DMBS certificates of that series offered for resale from time to time;
- any legal restriction or tax treatment that limits the demand for the DMBS certificates; and
- the availability of comparable securities.



**Terrorist activities and accompanying military and political actions by the United States Government could cause reductions in investor confidence and substantial volatility in real estate and securities markets.**

It is impossible to predict the extent to which terrorist activities may occur or, if they do occur, the extent of the effect on the DMBS certificates in general or DMBS certificates of a particular issue. Moreover, it is uncertain what effects any past or future terrorist activities and/or any consequent military and/or political actions on the part of the United States Government and others will have on the United States and world financial markets. Among other things, reduced investor confidence could result in substantial volatility in securities markets and a decline in the value of real estate-related investments. The liquidity and market value of the DMBS certificates may be impaired.

**CREDIT FACTORS:**

**If we failed to pay under our guaranty, the amount distributed to DMBS certificateholders may not be sufficient.**

Even if a borrower fails to pay its mortgage loan in full on time, we guarantee to pay the full original stated principal amount to DMBS certificateholders on the maturity date. If for any reason we are unable to do so, you will not receive the full principal amount on time. If the borrower continues to default on its mortgage loan and we continue to be unable to pay under our guaranty, you may receive less than or none of the original stated principal amount of the mortgage loan. This would cause you to suffer a loss on the DMBS certificates.

**If our credit should become impaired, a buyer may be willing to pay only a reduced price for your DMBS certificates, if you wanted to sell them in the future.**

There could be an adverse change in our financial condition that would impair the perception of our credit. Even if we were to make all the payments required under our guaranty, potential buyers may offer less for your DMBS certificates than they would offer if our financial condition had remained unchanged.

**If we become insolvent, your DMBS certificates' interests in the mortgage loans could be affected.**

The law is unclear regarding any liquidation, reorganization, receivership or similar proceedings involving Fannie Mae or our assets, so no assurance can be given regarding the treatment or status of your DMBS certificates or the interests of such DMBS certificates in the mortgage loans if we were to become subject to such a proceeding.



## **FANNIE MAE**

Fannie Mae is a federally chartered and stockholder-owned corporation organized and existing under the Federal National Mortgage Association Charter Act, as amended (the “Charter Act”). We were established in 1938 as a United States government agency to provide supplemental liquidity to the mortgage market. We became a stockholder-owned and privately managed corporation by legislation enacted in 1968. We are the largest investor in residential mortgage loans in the United States.

Under our Charter Act, we were created to:

- provide stability in the secondary market for residential mortgages;
- respond appropriately to the private capital markets;
- provide ongoing assistance to the secondary market for residential mortgages (including activities relating to mortgages on housing, including multifamily housing, for low-and moderate-income families involving a reasonable economic return that may be less than the return earned on other activities) by increasing the liquidity of mortgage investments and improving the distribution of investment capital available for residential mortgage financing; and
- promote access to mortgage credit throughout the nation (including central cities, rural areas and underserved areas) by increasing the liquidity of mortgage investments and improving the distribution of investment capital available for residential mortgage financing.

In accordance with our statutory purpose, we provide funds to the mortgage market by purchasing mortgage loans from lenders. In this way, we replenish their funds so they can make additional loans. We acquire funds to purchase these loans by issuing debt securities to capital market investors, many of whom ordinarily would not invest in mortgages. Thus, we are able to expand the total amount of funds available for housing.

We also issue mortgage-backed certificates, receiving guaranty fees for our guaranty of timely payment of principal and interest on the certificates. We issue mortgage-backed certificates primarily in exchange for pools of mortgage loans from lenders. By issuing mortgage-backed certificates, we further fulfill our statutory mandate to increase the liquidity of residential mortgage loans.

In addition, we offer various services to lenders and others for a fee. These services include issuing certain types of structured mortgage-backed certificates and providing technology services for originating and underwriting mortgage loans.

Our principal office is located at 3900 Wisconsin Avenue, NW, Washington, DC 20016, telephone: (202) 752-7000.

## **USE OF PROCEEDS**

We usually issue DMBS certificates in swap transactions, in which the DMBS certificates are issued in exchange for the multifamily mortgage loan or loans in the pool that backs the DMBS certificates.

## **DESCRIPTION OF THE DMBS CERTIFICATES**

We will issue the DMBS certificates under a trust indenture. For each issuance of DMBS certificates, there will be an issue supplement to the trust indenture. We have summarized the important terms of the trust indenture below. This summary is not complete. If there is any conflict between the information in this prospectus and the actual provisions of the trust indenture, the terms of the trust indenture and its related issue supplement will govern. The trust indenture is available on our Web site.

## **DMBS Certificates**

The certificates will be DMBS, which are short-term securities that do not bear interest and that typically have a three month maturity, though the terms can range from one month to one year. Investors purchase DMBS certificates at a discount. On the maturity date, the holder of the DMBS certificate receives the full original stated principal amount of the DMBS certificate. See “**Certain Federal Income Tax Consequences**” for a discussion of tax issues involved in purchasing a DMBS certificate.

If any voluntary or involuntary prepayments on the multifamily mortgage loans are received during the term of the DMBS certificates, those prepayments will not be passed through to the DMBS certificateholders before the maturity date. Instead, the full original stated principal amount of the DMBS certificates will be paid to the certificateholders on the maturity date.

We guarantee the full and final payment to DMBS certificateholders of the original stated principal amount of the DMBS certificates on the maturity date of the DMBS certificates.

## **Issuance in Book-Entry Form**

We will issue the DMBS certificates in book-entry form using the book-entry system of the U.S. Federal Reserve Banks. Physical certificates are not available. Book-entry certificates must be issued in a minimum denomination of \$1,000 with additional increments of \$1. They are freely transferable on the records of any Federal Reserve Bank but are not convertible to physical certificates. Any transfers are subject to the minimum denomination requirements.

A certificateholder is an entity whose name appears in the records of a Federal Reserve Bank as the owner of the DMBS certificate. Only entities that are eligible to maintain book-entry accounts with a Federal Reserve Bank may be certificateholders. These entities are not necessarily the beneficial owners of the DMBS certificates. They are banks, brokerage firms, securities clearing organizations and similar companies, which act as financial intermediaries. Beneficial owners ordinarily hold DMBS certificates by having accounts at financial intermediaries, which either have book-entry accounts with a Federal Reserve Bank or hold through other financial intermediaries, one of which has such a book-entry account. A certificateholder that is not also the beneficial owner of a certificate, and all the other financial intermediaries in the chain between the certificateholder and the beneficial owner, are responsible for establishing and maintaining accounts for their customers.

Neither we nor the Federal Reserve Banks will have any direct obligation to the beneficial owner of a certificate who is not also a certificateholder. We and the Federal Reserve Banks may treat the certificateholder as the absolute owner of the certificate for all purposes, regardless of any contrary notice that the beneficial owner may provide. For example, we will make distribution payments on the DMBS certificates only to certificateholders and will give effect to a transfer of a certificate only if we receive the notice from a certificateholder.

The applicable Federal Reserve Bank credits the account of the certificateholder when we make a distribution on the DMBS certificates. Each certificateholder and any financial intermediaries are responsible for remitting distributions to the beneficial owners of the certificate.

## **Distributions on DMBS Certificates**

We will make no payments on the DMBS certificates until the maturity date. On the maturity date, we will pay the DMBS certificateholder that is listed as the holder in the records of any Federal Reserve Bank as of the maturity date the full original stated principal amount of the DMBS certificates. The record date is the maturity date.

## **Reports to DMBS Certificateholders**

Within a reasonable time upon request, we will furnish to each person who was listed as a DMBS certificateholder in the records of any Federal Reserve Bank at any time during that year a statement containing any information required by the federal income tax laws.

## **Fannie Mae Guaranty**

We guarantee the payment of the full original stated principal amount of the DMBS certificates on the maturity date of the DMBS certificates.

