MBS Prospectus

FannieMae

Guaranteed Mortgage Pass-Through Certificates
(Residential Mortgage Loans)

Principal and interest paid on the 25th day of each month

The Certificates

We, the Federal National Mortgage Association or Fannie Mae, will issue and guarantee the certificates. Each issue of certificates will have its own identification number and will represent the ownership of a pool of residential mortgage loans secured by single-family properties or, if the prospectus supplement for a particular issue so provides, residential mortgage loans secured by multifamily properties.

Fannie Mae Guaranty

We guarantee that the holders of the certificates will receive timely payments of interest and principal. **Neither the certificates nor interest on the certificates are guaranteed by the United States, and they do not constitute a debt or obligation of the United States or any of its agencies or instrumentalities other than Fannie Mae.**

Types of Mortgage Loan Pools

A single-family loan pool generally will consist of one of the following types of single-family mortgage loans:

- Fixed-rate, monthly pay, level installment loans;
- Fixed-rate, biweekly pay, level installment loans;
- Fixed-rate loans with a balloon payment due at maturity; or
- Adjustable rate loans with or without deferred interest or a balloon payment due at maturity.

A multifamily loan pool generally will consist of one of the following types of multifamily loans:

- Fixed-rate, monthly pay, level installment loans;
- Fixed-rate loans with a balloon payment due at maturity; or
- Adjustable rate loans with or without deferred interest or a balloon payment due at maturity.

Consider carefully the Risk Factors section beginning on page 9. Unless you understand and are able to tolerate these risks, you should not invest in the certificates.

The certificates are exempt from registration under the Securities Act of 1933 and are "exempted securities" under the Securities Exchange Act of 1934.

The date of this Prospectus is October 1, 1999

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* Beginning with the section of this prospectus entitled "The Mortgage Pools," we often use certain capitalized terms that are defined in this prospectus. The Index of Defined Terms tells you the numbers of the pages where we define these capitalized terms.

INFORMATION ABOUT PROSPECTUS SUPPLEMENTS

We will provide information that supplements this prospectus in connection with each issue of certificates. Such a prospectus supplement will be available in paper form as described below and, in the case of certificates backed by fixed-rate single-family mortgage loans, may also be posted on an electronic wire service. The disclosure documents for any particular issue of certificates are this prospectus and the prospectus supplement for that issue, together with any information incorporated in these documents by reference as discussed below under the heading "Additional Information About Fannie Mae." **Because the prospectus supplement will contain specific information about a particular issue of certificates, you should rely on the information in the prospectus supplement to the extent it is different from the information in this prospectus.** Each prospectus supplement generally will include the following:

- the aggregate principal amount and interest rate (or method of calculating the interest rate) of the loans in the pool;
- a description of the loans in the pool;
- whether the loans in the pool are conventional or government-insured/ guaranteed;
- identification of the types of property that secure the loans in the pool;
- any restrictions on prepayments of the loans in the pool;
- when payments are due on the loans in an adjustable-rate loan pool;
- other pool statistics;
- the payment date for the certificates;
- the rate of interest (or method of calculating the interest rate) of the certificates;
- the final distribution date of the certificates; and
- if the certificates will not be maintained on the book-entry system of the U.S. Federal Reserve Banks, a description of the book-entry system on which the certificates will be maintained.

Where requested by a lender, prospectus supplements also may include loan level detail regarding the location of the properties securing the mortgage loans, the borrowers' income levels and loan balances, or in some cases may provide information on how and when such loan level detail can be obtained at a later time.

You can obtain copies of this prospectus and any related prospectus supplement by writing us at Fannie Mae, 3900 Wisconsin Avenue, N.W., Area 2H-3S, Washington, D.C. 20016 or by calling the Fannie Mae Helpline at 1-800-237-8627 or (202) 752-6547. The prospectus supplement is generally available three business days before settlement of the related issue of certificates.

FANNIE MAE

Fannie Mae is a federally chartered and stockholder-owned corporation organized and existing under the Federal National Mortgage Association Charter Act, 12 U.S.C. § 1716 *et seq.* (the ''Fannie Mae Charter Act''). We were established in 1938 as a United States government agency to provide supplemental liquidity to the mortgage market and were transformed into a stockholder-owned and privately managed corporation by legislation enacted in 1968. Today, we are the largest investor in residential mortgage loans in the United States.

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 certificates primarily in exchange for pools of mortgage loans from lenders. By issuing 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, N.W., Washington, D.C. 20016 (telephone: (202) 752-7000).

ADDITIONAL INFORMATION ABOUT FANNIE MAE

You also should read:

- our current Information Statement dated March 31, 1999;
- the Supplements to the Information Statement dated May 14, 1999 and August 13, 1999; and
- any additional Supplements and any more current Information Statement.

These documents contain important financial and other information about Fannie Mae which we are incorporating by reference in this prospectus. This means that we are disclosing important information to you by referring to these documents, so you should read them together with this prospectus.

We publish our Information Statement annually and update it from time to time generally to reflect quarterly and annual financial results. When we use the term ''Information Statement'' in this prospectus, we mean our most recent Information Statement as of the issue date for a particular issue of certificates, together with any Supplements to that Information Statement. You should always rely on the most current information.

You can read our Information Statement and other information about us at the offices of the New York Stock Exchange, the Chicago Stock Exchange and the Pacific Exchange. We are not subject to the periodic reporting requirements of the Securities Exchange Act of 1934, so we do not file reports or other information with the Securities and Exchange Commission.

You can obtain copies of our Information Statement, all the other documents incorporated by reference and additional information about us, without charge, by writing us at Office of Investor Relations, Fannie Mae, 3900 Wisconsin Avenue, N.W., Washington, D.C. 20016, or by calling us at 1-800-701-4791. You also can obtain certain of these documents from our World Wide Web site at http://www.fanniemae.com.

We may discontinue providing any of the information referenced in this section at any time without notice.

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 certificates, you should have the complete picture. For that, you must read this prospectus in its entirety as well as any applicable prospectus supplement for that issue.