**Neither the DMBS certificates nor payments of principal on the DMBS certificates are guaranteed by the United States. The DMBS certificates do not constitute a debt or obligation of the United States or any of its agencies or instrumentalities other than Fannie Mae. We alone are responsible for making payments on our guaranty.**

## **Collection and Other Servicing Procedures**

We are generally responsible for servicing the mortgage loans in each pool. We service loans through lenders that originated the mortgage loans or other approved mortgage servicers. See “**Fannie Mae Purchase Program—Seller and Servicer Eligibility**” for information on our servicer requirements. Our servicing procedures include collecting payments from borrowers, seeing that the mortgaged properties are insured, and foreclosing upon defaulted mortgage loans.

## **Certain Matters Regarding Our Duties as Trustee**

We serve as the trustee for each issuance of DMBS certificates pursuant to the terms of the trust indenture. We receive no fees for serving as the trustee. We may not resign from our duties as trustee under the trust indenture unless a change in law requires it. Even then, our resignation would not become effective until a successor has assumed our duties. A successor would not take over our guaranty obligations. Even if our other duties under the trust indenture terminate, we would still be obligated under our guaranty.

We are not liable under the trust indenture to DMBS certificateholders for errors in judgment or for any action we take, or refrain from taking, in good faith. This standard of care also applies to our directors, officers, employees and agents. Nevertheless, neither we nor they will be protected against any liability if it results from willful misfeasance, bad faith or gross negligence or as a result of willful disregard of our duties.

The trust indenture provides that we are free to refuse involvement in any legal action that we think will expose us to expense or liability unless the action is related to our duties under the trust indenture. On the other hand, we may decide to participate in legal actions, such as actions involving the multifamily mortgage loans, if we think our participation is necessary or in the interests of the certificateholders. In that case, we will pay the legal expenses and costs of the action.

If we merge or consolidate with another corporation, the successor corporation will be our successor under the trust indenture and will assume all of our duties under the trust indenture, including our guaranty.

## **Events of Default**

Any of the following events will be considered an event of default under the trust indenture for an issue of DMBS certificates:

- if we fail to make the payment of the full original principal balance of the DMBS to DMBS certificateholders on the maturity date, and our failure continues uncorrected for 15 days after DMBS certificateholders owning at least 5% of that issue of DMBS certificates have given us written notice of nonpayment; or

- if we fail in any material way to fulfill any of our other obligations under the trust indenture or the related issue supplement, and our failure continues uncorrected for 60 days after certificateholders owning at least 25% of that issue of DMBS certificates have given us written notice of our failure; or
- if we become insolvent or unable to pay our debts or if other events of insolvency occur.

If one of the events of default occurs and continues uncorrected, DMBS certificateholders who own at least 25% of the related issue of DMBS certificates will have the right to terminate all of our rights and obligations under the trust indenture for that issue. These obligations include our duties as trustee and in our corporate capacity. However, our guaranty obligations will continue in effect. The same proportion of certificateholders who has the right to terminate us also may appoint a successor to all of our terminated obligations. The acts of DMBS certificateholders to terminate us and appoint a successor must be in writing.

### **Amendment**

We may amend the trust indenture for an issue of DMBS certificates without notifying or obtaining the consent of DMBS certificateholders to do any of the following:

- add to our duties;
- evidence that another party has become our successor and has assumed our duties under the trust indenture in our capacity as trustee or in our corporate capacity or both;
- eliminate any of our rights in our corporate capacity under the trust indenture; and
- take an action to cure any ambiguity or correct or add to any provision in the trust indenture or the related issue supplement, as long as the action does not adversely affect any DMBS certificateholder.

In addition, if DMBS certificateholders beneficially owning at least 66% of an issue of DMBS certificates give their consent, we may amend the trust indenture for that issue for a purpose not listed above, except that we may not terminate or change our guaranty obligations, reduce or delay payments to certificateholders, or reduce the 66% requirement of DMBS certificateholders who must give their consent, unless all DMBS certificateholders of an issue have agreed.

### **Termination**

The trust will terminate on the maturity date of the related DMBS certificates. We do *not* have any option to cause an early termination of the trust.

## **MULTIFAMILY MORTGAGE LOAN POOLS**

We combine multifamily mortgage loans and participations in multifamily mortgage loans into pools and issue our guaranteed mortgage-backed certificates that evidence ownership interests in the pooled loans and participations. For purposes of our description here, a participation interest is considered as if it were a separate multifamily mortgage loan, and payments on the participation interest are treated as if they were payments on the underlying loan.

Each time that we issue a DMBS certificate, we prepare disclosure documents that describe the terms of the DMBS. These disclosure documents are delivered to the DMBS investor and posted on our Web site at [www.fanniemae.com](http://www.fanniemae.com). The disclosure documents for a DMBS certificate at issuance consist of this prospectus, a related prospectus supplement and any documents incorporated by reference into this prospectus. See “**Incorporation by Reference**” above. The prospectus supplement is comprised of several parts: a schedule of loan information, a pool statistics page, and a prospectus supplement narrative. The schedule of loan information discloses loan-level data about the multifamily loans in the DMBS pool, and the pool statistics page provides pool-level data about the

loan pool. See “—Mortgage Loan Pool Statistics” and “Multifamily Mortgage Loans—Schedule of Loan Information” below. The prospectus supplement narrative includes additional information about the DMBS certificates and, in some instances, about the mortgage loans. These at-issuance disclosure documents contain the most current information available to us as of the date on which the DMBS certificates are being issued, unless the prospectus supplement provides for a different date. After a DMBS certificate is issued, the related at-issuance disclosure documents are not revised to reflect more current information.

### **Mortgage Loan Pool Statistics**

The pool statistics page of the prospectus supplement for a pool will specify the prefix, pool number and CUSIP number of the DMBS certificates, the issue date of the DMBS certificates, the principal balance of the DMBS certificates on the issue date, the maturity date of the DMBS certificates and will identify the seller and servicer of the loan(s) backing the DMBS certificates. In addition, the pool statistics page will indicate whether the DMBS certificates are Standard DUS DMBS certificates, Bulk Delivery DMBS certificates or Credit Facility DMBS certificates.

A sample pool statistics page is provided in *Exhibit A* at the end of this prospectus. DMBS certificateholders should determine for themselves how to use the pool statistics.

## **MULTIFAMILY MORTGAGE LOANS**

Each multifamily mortgage loan is evidenced by a promissory note and secured by a deed of trust, mortgage or similar security instrument creating a lien on a multifamily residential property.

### **Document Delivery and Custodial Requirements**

Either we or our custodian (which may be the seller or servicer of the mortgage loans) takes possession of the original note endorsed to us (or a copy of the original note along with a lost note affidavit, in the case of notes that have been lost or are missing), and a filed or recorded assignment to us of the mortgage or deed of trust. We may permit variations of these procedures in certain cases. If we use a custodian, the custodian must be 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, the National Credit Union Association, a state insurance commissioner or, in some cases, by another entity. In all cases, the custodian must be approved by Fannie Mae. Before issuing a series of DMBS certificates, we review the mortgage loan schedule for that series and later may, from time to time, conduct random spot checks to confirm that the related documents are held by the custodian.

We have the right to change these document delivery and custody requirements at any time as long as we determine that the change will not materially and adversely affect the DMBS certificateholders’ interests. We have set up these requirements to protect DMBS certificateholders’ interests in the multifamily mortgage loans contained in the related pool. Nevertheless, because the law is unclear regarding a liquidation, reorganization or similar proceeding involving the assets of Fannie Mae, no assurance can be given regarding the status of the DMBS certificateholders’ interests in the mortgage loans if a proceeding of that type should occur.

### **Loan Origination and Servicing**

Most of the mortgage loans backing the DMBS certificates are loans originated by lenders as Delegated Underwriting and Servicing loans (“DUS loans”). We permit only multifamily lenders that have been specifically approved by us to act as DUS lenders (“DUS lenders”) and to deliver DUS loans. We delegate to the DUS lenders the responsibility for underwriting and servicing DUS loans. In



return, the DUS lenders are usually required to bear a share of any losses on the DUS loans they deliver and/or service.

Our guide relating to the underwriting and servicing of DUS loans (“DUS Guide”) sets forth specific guidelines for DUS lenders and DUS loans. A DUS lender originates and underwrites each DUS loan generally to conform to our DUS loan product requirements as described in the DUS Guide. DUS lenders and borrowers sometimes request that we waive one or more requirements of the DUS Guide with respect to a specific DUS loan. We use our discretion to grant various types of waivers from our underwriting guidelines if we deem those waivers to be prudent given all the circumstances.

There are two main types of DUS loans that back the DMBS certificates: Standard DUS loans (“Standard DUS loans”) and Structured Transaction loans (“Structured Transactions”). DMBS certificates may be backed by loans or advances made under Structured Transactions or in connection with Standard DUS loans. Most DUS loans are first lien mortgage loans that are non-recourse to the borrower. The different types of DUS loans are discussed in greater detail under “—Types of DUS Loans.”

Although most of the mortgage loans backing the DMBS certificates are DUS loans originated by DUS lenders in accordance with the DUS Guide, we may accept delivery of mortgage loans that will back DMBS certificates from lenders who are not DUS lenders. All mortgage loans backing DMBS certificates, however, are originated in accordance with the underwriting standards described in the DUS Guide, except to the extent that we use our discretion to grant various types of waivers, as described above.

## **Types of DUS Loans**

The two main types of DUS loans backing the DMBS certificates are Standard DUS loans and Structured Transactions. Structured Transactions are further divided into credit facility (“Credit Facility”) transactions and bulk delivery (“Bulk Delivery”) transactions. Each type of DUS Loan is more fully described below.

### ***Standard DUS Loans***

When a borrower and a lender enter into a Standard DUS loan, there is no agreement under which the lender has committed to make further advances or loans to the borrower as part of the same transaction. Instead, the DUS lender extends a five, seven or ten-year loan to the borrower. We purchase from the DUS lender a participation certificate representing a 100% undivided ownership interest in the DUS loan for a short period, generally three months, and we issue a DMBS certificate with the same maturity date as the participation certificate. When the DMBS certificate matures, the DUS lender will issue a new participation certificate in exchange for a new DMBS certificate. Proceeds from the new DMBS certificate and the discount collected from the borrower are used to pay the maturing DMBS certificate in full. The effective interest rate on the underlying DUS loan adjusts each time a new DMBS certificate is issued, based upon the discount at that time. This process of issuing new DMBS certificates at the maturity of the previous DMBS certificates related to the same DUS loan continues until the underlying DUS loan reaches maturity, or the borrower elects to prepay the DUS loan or to convert the loan’s interest rate to a fixed rate.

Standard DUS loans are governed by the related loan documents and by the DUS Guide. The loan documents are typically the standard form of DUS loan documents, including a form of DMBS note, with certain exceptions approved by us in our sole discretion.

### ***Structured Transactions***

In Structured Transactions, we purchase participation interests in mortgage loans or advances that are being financed under a structured transaction arrangement. Under a structured transaction arrangement, a pool of mortgages secured by multiple properties serves as collateral for short-term

borrowings that have terms of one year or less and for intermediate- and long-term financings that have terms of five to ten years, though some arrangements may provide for only short-term borrowings or only intermediate- and long-term financings. A structured transaction arrangement may be a Credit Facility or a Bulk Delivery transaction. In Structured Transactions, the lender and the borrower will enter into either a master credit facility agreement (for Credit Facility transactions) or a master loan agreement (for Bulk Delivery transactions) (either referred to as the “master agreement”) under which the lender is committed to lend further funds to the borrower.

*Credit Facility Transactions.* In a Credit Facility transaction, the lender makes short-, intermediate- or long-term loans (each, an “advance”) to the borrower secured by mortgage(s) on multiple properties, which advances may be evidenced by one or more mortgage notes under which short-term advances are made at a discount and intermediate-term and long-term advances are made at a fixed rate of interest. Credit Facilities may permit a borrower, upon satisfaction of certain conditions, to add, substitute or release properties over time. The master agreement also may provide that the borrower has the right to increase the dollar amount of the lender’s commitment to make advances under certain conditions. In Credit Facility transactions, the pool of mortgages are generally cross-collateralized and cross-defaulted. See “—**Characteristics of Mortgage Loans—Cross-Default and Cross-Collateralization Provisions**” below.

*Bulk Delivery Transactions.* In a Bulk Delivery transaction, loans on multiple properties are pooled together, but a separate loan for each property is made to the borrower and each loan is evidenced by a separate note and secured by a mortgage on the multifamily property owned by that borrower. Bulk Delivery transactions may permit, upon the satisfaction of certain conditions, additional, but related, borrowers to add new properties to the transaction, the substitution of properties, and the release of specific properties upon payment in full of the loan secured by the property being released. Also, the master agreement may give current borrowers the right to expand the arrangement to accommodate new, but related, borrowers. In Bulk Delivery transactions, the pool of mortgages are generally not cross-collateralized and cross-defaulted.

*Advances and Loans Under Structured Transactions.* Each advance or mortgage loan delivered to us under a Structured Transaction is represented by a participation certificate that equals 100% of the unpaid principal balance of the advance or loan and that contains some of the specific terms of that advance or loan, such as the amount and maturity date of that specific advance or loan. We hold the participation certificate in trust for the benefit of the holders of the related DMBS certificates. Ownership of a DMBS certificate provides a holder of that certificate with a fractional undivided beneficial interest in a pool containing a single participation certificate.

The short-term advances and loans may not bear interest. Each short-term advance is disbursed to the borrower in a discounted amount that is less than 100% of the original stated principal amount of the advance or loan. The master agreement may provide that short-term advances may be borrowed, repaid, and re-borrowed over the term of the master agreement. A short-term advance or loan requires the borrower to repay the discounted amount of principal and all of the initial discount on or before the maturity date of the DMBS certificates. Under the master agreement, the borrower may elect to refinance the short-term advance or loan. If the borrower refinances the advance or loan, a new DMBS certificate will be backed by a pool containing a single participation certificate that equals 100% of the unpaid principal balance of the refinanced advance or loan.

In addition, the master agreement generally prohibits an advance from being assumed by a new mortgagor or a mortgaged property from being further encumbered by a subordinate mortgage lien. In addition, unless specifically permitted by us, most transfers of ownership interests in the borrower and transfers of ownership interests or changes of control of certain affiliates of the borrower are defaults under the master agreement.

If an advance or loan underlying any DMBS certificate is prepaid for any reason (including default) before its maturity date, we will not pay the prepayment to holders of the related DMBS before the maturity date of the DMBS certificate.



## Characteristics of Mortgage Loans

The mortgage loans backing DMBS certificates generally have the following characteristics:

*Conventional Mortgage Loans.* Most of the multifamily mortgage loans backing the DMBS certificates are conventional mortgage loans—that is, loans that are not insured by the Federal Housing Administration (the “FHA”) or other government agencies. We refer to non-conventional loans as government loans and refer to pools of loans that include exclusively government loans as government pools. Some conventional loan pools, however, may include loans that are insured by the FHA or other governmental agencies.

*Lien on the Related Mortgaged Property.* Each mortgage loan backing a DMBS certificate is secured by a first lien or a subordinate lien on the related mortgaged property. If the lien is a subordinate lien, that fact will be reflected in the schedule of loan information included in the prospectus supplement.