Title of Security	Guaranteed Mortgage Pass-Through Certificates.
Issuer and Guarantor................	Fannie Mae, a federally chartered and stockholder-owned corporation. **Neither the certificates nor interest on the certificates are guaranteed by the United States, and they 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.**
Description of Certificates	Each certificate will represent an ownership interest in a pool of mortgage loans. We will issue the certificates in book-entry form on the book-entry system of the U.S. Federal Reserve Banks, unless we specify a different system in the related prospectus supplement. The book-entry certificates will not be convertible into physical certificates. Each book-entry certificate initially will represent a minimum of $1,000 unpaid principal amount of mortgage loans.
Distribution Date....................	The 25th of each month is the day designated for payments to certificateholders. If that day is not a business day, payment will be made on the next business day.
Interest..............................	We will pay interest on the certificates each month on the distribution date. If a pool contains fixed-rate mortgage loans, we will pass through to certificateholders interest at the uniform pass-through rate specified in the related prospectus supplement. This pass-through rate will

not exceed the lowest annual interest rate of any loan in that pool, less our servicing and guaranty fee.

If a pool contains adjustable-rate loans, we will pass through to certificateholders interest at the applicable mortgage interest rate, less our servicing and guaranty fee for the loan and less any deferred interest added to the principal of the loan as a result of ''negative amortization.''

Principal (including prepayments)	On each distribution date, we will pass through to certificateholders the amount of principal required to be distributed on the related issue of certificates.
Monthly Factors	Shortly after the fourth day of each month, we will publish the ''monthly factor'' for the certificates. If you multiply the monthly factor by the original principal balance of the certificates, you will obtain the current principal balance of the certificates (after giving effect to that month's principal payment).
Guaranty	On each distribution date, we guaranty that we will pay investors the scheduled principal payments on the mortgage loans together with interest at the specified pass-through rate. In addition, if we foreclose on a loan, we guaranty that we will pay investors the full principal balance of that loan even if we receive a lesser amount. If we were unable to fulfill our guaranty obligations, investors would receive only borrower payments and other recoveries on the mortgage loans. If that happened, loan delinquencies and defaults would directly affect the amounts that investors would receive each month.
Servicing	We will be responsible for servicing the mortgage loans in each pool, although we usually contract with mortgage lenders to perform certain servicing functions for us.

Mortgage Pools...................... Each mortgage loan will meet the guidelines described under the heading ‘‘Fannie Mae Purchase Program’’ unless we waive them. The prospectus supplement for each issue of certificates will provide more detailed information about the mortgage loans in that pool.

Security Type .... Each mortgage loan will be a residential property loan or a cooperative share loan.

Pool Type....................... In general, each single-family loan pool that we form will consist of one of the following types of single-family mortgage loans:

- Fixed-rate, monthly pay, level installment loans;
- Fixed-rate, biweekly pay, level installment loans;
- Fixed-rate loans with a balloon payment due at maturity; or
- Adjustable-rate loans that may permit deferred interest as a result of ‘‘negative amortization’’ or provide for a balloon payment due at maturity.

In general, each multifamily loan pool that we form will consist of one of the following types of multifamily mortgage loans:

- Fixed-rate, monthly pay, level installment loans;
- Fixed-rate loans with a balloon payment due at maturity; or
- Adjustable-rate loans that may permit deferred interest as a result of ‘‘negative amortization’’ or provide for a balloon payment due at maturity.

Minimum Pool Size........... Unless the prospectus supplement provides otherwise, every pool that backs an issue of certificates will consist of:

- Fixed-rate mortgage loans that have an aggregate unpaid principal balance of at least $1,000,000; or
- Adjustable-rate mortgage loans that have an aggregate unpaid principal balance of at least $500,000.

RISK FACTORS

We have listed below some of the risks associated with an investment in the 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 certificates are a suitable investment for you.

Suitability

The certificates are **not** a suitable investment for every investor.

- Before investing, you should have sufficient knowledge and experience to evaluate the merits and risks of the certificates and the information contained in this prospectus, the applicable prospectus supplement and the documents incorporated by reference.
- You should thoroughly understand the terms of the certificates.
- You should be able to evaluate (either alone or with the help of a financial advisor) the economic, interest rate and other factors that may affect your investment.
- You should have sufficient financial resources and liquidity to bear all risks associated with the certificates.
- You should investigate any legal investment restrictions that may apply to you.

Yield Considerations

Your effective yield on the certificates will depend upon:

- the price you paid for the certificates;
- how quickly or slowly borrowers prepay the mortgage loans underlying your certificates;
- whether and to what extent borrowers are prohibited from prepaying the mortgage loans underlying your certificates;
- when and if mortgage loans underlying your certificates are liquidated due to borrower defaults, casualties or condemnations affecting the properties securing those loans;
- if and when the mortgage loans underlying your certificates are repurchased; and
- the actual characteristics of the mortgage loans underlying your certificates.

Generally, if you purchase a certificate at a discount and the underlying mortgage loans are prepaid at a rate slower than you expected, your yield on that certificate will be less than you expected. Similarly, if you purchase a certificate at a premium and the underlying mortgage loans are prepaid at a rate faster than you expected, your yield on that certificate also will be less than you expected.

Even if the underlying mortgage loans are prepaid at a rate that on average is consistent with your expectations, variations in the rate over time can significantly affect your yield. Generally, the earlier the payment of principal, the greater the effect on the yield to maturity. As a result, if the rate of principal prepayment during any period is faster or slower than you expected, a corresponding reduction or increase in the prepayment rate during a later period may not fully offset the effect of the earlier rate on the yield.

In addition, because interest accrues on the certificates during each calendar month but is not paid to certificateholders until the 25th day of the following month, the effective yield will be less than it would be if we paid interest earlier. As a result, the market value of your certificates will be reduced.

For a more detailed discussion, see "Yield Considerations."

You must make your own decision as to the principal prepayment assumptions you will use in deciding whether to purchase the certificates.

Prepayment Considerations

The rate of principal payments on the certificates will depend on the rate of principal payments on the mortgage loans. Principal payments will occur as a result of scheduled amortization or prepayments.

Many mortgage loans provide that the lender can require repayment in full if the borrower sells the property that secures the loan. In this way, property sales by borrowers can affect the rate of prepayment. In addition, certain multifamily loans permit the lender to require repayment in full if additional liens are placed on the mortgaged properties. Furthermore, borrowers often seek to refinance their loans by obtaining new loans secured by the same properties. Refinancing of loans also affects the rate of prepayment. In general, the rates of prepayment may be influenced by:

- the level of current interest rates relative to the rates borne by the loans in a particular pool;
- homeowner mobility;
- the existence of any prepayment premiums or prepayment restrictions;
- borrower sophistication regarding the benefits of refinancing;
- solicitation by competing lenders; and
- general economic conditions.

Because so many factors affect the rate of prepayment of a pool of mortgage loans, we cannot estimate the prepayment experience of the mortgage loans in a particular pool.

Repurchases Due to Breach of Representations and Warranties

The financial institution that sells us the mortgage loans in a particular pool makes certain representations and warranties covering the loans. If there is a material breach of these representations and warranties, we may choose to repurchase the affected loans from the pool. If we do, we will purchase those loans at a price equal to their principal balance plus accrued interest at the pass-through rate in the case of fixed-rate mortgage loans or the accrual rate in the case of adjustable-rate mortgage loans. Such repurchase may affect your yield on the certificates.

Repurchases Due to Delinquency

In general, a number of factors may affect the rate of delinquency for mortgage loans in a pool. Some of these factors include:

- general economic conditions;
- local or regional employment conditions;
- borrower creditworthiness, which may be indicated by credit scores,

debt to income ratios, loan-to-value ratios, or other factors;

- significant changes in borrowers' required mortgage loan payments;
- uninsured natural disasters; and
- borrower bankruptcy or other insolvency.

Because we are unable to predict whether or to what extent the above factors will occur or change, we cannot estimate the delinquency experience of the mortgage loans in a particular pool.

We may repurchase from any pool mortgage loans that are delinquent by at least four consecutive monthly payments (or at least eight consecutive biweekly payments). If we do, we will purchase the mortgage loans at a price equal to their principal balance plus accrued interest at the pass-through rate in the case of fixed-rate mortgage loans or the accrual rate in the case of adjustable-rate mortgage loans.

Reinvestment Risk

Generally, a borrower may prepay a mortgage loan at any time. As a result, we cannot predict the amount of principal payments on the certificates. The certificates generally may not be an appropriate investment for you if you need to receive a specific amount of principal payments on a regular basis or on a specific date. Because interest rates fluctuate, you may not be able to reinvest the principal payments on the certificates at an interest rate that is as high as the interest rate borne by the certificates. You may have to reinvest those funds at a much lower interest rate. You should consider this risk in light of other investments that may be available to you.

Market and Liquidity Considerations

We cannot be sure that a market for resale of the certificates will develop. Further, if a market develops, it may not continue or be sufficiently liquid to allow you to sell your certificates. Even if you are able to sell your certificates, the sale price may not be comparable to similar investments that have a developed market. Moreover, you may not be able to sell small or large amounts of certificates at prices comparable to those available to other investors.

A number of factors may affect the resale of certificates, including the following:

- the method, frequency and complexity of calculating principal or interest;
- the average age of the mortgage loans in the pool;
- the outstanding principal amount of the certificates;
- the amount of certificates offered for resale from time to time;
- any legal restrictions or tax treatment limiting demand for the certificates;
- the availability of comparable securities; and
- the level, direction and volatility of interest rates generally.

Multifamily Loan Considerations

Multifamily loans are considered to be riskier than single-family loans for reasons that include those listed below.

- They typically are much larger in amount, thus increasing the risk represented by the default of a single borrower.

- Repayment of the loan usually depends upon successful operation of the multifamily property that secures the loan.
- Changing economic conditions will affect the supply and demand of rental units and the rents that the market will bear.
- Government regulations (such as rent control laws) may adversely affect future income from the property.

In addition, because individual multifamily loans often are large, principal prepayments resulting from defaults, casualties, condemnations or breaches of representations and warranties may significantly affect your yield.

Fannie Mae Guaranty Considerations

If we were unable to perform our guaranty obligations, certificateholders would receive only borrower payments and other recoveries on the mortgage loans. If that happened, delinquencies and defaults on the mortgage loans would directly affect the amounts that certificateholders would receive each month.

THE MORTGAGE POOLS

We have set up a program to combine various types of residential mortgage loans into pools and then to issue and sell our Guaranteed Mortgage Pass-Through Certificates (the "Certificates") backed by the pooled loans. Each pool will have its own identification number and can include some or all of the following types of residential loans:

- loans secured by mortgages, deeds of trust or other security arrangements on residential properties (each, a "Residential Property Loan");
- loans secured by pledges of ownership interests and assignments of occupancy rights in cooperative housing corporations (each, a "Cooperative Share Loan"); and
- participation interests in the above types of loans.

We refer to a loan or participation interest that fits into one of these categories as a "Mortgage Loan."

Each Mortgage Loan must include a promissory note or other proof of the borrower's debt. If the Mortgage Loan is a Residential Property Loan, it must be secured by a mortgage or similar security agreement on either a one- to four-family residential property (commonly known as a "single-family" property) or a multifamily residential property of five or more units. Unless the prospectus supplement for a pool provides otherwise, this mortgage must have priority over all other liens on the property ("first lien position"). If the Mortgage Loan is a Cooperative Share Loan, it must be secured by a pledge of the borrower's ownership interest in the cooperative corporation and an assignment of the right to occupy the borrower's unit. This pledge must be in first lien position after the cooperative corporation's lien for unpaid assessments representing the borrower's share of certain obligations of the cooperative corporation.

Mortgage Loans secured by single-family properties consist of the following types:

Fixed-Rate Loans:

Level Payment Loans—Each scheduled monthly payment of principal and interest is in the same amount and fully amortizes the loan over its term.