Sometimes we purchase a multifamily mortgage loan secured by a mortgaged property that is already encumbered by one or more mortgage liens. At other times, a mortgaged property that secures a mortgage loan backing the related DMBS certificates may be further encumbered by a subordinate lien mortgage loan after the issue date of the DMBS certificates. We may permit a new subordinate lien mortgage loan on the mortgaged property where we are satisfied that the new subordinate loan will not have a material adverse effect on the financial performance of the existing mortgage loan backing the DMBS certificates. We evaluate requests for subordinate financing on a loan-by-loan basis and may consider a number of factors.

An event of default may occur under a mortgage loan not included in your pool but secured by the mortgaged property related to the existing mortgage loan in your pool. The event of default (i) may trigger an event of default under the existing mortgage loan in your pool or any other mortgage loans and (ii) may entitle the holder of the other mortgage lien to foreclose on and sell the mortgaged property subject to the lien of any mortgage loans senior to the defaulted mortgage loan. Nevertheless, we guarantee that you will receive the full original stated principal amount of your DMBS certificate on its maturity date, even if we receive foreclosure proceeds prior to such date.

*Cross-Default and Cross-Collateralization Provisions.* In certain cases, particularly in connection with Credit Facility transactions, a pool may contain two or more multifamily mortgage loans that are related because the loans have either a common borrower or different borrowers that are owned by a common entity. In many of these cases, the lender requires each of the loans to be cross-defaulted and/or cross-collateralized with each of the other loans in the pool.

If the loans are cross-defaulted, the occurrence of an event of default under one loan will trigger an event of default under each of the other loans in the pool. In this case, not only may we declare the defaulted mortgage loan immediately due and payable but we may also declare one or more of the other mortgage loans immediately due and payable. Despite any such declaration, however, we guarantee that you will receive the full original stated principal balance of your DMBS certificate on its maturity date, and not any earlier.

If the loans are cross-collateralized, the mortgaged property securing one loan will also serve as additional collateral for each of the other loans in the pool. Each mortgage loan, therefore, is secured not only by a first priority lien on the related mortgaged property but also by a lien on each of the other mortgaged properties, which is either equal or junior in priority to the first priority mortgage on the property. Cross-collateralization provisions expand the collateral available for repayment of one mortgage loan to include not only the related mortgaged property but also each of the other mortgaged properties securing loans in the pool. If an event of default occurs under one of the loans, the related mortgaged property and one or more of the other mortgaged properties may be sold to satisfy the outstanding debt obligations. Nevertheless, your DMBS certificate will not be prepaid. Instead, we guarantee that you will receive the full original stated principal balance of your DMBS certificate on its maturity date.

A pool may also contain loans that are cross-defaulted and/or cross-collateralized with loans that are not in the pool, that contain provisions allowing loans to be released from the cross-collateralization/cross-default provisions, or that require special cross-collateralization and/or cross-default provisions. In any of these cases, the prospectus supplement will describe the terms of the cross-default and/or cross-collateralization provisions applicable to the loans in the pool and will identify the crossed loans that are not in the pool.

The schedule of loan information included in the prospectus supplement will provide information about not only the mortgage loan or loans securing your DMBS certificate, but also about loans or advances that are cross-collateralized or cross-defaulted with that mortgage loan or loans.

*Loan-to-Value Ratios.* All mortgage loans backing the DMBS certificates have loan-to-value ratios that do not exceed 100% at the time of loan origination.

For mortgage loans that, as of the issuance date of the DMBS certificate, are secured by a first lien on the related mortgaged property and that are not cross-collateralized or cross-defaulted with other loans, the “loan-to-value ratio” of a mortgage loan as of the date of loan origination is the relationship between

- (a) the principal balance of the mortgage loan on the date of origination of the mortgage loan, and
- (b) the property value of the related mortgage property on the date of origination of the loan,

expressed as a percentage of the property value.

For mortgage loans that, as of the issuance date of the DMBS certificate, are secured by a first lien on the related mortgaged property and that are cross-collateralized or cross-defaulted with other loans, the “aggregate loan-to-value ratio” with respect to such mortgage loans is the relationship between

- (a) the aggregate principal balance of the outstanding advances as of the date of origination, and
- (b) the aggregate property value of the mortgaged properties securing those advances,

expressed as a percentage of the aggregate property value.

The “property value” is the value of the related mortgaged property as reported to us by the lender, which value may equal either the appraised value (based on a third-party appraisal) or the lender’s underwriting value (based on the lender’s evaluation of the mortgaged property and the lender’s analysis of market rent and sales comparables and projected market trends). The property value will never exceed the appraised value.

*Debt Service Coverage Ratios.* Among the underwriting criteria applied when a lender originates a mortgage loan is the debt service coverage ratio of that loan. With respect to loans that are cross-collateralized and cross-defaulted, an aggregate debt service coverage ratio is considered.

*Addition, Release and Substitution of Mortgaged Property.* In a Credit Facility, the master agreement may provide that the borrower has the right to add, release or substitute mortgaged properties as long the conditions specified in the agreement are satisfied. In a Bulk Delivery, the master agreement will contain conditions for adding new borrowers and new properties to the arrangement and, sometimes, conditions for substituting mortgaged properties. The conditions to be satisfied vary among different Structured Transactions. In addition, applying similar conditions, we may permit substitutions of the mortgaged properties backing Standard DUS DMBS certificates. In most instances, these substitutions will occur on the maturity date of a DMBS certificate. Sometimes these changes may be permitted at other times, but no repayment of the DMBS certificates will

result. Examples of the conditions that must be met for addition, release or substitution of properties include the following:

- the underwriting of the proposed mortgaged property to be added or substituted must be performed in accordance with our standards;
- the lender and Fannie Mae must be satisfied that after the addition, release or substitution of a mortgaged property, the debt service coverage ratio will not be less than, and the loan-to-value ratio will not be greater than, the respective ratios set forth in the related master agreement, or, in some cases, less than the loan-to-value ratio prior to the substitution or release;
- the borrower must not be in default under the loan documents; and
- title, survey and all documents necessary to release, add or substitute the mortgaged property must be prepared to the lender's satisfaction.

*Assumption and Further Encumbrances.* The mortgage loans underlying DMBS certificates generally cannot be assumed by a new mortgagor, and the related mortgaged properties generally cannot be further encumbered by a subordinate mortgage lien. In addition, unless specifically permitted by us, most transfers of ownership interests in the borrower and transfers of ownership interests or changes of control of certain affiliates of the borrower are defaults under the master agreement or loan documents. However, we reserve the right to waive these requirements.

For Structured Transactions, each time that a DMBS backed by an advance or a loan is issued, we will issue a new schedule of loan information for that DMBS containing detailed information about the new advance or loan, as appropriate, and updating information on any other outstanding advances or loans secured by the same real property. Whenever we issue a new schedule of loan information, the new schedule will provide information about the existence and total value of any additional collateral (which may be a letter of credit or other collateral). The additional collateral may cause the certificates not to qualify as interests in real property for purposes of the federal income tax laws applicable to certain investors. See “**Certain Federal Income Tax Consequences.**”

### **Schedule of Loan Information**

In the schedule of loan information found in each prospectus supplement, we will furnish certain data elements about the underlying multifamily mortgage loans in the pool. The data elements included in the schedule of loan information for the loans in any particular pool may vary but generally will include the data elements listed below.

#### *Characteristics of the Loan and the Mortgaged Property*

##### *Terms for Most Loans*

- |                             |                                     |
|-----------------------------|-------------------------------------|
| • Pool Number               | • Original Amortization Term        |
| • Seller Number             | • Property Type                     |
| • Unpaid Principal Balance  | • Property City, State and Zip Code |
| • Maturity Date             | • Number of Multifamily Units       |
| • First Monthly Payment Due | • Appraised Value or Property Value |

A sample schedule of loan information showing data elements that are generally provided may be found in *Exhibit B* at the end of this prospectus.

### **FANNIE MAE PURCHASE PROGRAM**

The multifamily mortgage loans we purchase must meet standards required by the law under which we were chartered, which we refer to as the Charter Act. These standards require that the multifamily mortgage loans be, in our judgment, of a quality, type and class consistent with the purchase standards imposed by private institutional mortgage investors. Consistent with those

requirements, and with the purposes for which we were chartered, we establish eligibility criteria and policies for the mortgage loans we purchase, for the sellers from whom we purchase loans, and for the servicers who service our mortgage loans. See “**Fannie Mae**” above, for information regarding the Charter Act and the charter purpose.

## **DUS Guide**

Our mortgage loan purchase eligibility criteria and policies are set forth in our DUS Guide, including any updates and amendments to the DUS Guide. We amend our DUS Guide and our eligibility criteria and policies from time to time. This means it is possible that not all the mortgage loans in a particular pool will be subject to the same eligibility standards. It also means that the standards described in the DUS Guide may not be the same as the standards that applied when loans in a particular pool were originated. We also may waive or modify our eligibility and loan underwriting requirements or policies when we purchase mortgage loans.

## **Seller and Servicer Eligibility**

Before we approve a company to become a seller or servicer for us, we require that the company demonstrate the following to our satisfaction:

- that it has a proven ability to originate or service, as applicable, the type of mortgages for which our approval is being requested;
- that it employs a staff with adequate experience in that area;
- that it has as one of its principal business purposes the origination or servicing, as applicable, of multifamily residential mortgages;
- that it is properly licensed, or otherwise authorized, to originate, sell or service, as applicable, multifamily residential mortgages in each of the jurisdictions in which it does business;
- that it has a financial condition that is acceptable to us;
- that it has quality control and management systems to evaluate and monitor the overall quality of its loan production and servicing activities; and
- that it is covered by a fidelity bond and errors and omissions insurance acceptable to us.

We enter into a written mortgage selling and servicing contract with each seller and servicer we approve, under which, among other things, the seller or servicer agrees to maintain the foregoing attributes to our satisfaction. DUS lenders must be specially approved and enter into additional agreements with us. See “**Multifamily Mortgage Loans—Loan Origination and Servicing.**”

## **Servicing Arrangements**

We are responsible for servicing and administering the multifamily mortgage loans. In most cases, we contract with other entities to perform those functions under our supervision and on our behalf. The entity with whom we contract is often the seller of the loans, but may be an unaffiliated entity. Even if we hire a servicer, we remain responsible to DMBS certificateholders for all the servicing and administrative functions related to the mortgage loans.

In some instances, we may own a multifamily mortgage loan secured by a mortgaged property in which we or the lender or servicer also owns an equity interest. In these circumstances, we may be required to contract with a party not affiliated with Fannie Mae or the transaction to perform certain servicing functions.

Servicers must meet the eligibility standards and performance obligations in our DUS Guide. All servicers are obligated to diligently perform all services and duties customary to servicing mortgage loans. We monitor the servicer’s performance and have the right to remove any servicer at any time

that we consider its removal to be in the best interest of the certificateholders. Duties performed by the servicer include general loan servicing responsibilities, collection and remittance of payments on the multifamily mortgage loans, administration of mortgage escrow accounts, collection of insurance claims and foreclosure, if necessary.

## **CERTAIN FEDERAL INCOME TAX CONSEQUENCES**

The certificates and payments on the DMBS certificates generally are subject to taxation. Therefore, you should consider the tax consequences of holding a DMBS certificate before acquiring one. The following discussion describes certain material U.S. federal income tax consequences of the purchase, ownership, and disposition of the DMBS certificates. The discussion is based on provisions of the Internal Revenue Code of 1986, as amended (the “Code”), the Treasury regulations thereunder, Internal Revenue Service (“IRS”) rulings and pronouncements, and judicial decisions now in effect, all of which are subject to change at any time, possibly on a retroactive basis.

The discussion in this section is general and does not purport to deal with all aspects of federal taxation that may be relevant to particular investors. This discussion may not apply to your particular circumstances for various reasons including the following:

- This discussion reflects federal tax laws in effect as of the date of this prospectus. Changes to any of these laws after the date of this prospectus may affect the tax consequences discussed below.
- This discussion addresses only DMBS certificates acquired by beneficial owners at original issuance and held as capital assets (generally, property held for investment).
- This discussion does not address all tax consequences that may be relevant to beneficial owners subject to special rules, such as dealers in securities, certain traders in securities, banks, tax-exempt organizations, insurance companies, regulated investment companies, real estate mortgage investment conduits, real estate investment trusts, persons that hold certificates as part of a hedging transaction or as a position in a straddle or conversion transaction, or persons whose functional currency is not the U.S. dollar.
- This discussion may be supplemented by a discussion in any applicable prospectus supplement.
- This discussion does not address taxes imposed by any state, local, or foreign taxing jurisdiction.

**For these reasons, you should consult your own tax advisor regarding the federal income tax consequences of holding and disposing of DMBS certificates as well as any tax consequences arising under the laws of any state, local, or foreign taxing jurisdiction.**

For purposes of this discussion, the term mortgage loan, in the case of a participation interest, means the interest in the underlying mortgage loan represented by that participation interest, and in applying a federal income tax rule that depends on the origination date of a mortgage loan or the characteristics of a mortgage loan at its origination, the term mortgage loan means the underlying mortgage loan and not the participation interest.

As used in this section, the term “United States holder” means a beneficial owner of a DMBS certificate that is for United States federal income tax purposes (i) a citizen or resident of the United States, (ii) a corporation or partnership (including an entity treated as a corporation or partnership for United States federal income tax purposes) created or organized in or under the laws of the United States, any state thereof or the District of Columbia, (iii) an estate, the income of which is includible in gross income for United States federal income tax purposes, regardless of its source, or (iv) a trust with respect to which a United States court is able to exercise primary supervision over the administration of the trust and one or more United States persons have the authority to control all



substantial decisions of the trust (and, to the extent provided in the Treasury regulations, certain trusts in existence on August 20, 1996, and treated as United States persons prior to such date).

### **Tax Treatment of the DMBS Certificates**

In Revenue Ruling 84-10, 1984-1 C.B. 155, the IRS set forth certain federal income tax consequences relating to investments in the certificates issued with respect to a mortgage pool. Pursuant to Revenue Ruling 84-10, a mortgage pool will not be classified as an association taxable as a corporation for federal income tax purposes. Instead, a mortgage pool will be classified as a grantor trust, and each beneficial owner of a certificate will be considered to be the beneficial owner of a pro rata undivided interest in each of the mortgage loans included in that particular pool. Although Revenue Ruling 84-10 does not specifically address participation interests in mortgage loans, other IRS pronouncements clearly indicate that the holdings of Revenue Ruling 84-10 are equally applicable to a certificate backed by a pool consisting (in whole or in part) of participation interests in mortgage loans.

### **Credit Facility DMBS Certificates**

Based on Revenue Ruling 84-10, the Credit Facility DMBS certificates are interests in grantor trusts that own the underlying mortgage loans for U.S. federal income tax purposes. A United States holder of a Credit Facility DMBS certificate will be treated as the owner of a pro rata undivided interest in each of the mortgage loans included in the related mortgage pool. A United States holder of a Credit Facility DMBS certificate must report on its federal income tax return its pro rata share of the entire income from each mortgage loan in the related pool, consistent with the United States holder's method of accounting. The items of income from a mortgage loan include interest, original issue discount (discussed below), prepayment premiums, assumption fees, and late payment charges, plus any amount paid by us as interest under our guaranty. A United States holder can deduct its pro rata share of the expenses of the grantor trust as provided in section 162 or section 212 of the Code, consistent with its method of accounting and subject to the discussion below.

A United States holder must allocate its basis in a Credit Facility DMBS certificate among the mortgage loans included in the related pool in proportion to the relative fair market values of those mortgage loans. If the basis allocated to a mortgage loan is less than the principal amount of that mortgage loan, the United States holder may have market discount with respect to that mortgage loan, and if the basis exceeds the principal amount, the United States holder may have premium with respect to that mortgage loan. Market discount and premium are discussed below.