Fully Graduated GPMs—A "GPM" is a loan where the scheduled monthly payments of principal and interest will gradually increase over a fixed period of time since a portion of the interest that accrues during the fixed period is deferred. If a pool contains GPMs where no additional interest will be deferred after the pool's issue date, we refer to them as "Fully Graduated GPMs." Only Fully Graduated GPMs are considered Fixed-Rate Loans.

Fully Increased GEMs—A "GEM" is a loan where the scheduled monthly payments of principal and interest are subject to scheduled annual increases over a certain period of time, with the full amount of the increases being applied to principal. If a pool contains GEMs where no further payment increase is scheduled to occur after that pool's issue date, we refer to them as "Fully Increased GEMs." Only Fully Increased GEMs are considered Fixed-Rate Loans.

Balloon Loans—Each scheduled monthly payment of principal and interest, except the final payment, is in the same amount. The final scheduled payment at maturity is a lump sum or "balloon" payment that is substantially larger than any previous scheduled payment.

Biweekly Loans: Each scheduled payment of principal and interest is in the same amount, is due every 14 days and fully amortizes the loan over its term.

ARMs: Adjustable-rate loans, some of which may permit deferred interest or include balloon payments.

Each Fannie Mae pool that consists of Mortgage Loans secured by single-family properties generally will include one of the four following types of Mortgage Loans:

- Level Payment Loans, Fully Graduated GPMs and/or Fully Increased GEMs,
- Balloon Loans,
- Biweekly Loans or
- ARMs.

Each Fannie Mae pool that consists of Mortgage Loans secured by multifamily properties generally will include one of the two following types of Mortgage Loans:

- Fixed-Rate Loans that may have a balloon payment due at maturity or other unique features or
- ARMS that may have deferred interest as a result of "negative amortization," a balloon payment due at maturity or other unique features.

In general, each Fannie Mae pool will consist of either "Conventional Mortgage Loans" (*i.e.*, not government-insured or government-guaranteed) or "Government Mortgage Loans" (*i.e.*, insured or guaranteed by a United States government agency).

Unless we provide otherwise in the prospectus supplement for a particular pool, every Fannie Mae pool will consist of:

- Fixed-Rate Loans that have an aggregate unpaid balance of at least $1,000,000 or
- ARMs that have an aggregate unpaid balance of at least $500,000.

In each case, the aggregate unpaid balance is measured as of the first day of the month in which the Certificates are issued.

We describe other criteria for including Mortgage Loans in our pools under the heading ‘‘Fannie Mae Purchase Program—Eligible Mortgage Loans.’’

When we purchase Mortgage Loans expressly for inclusion in pools, we do so under purchase contracts with lenders. These contracts require that we will issue Certificates to (or at the order of) the lenders named in the contracts upon the lenders’ delivery to us of the required Mortgage Loans. **We will not insure or guarantee that any lender will perform its obligation to deliver Mortgage Loans. Likewise, we will not insure or guarantee that any parties will perform any obligations they may have to deliver Certificates.**

We will hold the Mortgage Loans in each pool for the benefit of the investors in that pool. Certificates backed by pools made up of Fixed-Rate Loans, Balloon Loans or Biweekly Loans secured by single-family properties or Fixed-Rate Loans secured by multifamily properties are governed by the Fixed-Rate Trust Indenture originally executed as of November 1, 1981 and last revised as of January 1, 1987. Certificates backed by pools made up of ARMs are governed by the ARM Trust Indenture originally executed as of July 1, 1984 and last revised as of January 1, 1987. In each case, we have executed the applicable Trust Indenture both in our corporate capacity and in our capacity as trustee under the Trust Indenture. In addition, each issue of Certificates will be governed by an issue supplement to the applicable Trust Indenture.

Under either the Fixed-Rate Trust Indenture or ARM Trust Indenture, we are responsible only for the following:

- administering and servicing the Mortgage Loans in the pool,
- supervising the servicing activity of lenders (if servicing has been delegated to lenders),
- collecting payments from lenders (if servicing has been delegated to lenders), and
- sending payments and reports to Certificateholders.

In addition, we are obligated to make supplemental payments to Certificateholders if a Mortgage Loan is delinquent or there is a loss on the Mortgage Loan. For more information about our guaranty obligations, see ‘‘Description of Certificates—The Fannie Mae Guaranty.’’

Cooperative Share Loan Pools

A ‘‘Cooperative Share Loan Pool’’ consists of Cooperative Share Loans. Each Cooperative Share Loan is secured by the pledge of the borrower’s shares or other ownership interest in a cooperative corporation (a ‘‘Cooperative’’) and assignment of the borrower’s right to occupy a particular dwelling unit in the cooperative housing project. The Cooperative itself owns the cooperative housing project, including all the individual dwelling units as well as the common areas, and owns (or leases) the land on which the project is built. The Cooperative manages the project and generally is responsible for paying real property taxes on the project.

Sometimes the project is financed by a project mortgage, in which case the Cooperative is responsible for paying the project mortgage.

The individual tenant-shareholders own shares or other ownership interests in the Cooperative and receive proprietary leases or occupancy agreements that grant them exclusive rights to live in particular residential units in the cooperative housing project. Typically, tenant-shareholders make monthly payments to the Cooperative for their share of the project mortgage payment, real property taxes, general maintenance, and special and other assessments. (If the project is on a ground lease, their payments also will include ground rent.) Cooperative Share Loans allow tenant-shareholders to purchase or refinance their ownership interests.

In a Cooperative Share Loan, the borrower signs a promissory note and a security agreement in favor of the lender. Under the security agreement, the borrower gives as ''Collateral'' to the lender the borrower's ownership interest in the Cooperative and the borrower's lease of a particular unit, subject to the Cooperative's lien for the borrower's share of the project mortgage payment, real property taxes, general maintenance, and special and other assessments that the borrower has not paid. (If the project is on a ground lease, the borrower's share also could include ground rent.) The originating lender takes possession of the Collateral. The lender also files a financing statement under the Uniform Commercial Code of the state where the project is located to protect its interest in the Collateral. A local jurisdiction also may require that the filing be recorded in its land records. In addition, the lender and the Cooperative usually enter into a ''recognition agreement'' in which the Cooperative recognizes the lender's rights and the Cooperative's responsibilities to the lender in the event of default under the borrower's proprietary lease or occupancy agreement.

Cooperative Blanket Loans

A ''Cooperative Blanket Loan'' is a mortgage loan made to a Cooperative and secured by a mortgage on a cooperative housing project owned by the Cooperative. We will include Cooperative Blanket Loans in pools of multifamily Mortgage Loans.

YIELD CONSIDERATIONS

Payment Delay Reduces Effective Yield

Interest accrues on the Certificates in a pool at the Pass-Through Rate or Pool Accrual Rate depending on the type of pool. Although interest on the Certificates accrues during each calendar month, Fannie Mae will not distribute the interest to Certificateholders until the 25th day of the following month. This delay will reduce the effective yield on the Certificates.

Fixed-Rate Pools

A ''Fixed-Rate Pool'' consists of Fixed-Rate Loans. Although the loans in a Fixed-Rate Pool will bear various fixed rates of interest, Certificateholders will receive interest at a single fixed Pass-Through Rate. The ''Pass-Through Rate'' is equal to the lowest interest rate on any loan in that pool less our servicing and guaranty fee. As a result even if prepayments occur on loans in the same pool that bear various fixed rates of interest, these prepayments cannot affect the related Pass-Through Rate. We will specify this Pass-Through Rate in the related prospectus supplement.

When a borrower prepays a Mortgage Loan or when a Mortgage Loan is liquidated, we will distribute the proceeds in the following month (except in the circumstances we discuss below under the heading ''Description of Certificates—Payments on Mortgage Loans; Distributions on Certificates''). Because we promise to pay a full month's interest at the Pass-Through Rate on the outstanding principal balance of the Certificates, an investor's interest return will not be affected by the prepayment (or liquidation) of any Mortgage Loan or by the delay in receiving it.

Biweekly Mortgage Pools

A ''Biweekly Mortgage Pool'' consists of Biweekly Loans. We calculate the borrower's biweekly payment amount by dividing the comparable monthly payment amount (normally for a standard 30-year loan) by two. Because the borrower's payments are due every 14 days under a Biweekly Loan, there are 26 payments in a year (or 27 in some years). Biweekly Loans generally have two biweekly payments during ten months a year and three payments in the other two months. In years with 27 payments, Biweekly Loans have two biweekly payments during nine months and three payments in the other three months. However, months having three biweekly payments may vary among the loans in any given Biweekly Mortgage Pool.

Because the borrower under a Biweekly Loan makes payments more frequently and in a larger total annual amount than under a comparable monthly pay 30-year loan, the principal of a Biweekly Loan will be repaid faster. The borrower's total payments each year will be greater than for a comparable monthly pay 30-year loan because the biweekly borrower pays one-half of the 30-year monthly payment amount 26 or 27 times each year instead of only 24 times. For example, a $100,000 mortgage loan with a 9% interest rate would mature in less than 22 years under a biweekly payment schedule. In addition to shortening the term of the loan, a biweekly payment schedule also amortizes the loan faster in the early years. In the chart below, we compare the amortization of a monthly payment schedule (based on a 30-year loan term) and a biweekly payment schedule for two $100,000 loans, one at a 9% interest rate and the other at 10%.

	Monthly—9%	Biweekly—9%
Beginning Principal Balance—	$100,000	$100,000
Balance at end of: Year 1	99,317	98,449
Year 5	95,880	90,651
Year 10	89,430	76,018
Year 15	79,331	52,896
Year 20	63,520	16,925

	Monthly—10%	Biweekly—10%
Beginning Principal Balance—	$100,000	$100,000
Balance at end of: Year 1	99,444	98,493
Year 5	96,574	90,714
Year 10	90,938	75,440
Year 15	81,665	50,070
Year 20	66,408	8,585

The interest rate on a Biweekly Loan affects its term. We will indicate the actual range of interest rates on the loans in each Biweekly Mortgage Pool and their weighted average interest rate in the related prospectus supplement. We also will set out in the prospectus supplement the weighted average term to maturity of the Biweekly Loans in that pool. However, we will not publish updated information on the weighted average interest rate and weighted average maturity for any Biweekly Mortgage Pool.

For each Biweekly Mortgage Pool, our guaranty covers a full month's interest at the Pass-Through Rate on the principal balance of your Certificate. (That amount of interest is the same as what it would be for a comparable pool of monthly payment loans). We also will include principal prepayments as well as the principal portion of the scheduled biweekly payments in our monthly payment. See "Description of Certificates—Payments on Mortgage Loans; Distribution on Certificates."

ARM Pools

General

An "ARM Pool" consists of Mortgage Loans that bear interest at rates that adjust periodically in response to changes in an index. The prospectus supplement will specify the adjustment period, the applicable index (which may be one of the indexes discussed below or a different one) and any limitations that may apply to the interest rate adjustments. The actual mortgage interest rate for each ARM is usually fixed for a certain period and then adjusts, subject to any caps that may apply, to equal the applicable index value plus a specified percentage amount (the "Mortgage Margin"). The mortgage note for an ARM usually provides that this sum is then rounded to the nearest, next lowest or next highest one-eighth or one-quarter of 1%. Some ARMs limit the amount by which the mortgage interest rate may be adjusted upward or downward and some limit the amount by which a borrower's monthly payments may be increased or decreased as a result of rate changes. Some ARMs provide that a borrower's monthly payments are adjusted periodically so that the loan will fully amortize by its maturity date; others permit substantial balloon payments; and still others permit the maturity date to be extended or shortened depending on the portion of each payment that is applied to interest as the rate changes over time. Unless we specify otherwise in the applicable prospectus supplement, each ARM will provide that, in the month following the month in which the mortgage interest rate adjusts, the monthly payment will adjust sufficiently to pay interest at the new rate and fully amortize the loan, on a level payment basis, by the maturity date.