As a result of the treatment of the Credit Facility DMBS certificates as interests in grantor trusts that own the underlying mortgage loans for U.S. federal income tax purposes, the following consequences will result for certain investors:

1. A Credit Facility DMBS certificate owned by a domestic building and loan association will be considered to represent "loans secured by an interest in real property" within the meaning of section 7701(a)(19)(C)(v) of the Code, provided that the real property underlying each mortgage loan is (or, from the proceeds of the mortgage loans, will become) the type of real property described in that section of the Code.
2. A Credit Facility DMBS certificate owned by a real estate investment trust will be treated as a "real estate asset" within the meaning of section 856(c)(5)(B) of the Code, and the interest income on the certificate will be considered "interest on obligations secured by mortgages on real property" within the meaning of section 856(c)(3)(B) of the Code.

The tax consequences to domestic building and loan associations and real estate investment trusts discussed above will not apply to a mortgage loan to the extent that its principal amount exceeds the value of the real property securing the loan. We believe that the fair market value of the real property securing each mortgage loan exceeds the principal balance of that mortgage loan as of the issue date of

the certificates based upon the lender's representation that each mortgage loan complies with underwriting guidelines with respect to property value and loan-to-value ratio. The principal security for each mortgage loan is a first lien (or, in the case of a subordinate lien mortgage loan, a subordinate lien) on real property. However, the mortgage loans may also be secured by a security interest in related tangible personal property (e.g., equipment and furniture) and in related intangible personal property such as rents and revenues, insurance proceeds, condemnation awards or settlements, contract rights, deposits, permits, accounts, licenses, and so forth. If the principal balance of a mortgage loan exceeds the fair market value of the real property securing the mortgage loan, the Credit Facility DMBS certificates will retain the special tax attributes discussed above in proportion to the value of the real property remaining as security for the mortgage loan.

### **Standard DUS DMBS Certificates and Bulk Delivery DMBS Certificates**

It is not clear under current law whether the Standard DUS DMBS certificates or the Bulk Delivery DMBS certificates should be treated for U.S. federal income tax purposes as interests in a grantor trust or as debt instruments secured by the underlying mortgage loans that back these DMBS certificates (or as grantor trust interests in such debt instruments). We intend to take the position that the Standard DUS DMBS certificates and the Bulk Delivery DMBS certificates are interests in grantor trusts that own the underlying mortgage loans for U.S. federal income tax purposes, and the remainder of this discussion assumes that those DMBS certificates will be so treated. As a result, holders of Standard DUS DMBS certificates and Bulk Delivery DMBS certificates should be treated in the same manner as holders of Credit Facility DMBS certificates. However, there can be no assurance that the Standard DUS DMBS certificates and/or the Bulk Delivery DMBS certificates will not instead be treated as debt instruments secured by the underlying mortgage loans (or as grantor trust interests in such debt instruments), in which case the following consequences would result:

1. A Standard DUS or Bulk Delivery DMBS certificate owned by a domestic building and loan association would not be treated as an "interest in real property" within the meaning of section 7701(a)(19)(C)(v) of the Code, but instead would be treated as an "obligation of a corporation which is an instrumentality of the United States" within the meaning of section 7701(a)(19)(C)(ii) of the Code.
2. A Standard DUS or Bulk Delivery DMBS certificate owned by a real estate investment trust would not be treated as a "real estate asset" within the meaning of section 856(c)(5)(B) of the Code but instead would be treated as a "government security" within the meaning of section 856(c)(4)(A) of the Code. The interest income on the certificate would not be considered "interest on obligations secured by mortgages on real property" within the meaning of section 856(c)(3)(B) of the Code (although such interest income would be qualifying income for purposes of the 95% gross income test applicable to REITs).
3. A Standard DUS DMBS or Bulk Delivery DMBS certificate owned by a real estate mortgage investment conduit would not be a "qualified mortgage" within the meaning of section 860G(a)(3) or (5) of the Code.

Potential purchasers of the Standard DUS DMBS certificates and the Bulk Delivery DMBS certificates should consult their tax advisors regarding the appropriate U.S. federal income tax treatment of those DMBS certificates.

### **Interest and Original Issue Discount**

A United States holder of a DMBS certificate must include in income its pro rata share of the interest and original issue discount, if any, paid or accrued on the mortgage loan or loans underlying the DMBS certificate as ordinary interest income over the term of the DMBS certificate. Any qualified stated interest will be included in income in accordance with the DMBS holder's normal method of accounting. A United States holder of a DMBS certificate must include any original issue discount in income as it accrues, generally in advance of the receipt of the related cash flow. A mortgage loan will



be considered to have been issued with original issue discount if its stated redemption price at maturity exceeds its issue price by more than a specified de minimis amount.

If the Standard DUS DMBS certificates and/or the Bulk Delivery DMBS certificates were to be treated as debt instruments secured by the underlying mortgage loans (or as grantor trust interests in such debt instruments), those DMBS certificates would be treated as short-term obligations for federal income tax purposes. As a result, each DMBS certificate would be treated as being issued at a discount equal to the excess of the total payments on the certificate over its issue price. A cash method United States holder would include payments on the DMBS certificate in income upon its receipt of such payments unless it elected to accrue the discount for U.S. federal income tax purposes. A cash method United States holder that elected to accrue the discount or an accrual method United States holder would include the amount of the discount in income as it accrues on a straight-line basis, unless it elected to accrue the discount according to a constant yield method based on daily compounding. A United States holder that is not required and does not elect to include the discount in income currently would be required to defer deductions for any interest paid on indebtedness incurred to purchase or carry a Standard DUS DMBS certificate or Bulk Delivery DMBS certificate in an amount not exceeding the discount until it is included in income. A United States holder of a short-term obligation that is an accrual basis taxpayer, a bank, a regulated investment company, or another class of United States holder described in section 1281 of the Code generally is required to include original issue discount on such an obligation in income as it accrues on a straight-line basis, regardless of its method of accounting. Alternatively, such a United States holder may make an irrevocable election to accrue such original issue discount on the basis of the obligation's yield to maturity and daily compounding.

### **Market Discount**

A United States holder that acquires an interest in a mortgage loan for less than its principal amount generally will be treated as having acquired the loan at a market discount in the amount of the excess of the principal amount over the United States holder's basis in that mortgage loan, unless the excess is less than a specified de minimis amount. Market discount on a mortgage loan is considered to be zero if the market discount is less than 0.25 percent of the principal balance of the mortgage loan multiplied by the number of complete years from the date the United States holder acquires an interest in the mortgage loan to the maturity of the mortgage loan. A United States holder must determine the amount of accrued market discount for a period using a straight-line method, based on the maturity of the mortgage loan, unless the United States holder elects to determine accrued market discount using a constant yield method.

In general, three consequences arise if a United States holder acquires an interest in a mortgage loan (*e.g.*, a DMBS certificate) with market discount. First, the United States holder must treat any principal payment with respect to a mortgage loan acquired with market discount as ordinary income to the extent of the market discount that accrued while such United States holder held an interest in that mortgage loan. Second, the United States holder must treat gain on the disposition or retirement of a DMBS certificate as ordinary income under the circumstances discussed below under “**—Sales and Other Dispositions of DMBS Certificates.**” Third, a United States holder that incurs or continues indebtedness to acquire a DMBS certificate at a market discount may be required to defer the deduction of all or a portion of the interest on the indebtedness until the corresponding amount of market discount is included in income. Alternatively, a United States holder may elect to include market discount in income on a current basis as it accrues, in which case the three consequences discussed above will not apply. If a United States holder makes this election, the United States holder must also apply the election to all debt instruments acquired by the United States holder on or after the beginning of the first taxable year to which the election applies. A United States holder may revoke the election only with the consent of the IRS.