Most ARMs have periodic caps that limit adjustments to the mortgage interest rate. This means that the mortgage interest rate, when adjusted under the standard formula for that loan, cannot increase or decrease by more than a specified percentage amount from the rate previously in effect. A periodic rate cap also may apply to the loan's first interest adjustment date. In addition, the mortgage interest rate for an ARM is usually subject to a lifetime interest rate ceiling and may be subject to a lifetime interest rate floor. Whenever an ARM is affected by a periodic maximum cap or lifetime ceiling, its mortgage interest rate will be less than it would have been under the basic formula of ''index value plus Mortgage Margin.'' When an ARM is affected by a periodic minimum cap or a lifetime floor, its mortgage interest rate will be more than it would have been under the basic formula. The prospectus supplement will provide information about the periodic and lifetime caps and floors that apply to the ARMs in that pool.

Some ARMs permit ''negative amortization.'' This type of loan limits the amount by which monthly payments may be increased or provides for more frequent changes in the mortgage interest rate than in the monthly payment amount. As a result, the interest accrued during a given month may not be covered by the monthly payment amount. The amount of this uncovered interest is deferred and added to the principal balance of the loan.

Some ARMs give borrowers the right to have them converted into fixed-rate loans at the times and under the circumstances specified in the loan documents. These convertible ARMs will not be included in the same ARM Pool with non-convertible ARMs. The prospectus supplement for a convertible ARM Pool will specify the times when the ARMs may begin to accrue interest at a fixed rate and the method of calculating the fixed rate.

In general, the new fixed rate is based on a ''spread'' of at least 0.375% above the net yield we require or the Federal Home Loan Mortgage Corporation requires when purchasing 30-year fixed-rate loans under short-term mandatory delivery commitments around the time the convertible ARM converts to its fixed rate. (If the original term of the convertible ARM is 15 years or less, you look to the required net yield for 15-year fixed-rate loans.) During the calendar month before the loan begins to accrue interest at the new fixed rate, we will repurchase it from the pool at a price equal to its unpaid principal amount, together with one month's interest at its then-current Accrual Rate (which we define below). As a result, the weighted average life of the Certificates for a pool of convertible ARMs may be significantly shorter than for a comparable ARM Pool of non-convertible ARMs.

Our guaranty of Certificates for an ARM Pool covers the full principal amount of each ARM in the pool, including any portion of principal that represents deferred interest. Our guaranty of interest covers all the interest due and payable on each ARM by the borrower, net of our servicing and guaranty fee. In addition, when any ARM in the pool is prepaid, we guaranty that we will pay Certificateholders one full month's interest on the prepaid balance, even if the borrower has paid a lesser amount of interest. As a result, the time during a month when a borrower prepays an ARM will have no effect on a Certificateholder's interest return.

Pool Accrual Rate

As mentioned above, the ARMs in an ARM Pool bear interest rates that adjust periodically after an initial fixed period; and some ARMs may provide for negative amortization. As a result, the Certificates for an ARM Pool will not have a fixed Pass-Through Rate. Instead, Certificateholders will receive interest on each ARM in the pool at a monthly rate (the ''Accrual Rate'') equal to the mortgage interest rate of the ARM at that time net of our servicing and guaranty fee percentage. This fee percentage is calculated using one of two methods.

Under the first method, our fee percentage can vary among the ARMs in the pool having different Mortgage Margins to produce a margin (the ''MBS Margin'') that will be uniform across the entire pool. We refer to this type of ARM Pool as a ''Uniform MBS Margin Pool.'' Using the second method, our fee percentage is the same for each ARM in the pool so that if the ARMs have different Mortgage Margins, the MBS Margins for those ARMs will be different too. We refer to this type of ARM Pool as a ''Uniform Fee Pool.'' The following examples may clarify the different methods.

> *Uniform MBS Margin Pool.* If the MBS Margin is fixed at 1.75% for the pool, our servicing and guaranty fee for an ARM in the pool with a Mortgage Margin of 275 basis points would be 100 basis points and our fee for an ARM with a Mortgage Margin of 250 basis points would be 75 basis points.
>
> *Uniform Fee Pool.* If our servicing and guaranty fee is fixed at 1.00% for each ARM in the pool, an ARM with a Mortgage Margin of 275 basis points would have a MBS Margin of 1.75% and an ARM with a Mortgage Margin of 250 basis points would have a MBS Margin of 1.50%. So long as no periodic or lifetime cap is applicable to a given ARM in an ARM Pool, its Accrual Rate will equal (before rounding) the applicable index value plus the MBS Margin.

Interest accrues each month to the Certificateholders at a rate equal to the weighted average of the individual Accrual Rates of the ARMs in that pool. We call this the ''Pool Accrual Rate.'' If none of the ARMs in that pool is subject to a periodic or lifetime cap, the Pool Accrual Rate at any time will equal (before rounding) the applicable index value, plus the uniform MBS Margin in the case of a Uniform MBS Margin Pool or the weighted average of the individual MBS Margins in the case of a Uniform Fee Pool. (If the ARMs in the pool have different interest rate change dates, we will replace the index value in this formula with a weighted average of the applicable index values.) This formula does not work, however, when an ARM is in its initial fixed-rate period or is affected by a periodic or lifetime cap. In any case, the Pool Accrual Rate for a pool always will equal the weighted average of the mortgage interest rates of the ARMs in that pool less the fixed pool-wide servicing and guaranty fee due us in the case of a Uniform Fee Pool or less the weighted average of the individual fixed servicing and guaranty fees in the case of a Uniform MBS Margin Pool.

The prospectus supplement for each ARM Pool will set forth the range of Mortgage Margins for the ARMs in that pool as well as the fixed Uniform MBS Margin for a Uniform MBS Margin Pool or the initial weighted average MBS Margin as of the issue date for a Uniform Fee Pool. Because this initial weighted average MBS Margin can change each month due to differing amortization and prepayment rates of ARMs with different Mortgage Margins, we will publish an updated weighted average MBS Margin for each Uniform Fee Pool each month in the Monthly ARMs Report Supplement to our Monthly Factor Report, currently published in *The Bond Buyer*. This updated weighted average MBS Margin will apply to distributions made during the month when that issue of Monthly ARMs Report appears (based on the Accrual Rates of the previous month). Changes in the weighted average of the Mortgage Margins in a Uniform MBS Margin Pool will affect the Pool Accrual Rate when ARMs in that pool are in their initial fixed-rate period or are affected by the periodic or lifetime caps. However, we do not publish updated information for Uniform MBS Margin Pools.

The prospectus supplement for each ARM Pool will include the approximate maximum and minimum (if applicable) Pool Accrual Rates. We compute these rates using the maximum and minimum Accrual Rates of the ARMs in that pool weighted on the basis of their issue date principal balances. Differences in the amortization and prepayment rates and maturity dates of ARMs with different maximum and minimum mortgage interest rates will cause the initial maximum and minimum Pool Accrual Rates to change over the life of that pool. In addition, our fixed servicing and guaranty fee will cause the initial maximum and minimum Pool Accrual Rates for a Uniform MBS Margin Pool to change over the life of that pool. Finally, if the prospectus supplement discloses that a pool includes ARMs that permit a new borrower to assume the loan with a change in its maximum or minimum mortgage interest rate, this feature also may affect the maximum and minimum Pool Accrual Rates of that pool.

Maturity, Interest Rate Change Dates

The prospectus supplement for each ARM Pool will state the weighted average remaining term to maturity of the ARMs in that pool. It also will specify whether all the ARMs have the same interest rate change dates on and after that pool's issue date. If they do, the Accrual Rates for all the loans in that pool (following the first interest rate change date on or after that issue date) will be based on mortgage interest rates that have all been calculated using the same index value. If, however, the ARMs in a pool have various interest rate change dates, the Pool Accrual Rate for any month will be calculated based on mortgage interest rates that are based on varying index values (after the initial fixed-rate period of each ARM).

For example, if a pool has ARMs with both March 1 and August 1 annual interest rate change dates and a 45-day "look-back" period, interest will accrue to Certificateholders during the month of August with respect to the ARMs with the March 1 change date on the basis of the most recent index value available 45 days prior to March 1. With respect to the ARMs with the August 1 change date, interest will accrue on the basis of the most recent index value available 45 days prior to August 1. This variance means that the Pool Accrual Rate for that pool—even if it is a Uniform MBS Margin Pool—will likely represent a weighted average of the Accrual Rates of the ARMs in that pool. In any event, the prospectus supplement for each ARM Pool will specify the interest rate change dates for the ARMs in that pool. It also will specify the "Weighted Average Months to Roll." This last calculation represents the weighted average amount of time (in months) from that pool's issue date to the next interest rate change dates of all the ARMs in that pool.

The Indexes

The prospectus supplement for each pool will specify the index used to determine the mortgage interest rates for the ARMs in the pool. Two commonly used indexes are the weekly average yield on United States Treasury securities adjusted to a constant maturity of one year or three years[1], called the "One Year Treasury Index" and the "Three Year Treasury Index," respectively. U.S. Treasury yields at "constant maturity" are derived from the U.S. Treasury's daily yield curve, which relates the yield on a security to its scheduled time to maturity. This curve is based on the closing market bid yields on actively traded Treasury securities in the over-the-counter market. These market yields, in turn, are calculated from composites of quotations that five leading U.S. government securities dealers report to the Federal Reserve Bank of New York. This method provides a yield for a particular maturity even if there is no security of that exact maturity then outstanding.

Another common index is the Eleventh District Cost of Funds or "COFI Index" published by the Federal Home Loan Bank of San Francisco.[2] The COFI Index represents the monthly weighted average cost of funds for savings institutions in Arizona, California and Nevada that are members of the Eleventh Federal Home Loan Bank District. The COFI Index for a given month reflects the interest costs paid by member institutions on all types of funds that they held (such as savings deposits, time deposits, advances from the Federal Home Loan Bank of San Francisco, repurchase agreements and all other borrowings). The COFI Index is calculated by dividing the cost of funds by the average of the total funds outstanding at the end of that month and the prior month. That result is then annualized and adjusted to reflect the actual number of days in that month. (Sometimes, before these calculations are made, the component figures have to be adjusted to neutralize the effect of events such as a member institution leaving the Eleventh District or acquiring an institution outside the Eleventh District.) The COFI Index also is weighted to reflect the relative amounts of each type of funds that the member institutions held at the end of that month.

Because these funds mature at various times and their costs can react in different ways to changing conditions, the COFI Index does not necessarily reflect current market rates on new liabilities with similar maturities. Indeed, sometimes the COFI Index does not even move in the same direction as current market rates, because as longer term deposits and borrowings mature and are renewed at current rates, the COFI Index is still affected by the differential between the old and new rates on these deposits and borrowings.

[1] These indexes are published by the Board of Governors of the Federal Reserve System in *Federal Reserve Statistical Release: Selected Interest Rates No. H.15 (519)*. This release usually appears on Monday or Tuesday of every week. You can obtain a copy by writing the Publications Department at the Board of Governors of the Federal Reserve System, 21st and "C" Streets, Washington, D.C. 20551 or by calling (202) 452-3244.

[2] The COFI Index is published in the monthly Federal Home Loan Bank of San Francisco Bulletin. You can obtain a copy by writing to the Office of Public Information, Federal Home Loan Bank of San Francisco, P.O. Box 7948, 600 California Street, San Francisco, California 94120 or by calling (415) 616-1000. You can also obtain the COFI Index by calling (415) 616-2600.