## Premium

A United States holder that acquires an interest in a mortgage loan for more than its principal amount generally has premium with respect to that mortgage loan in the amount of the excess. In that event, the United States holder may elect to treat the premium as amortizable bond premium. If the election is made, a United States holder must also apply the election to all debt instruments the interest on which is not excludible from gross income (fully taxable bonds) held by the United States holder at the beginning of the first taxable year to which the election applies and to all fully taxable bonds thereafter acquired by the United States holder. A United States holder may revoke the election only with the consent of the IRS.

If a United States holder makes this election, the United States holder reduces the amount of any interest payment that must be included in the United States holder's income by the portion of the premium allocable to the period based on the mortgage loan's yield to maturity. Correspondingly, a United States holder must reduce its basis in the mortgage loan by the amount of premium applied to reduce any interest income. The amount of premium to be allocated among the interest payments on an adjustable rate mortgage ("ARM") is determined by reference to an equivalent fixed-rate debt instrument constructed as of the date the United States holder acquires an interest in the ARM.

If a United States holder does not elect to amortize premium, (i) the United States holder must include the full amount of each interest payment in income, and (ii) the premium must be allocated to the principal distributions on the mortgage loan and, when each principal distribution is received, a loss equal to the premium allocated to that distribution will be recognized. Any tax benefit from premium not previously recognized will be taken into account in computing gain or loss upon the sale or disposition of the certificate. See "**—Sales and Other Dispositions of DMBS Certificates.**"

## Expenses of the Trust

A United States holder's ability to deduct its share of the fee payable to the servicer, the fee payable to us for providing our guaranty, and other expenses to administer the mortgage pool is limited under section 67 of the Code in the case of (i) estates and trusts and (ii) individuals owning an interest in a DMBS certificate directly or through an investment in a pass-through entity (other than in connection with such individual's trade or business). Pass-through entities include partnerships, S corporations, grantor trusts, certain limited liability companies, and non-publicly-offered regulated investment companies, but do not include estates, non-grantor trusts, cooperatives, real estate investment trusts, or publicly-offered regulated investment companies.

Generally, a United States holder can deduct its share of these costs only to the extent that these costs, when aggregated with certain of the United States holder's other miscellaneous itemized deductions, exceed two percent of the United States holder's adjusted gross income. For this purpose, an estate or non-grantor trust computes adjusted gross income in the same manner as in the case of an individual, except that deductions for administrative expenses of the estate or trust that would not have been incurred if the property were not held in such trust or estate are treated as allowable in arriving at adjusted gross income.

In addition, section 68 of the Code may provide for certain limitations on itemized deductions otherwise allowable for a United States holder who is an individual. Further, a United States holder may not be able to deduct any portion of these costs in computing its alternative minimum tax liability.

## Mortgage Loan Servicing

The IRS has issued guidance on the tax treatment of mortgage loans in cases in which the fee retained by the servicer of the mortgage loans exceeds what is established under tax law to be reasonable compensation for the services to be performed. This guidance is directed primarily to

servicers and, in most cases, should not have a significant effect on United States holders of mortgage loans.

Under the IRS guidance, if a servicing fee on a mortgage loan is determined to exceed reasonable compensation, the payments of the excess servicing fee are treated as a series of stripped coupons and the mortgage loan is treated as a stripped bond within the meaning of section 1286 of the Code. In general, if a mortgage loan is treated as a stripped bond, any discount with respect to that mortgage loan will be treated as original issue discount. Any premium with respect to such a mortgage loan may be treated as amortizable bond premium regardless of the date the mortgage loan was originated, because a stripped bond is treated as originally issued on the date a United States holder acquires the stripped bond. See “—**Premium**” above. In addition, the excess portion of servicing compensation will not be subject to the limitations on the deductibility of miscellaneous itemized deductions. See “—**Expenses of the Trust**” above.

A mortgage loan effectively will not be treated as a stripped bond, however, but will instead be treated as a market discount bond if the mortgage loan meets either the 100 basis point test or the de minimis test. A mortgage loan will meet the 100 basis point test if the total amount of servicing compensation on the mortgage loan does not exceed reasonable compensation for servicing by more than 100 basis points. A mortgage loan meets the de minimis test if (i) the discount at which the mortgage loan is acquired is less than 0.25 percent of the remaining principal balance of the mortgage loan multiplied by its weighted average remaining life, or (ii) in the case of wholly self-amortizing mortgage loans, the acquisition discount is less than 1/6 of one percent times the number of whole years to final stated maturity.

The IRS guidance contains a number of ambiguities. For example, it is not clear whether the rules described above are to be applied on an individual loan or an aggregate basis. You should consult your tax advisor about the IRS guidance and its application to investments in the DMBS certificates.

### **Sales and Other Dispositions of DMBS Certificates**

Upon the sale, exchange, or other disposition of a DMBS certificate, the United States holder generally will recognize gain or loss equal to the difference between the amount realized upon the disposition and the United States holder's adjusted basis in the DMBS certificate. The adjusted basis of a DMBS certificate generally will equal the cost of the DMBS certificate to the United States holder, increased by any amounts of original issue discount and market discount included in the United States holder's gross income with respect to the certificate, and reduced by any distributions on the DMBS certificate previously received by the United States holder as principal and by any premium that has reduced the United States holder's interest income with respect to the DMBS certificate. Any such gain or loss generally will be capital gain or loss, except (i) as provided in section 582(c) of the Code (which generally applies to banks) or (ii) to the extent any gain represents original issue discount or accrued market discount not previously included in income (to which extent such gain would be treated as ordinary income). Any capital gain (or loss) will be long-term capital gain (or loss) if at the time of disposition the United States holder held the certificate for more than one year. The ability to deduct capital losses is subject to limitations.

### **Information Reporting and Backup Withholding**

With each payment, we will furnish to each DMBS certificateholder a statement setting forth the portions of such payment allocable to principal and to interest. In addition, we will furnish or make available, within a reasonable time after the end of each calendar year, to each certificateholder who at any time during such year received a payment from us, a statement setting forth that holder's pro rata share of income and administrative expense for such calendar year.

Payments of interest and payments of proceeds from the sale of DMBS certificates may be subject to backup withholding if the recipient of the payment is not an exempt recipient and fails to furnish certain information, including its taxpayer identification number, to us or our agent, or otherwise fails

to establish an exemption from backup withholding. Any amounts deducted and withheld from such a payment would be allowable as a credit against the United States holder's U.S. federal income tax. Furthermore, certain penalties may be imposed by the IRS on a holder or owner who is required to supply information but who does not do so in the proper manner.

### **Non-United States Holders**

Additional rules apply to a beneficial owner of a DMBS certificate that is not a United States holder (a "Non-U.S. holder"). Payments on a DMBS certificate made to, or on behalf of, a beneficial owner that is a Non-U.S. holder generally will be exempt from U.S. federal income and withholding taxes, provided the following conditions are satisfied:

- the beneficial owner does not hold the certificate in connection with its conduct of a trade or business in the United States;
- the beneficial owner is not, with respect to the United States, a personal holding company or a corporation that accumulates earnings in order to avoid U.S. federal income tax;
- the beneficial owner is not a U.S. expatriate or former U.S. resident who is taxable in the manner provided in section 877(b) of the Code;
- the beneficial owner is not an excluded person (*i.e.*, a 10-percent shareholder of Fannie Mae or the borrower within the meaning of section 871(h)(3)(B) of the Code or a controlled foreign corporation related to Fannie Mae or the borrower within the meaning of section 881(c)(3)(C) of the Code);
- the beneficial owner signs a statement under penalties of perjury certifying that it is a Non-U.S. holder and provides the name, address, and taxpayer identification number, if any, of the beneficial owner; and
- the last United States person in the chain of payment to the beneficial owner (the withholding agent) receives such non-U.S. beneficial ownership statement from the beneficial owner or a financial institution holding on behalf of the beneficial owner and does not have actual knowledge that such statement is false.

Backup withholding will not apply to payments made to a beneficial owner that is a Non-U.S. holder if the beneficial owner or a financial institution holding on behalf of the beneficial owner provides a non-U.S. beneficial ownership statement to the withholding agent. A non-U.S. beneficial ownership statement may be made on an IRS Form W-8BEN or a substantially similar substitute form. The beneficial owner or financial institution holding on behalf of the beneficial owner must inform the withholding agent of any change in the information on the statement within 30 days of such change. In all cases, the withholding agent must file the Form W-8BEN or substitute form with the IRS.

### **ERISA CONSIDERATIONS**

The following is a summary of certain considerations associated with an investment in DMBS certificates on behalf of a plan subject to the Employee Retirement Income Security Act of 1974, as amended ("ERISA") (such as employer-sponsored pension and profit sharing plans) and other types of benefit plans and arrangements subject to Section 4975 of the Code (such as individual retirement accounts). ERISA and the Code also impose these requirements on some entities in which these benefit plans or arrangements invest. We refer to these plans, arrangements and entities, collectively, as plans.

A fiduciary considering investing assets of a plan in any certificate should consult its legal advisor about ERISA, fiduciary and other legal considerations before making such an investment. Specifically, before authorizing an investment in any DMBS certificates, any such fiduciary should, after consider-

ing the plan's particular circumstances, determine whether the investment is appropriate under the plan's governing documents and whether the investment is appropriate under the fiduciary standards of ERISA or other applicable law, including standards with respect to prudence, diversification and delegation of control and the prohibited transaction provisions of ERISA and the Code.

Regulations (the "Plan Asset Regulations") promulgated under ERISA by the United States Department of Labor generally provide that when a plan acquires an interest in an entity that is neither a publicly offered security nor a security issued by an investment company registered under the Investment Company Act of 1940, the plan's assets include both the security and an undivided interest in each of the underlying assets of the issuer unless it is established that an exception under the Plan Asset Regulations applies. The application of this general rule could cause the sponsor, trustee and other servicers of the mortgage pool to be subject to the fiduciary responsibility rules of ERISA and could cause an investment in DMBS certificates to be a prohibited transaction under ERISA or the Code.

The Plan Asset Regulation provides that the general rule stated above does not apply to a plan's acquisition of a guaranteed governmental mortgage pool certificate. The definition of "guaranteed governmental mortgage pool certificate" includes DMBS certificates which are backed by, or evidencing an interest in, specified mortgages or participation interest therein and are guaranteed by Fannie Mae as to the payment of interest and principal. Under the Plan Asset Regulation, investment by a plan in a guaranteed governmental mortgage pool certificate does not cause the assets of the plan to include the mortgage loans underlying the certificate or cause the sponsor, trustee and other servicers of the mortgage pool to be subject to the fiduciary responsibility provisions of ERISA or the prohibited transaction provisions of ERISA or section 4975 of the Code by providing services with respect to the mortgages in the pool. Our counsel, Hunton & Williams LLP, has advised us that the DMBS certificates qualify under the definition of guaranteed governmental mortgage pool certificates and, as a result, the purchase and holding of DMBS certificates by plans will not cause the underlying mortgage loans or the assets of Fannie Mae to be subject to the fiduciary requirements of ERISA or to the prohibited transaction provisions of ERISA and the Code merely by reason of that plan's holding of a certificate. However, investors should consult with their own counsel regarding the ERISA eligibility of DMBS certificates they may purchase.

## **LEGAL OPINION**

If you purchase DMBS certificates, we will send you, upon request, an opinion of our general counsel (or one of our deputy general counsels) as to the validity of the DMBS certificates, the issue supplement and the trust indenture for that issue.

All information in this exhibit is for illustrative purposes only and should not be deemed to represent any actual loan or any actual issuance. Information presented may vary for individual pools.

**Federal National Mortgage Association  
Mortgage-Backed Securities Program**

Supplement to Prospectus Dated January 1, 2005

\$[            ] .00  
Issue Date [            ], 2005  
Security Description FNDM [            ] DMBS  
Fannie Mae Pool Number [            ]  
CUSIP [            ]  
Principal Payable on [            ]

----- Pool Statistics (as of Issue Date) -----

Number of Participation Interests .....	[	]
Outstanding Balance .....	[	]
Maturity Date .....	[	]
Seller .....	[	]
Servicer .....	[	]
Type of DMBS Certificate .....	[	]

**Geographic Distribution of Security Properties\***

\_\_\_\_\_  
\* See Schedule of Loan Information

The date of this Supplement is [            ]

(Pool No. [    ])

**Fannie Mae  
Multifamily Negotiated Transactions  
Schedule of Loan Information**

Number of Advances Outstanding:.....	[	]	*
Fannie Mae Pool Number:.....	[	]	
Aggregate Issue Date Principal Balance: .....	[	]	
Number of Mortgaged Properties: .....	[	]	*
Aggregate Real Property Value**: .....	[	]	
Value of Other Collateral: .....	[	]	
Total Collateral Value: .....	[	]	

(Pool No. [    ] )

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\* Additional information regarding each Advance and each Mortgaged Property on Succeeding Pages of this Schedule of Loan Information.



**Fannie Mae  
Multifamily Negotiated Transactions  
Schedule of Loan Information**

**Advances Outstanding**

Fannie Mae CUSIP No.: .....	[	]
Fannie Mae Pool Number: .....	[	]
Issue Date Principal Balance: .....	[	]
Issue Date: .....	[	]
Original Amortization Term: .....	[	]
Mortgage Note Interest Rate: .....	[	]
1st Monthly Payment Date: .....	[	]
Maturity Date: .....	[	]
Lockout Flag/#Mos.: .....	[	]
Prepayment Premium: .....	[	]
U.S. Treasury Security Due Date: .....	[	]
U.S. Treasury Yield Rate: .....	[	]

**Original Amortization Term:** The number of months used to calculate original monthly principal and interest payment.

**Lockout Period:** The number of months in the lockout period from the date that the Advance is made.

**1st Monthly Payment Date:** The first date that a payment is due and payable.

**Prepayment Premium:** See the body of the Prospectus Supplement for additional information.

**U.S. Treasury Security Due Date:** The maturity date of the U.S. Treasury Security used for calculation of the Prepayment Premium, if any. See the body of the Prospectus Supplement for additional information.

(Pool No. [    ])

**Fannie Mae  
Multifamily Negotiated Transactions  
Schedule of Loan Information**

**Student Housing Facility**

City: ..... [                    ]  
State: ..... [                    ]  
Zip Code: ..... [                    ]  
No. Units: ..... [                    ]  
Co-op Ind.: ..... [                    ]  
Value: ..... [                    ]

**Value:** The value of the Property, as most recently reported to Fannie Mae by the servicer of the Mortgage Loan; see the body of the Prospectus Supplement for additional information.

(Pool No. [     ] )

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No one is authorized to give information or to make representations in connection with the DMBS certificates other than the information and representations contained in this prospectus. You must not rely on any unauthorized information or representation. This prospectus does not constitute an offer or solicitation with regard to the DMBS certificates if it is illegal to make such an offer or solicitation to you under state law. By delivering this prospectus at any time, no one implies that the information contained in it is correct after its date.

The Securities and Exchange Commission has not approved or disapproved the DMBS certificates or determined if this prospectus or any supplement to this prospectus is truthful and complete. Any representation to the contrary is a criminal offense.

Additional prospectuses and information regarding outstanding pools are available upon request by calling us at 800-237-8627 or by going to our corporate Web site at [www.fanniemae.com](http://www.fanniemae.com).

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# Guaranteed Discount Mortgage-Backed Certificates (Multifamily Residential Mortgage Loans)

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## MULTIFAMILY DMBS PROSPECTUS

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January 1, 2005

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