The following table lists some historical values for the indexes we have discussed. The values listed for the One Year Treasury Index and the Three Year Treasury Index are the ones published in the first week of that month. Each value listed for the COFI Index is the weighted average cost of funds for the particular month, but the index value is not published until the last working day of the following month.[3]

Year-Month	One Year Treasury Index	Three Year Treasury Index	COFI Index
1991—June	6.13%	7.07%	7.155 %
—December	4.74	5.81	6.245
1992—June	4.27	5.83	5.258
—December	3.82	5.35	4.432
1993—June	3.55	4.60	4.050
—December	3.62	4.54	3.879
1994—June	5.31	6.29	3.804
—December	6.89	7.62	4.589
1995—June	5.71	5.83	5.179
—December	5.39	5.47	5.059
1996—June	5.70	6.34	4.809
—December	5.41	5.75	4.842
1997—June	5.86	6.44	4.853
—December	5.50	5.77	4.963
1998—June	5.43	5.56	4.881
—December	4.46	4.42	4.655
1999—June	4.93	5.43	4.504
—July	5.11	5.68	4.500
—August	5.07	5.65	4.5620
—September	5.29	5.80	*
—October	5.24	5.73	*

* Not available as of the date of this prospectus.

Unless the prospectus supplement for a particular pool provides otherwise, the index value used to calculate each ARM's mortgage interest rate on each interest rate change date will be the most recent one available 45 days prior to that change date. For each Distribution Date on the Certificates in an ARM Pool, the index value will be the one used to determine the mortgage interest rates of the ARMs in that pool for the prior month. (If the ARMs in the pool have various interest rate change dates, we will use a weighted average of those index values.)

[3] The Federal Home Loan Bank of San Francisco has stated in its Information Bulletin that the COFI Index for a given month "will be announced on or near the last working day" of the following month. However, it also has stated that it "cannot guarantee the announcement" of the COFI Index on an exact date.

Actual/360 Multifamily Mortgage Loans

Certain multifamily Mortgage Loans may provide that interest will be calculated on the basis of the actual number of days in the related interest period and a year assumed to consist of 360 days (the ‘‘Actual/360 Method’’) rather than a year assumed to consist of twelve 30-day months (the ‘‘30/360 Method’’). As a result, a Mortgage Loan accruing interest based on the Actual/360 Method will generate more interest and, accordingly, will amortize at a slower rate than a Mortgage Loan accruing interest at the same mortgage interest rate based on the 30/360 Method.

For example, a Mortgage Loan with a first payment date of January 1, 1999, an issue date principal balance of $1,000,000, an original amortization term and an original term of thirty years, and a mortgage interest rate of 7.5% calculated on the Actual/360 Method will have an unpaid principal balance of approximately $883,546 after ten years, in the absence of prepayments. If such Mortgage Loan were to accrue interest under the 30/360 Method, it would have an unpaid principal balance of approximately $867,950 after ten years, in the absence of prepayments.

In addition, a Mortgage Loan using the Actual/360 Method will have a balloon payment due at maturity even though the related term to maturity is equal to the related amortization term. For example, a Mortgage Loan having the characteristics described above but using the Actual/360 Method would have an unpaid principal balance of approximately $103,321 due at maturity, in the absence of prepayments. Using the same illustration but changing the mortgage interest rate to 10% results in an unpaid principal balance of approximately $251,622 at maturity.

A prospectus supplement will specify if a multifamily Mortgage Loan employs the Actual/360 Method.

MATURITY AND PREPAYMENT ASSUMPTIONS

Almost all Conventional Mortgage Loans that are Level Payment Loans will have original maturities either up to 15 years or from 16 to 30 years. If a borrower makes all scheduled payments—but no prepayments—on a Level Payment Loan (other than a Fully Graduated GPM, a Fully Increased GEM or a Biweekly Loan) that has an original maturity of 30 years, one-half of the original principal balance of the loan will be repaid by the 23rd to 27th year, depending on the level of the mortgage interest rate of the loan. (Higher mortgage interest rates result in a slower scheduled amortization of principal.) Similarly, if a borrower makes all scheduled payments—but no prepayments—on the same type of fully amortizing Level Payment Loan that instead has an original term of 15 years, one-half of the original principal balance of the loan will be repaid by the 10th to 12th year. Balloon Loans have level monthly payments that generally are based on a 30-year amortization schedule with a lump sum payment of the unpaid principal balance due on the maturity date. The original maturities of Balloon Loans may range from seven to ten years. The original maturities of ARMs may be up to 30 years, unless the prospectus supplement for a particular pool provides otherwise.

Many Conventional Mortgage Loans contain a ‘‘due-on-sale’’ clause. This means that if a borrower sells all or a portion of the property that secures the loan, the holder of the loan will have the right to call the loan due and payable at that time. Government Mortgage Loans, however, do not usually contain a ‘‘due-on-sale’’ clause. As we discuss below under the heading ‘‘Description of Certificates—Collection and Other Servicing Procedures,’’ the Trust Indenture or issue supplement for a given pool will require us to enforce the due-on-sale clause in each Conventional Mortgage Loan (other than ARMs) unless we repurchase the affected loan (or applicable law does not permit enforcement). However, our published guidelines covering the assumability of Conventional Mortgage Loans specify certain circumstances involving the transfer of a mortgaged property from one co-borrower to an unrelated co-borrower where we will not enforce the due-on-sale clause. Finally, federal law enumerates nine circumstances under which the holder of a loan may not enforce the ‘‘due-on-sale’’ clause. These include:

- the creation of a subordinate lien that does not involve the transfer of occupancy rights in the property,
- a transfer as a result of the death of a joint tenant or tenant by the entirety, and
- the granting of a lease to the property as long as it is for a period of not more than three years and does not include an option to purchase the property.

Certain multifamily Mortgage Loans may have defeasance characteristics (a “Defeasance Mortgage Loan”). Prior to a Defeasance Election (as defined below), a Defeasance Mortgage Loan may not be prepaid by the borrower in most instances until the last 90 days prior to the maturity date of the Mortgage Loan (after which the borrower may prepay the Mortgage Loan on the last business day of a month as provided in the mortgage note). In lieu of prepayment, and subject to certain lockout periods, a borrower may elect (a “Defeasance Election”) to (a) obtain the release of the mortgaged property from the lien of the mortgage by delivering collateral (the “Substitute Collateral”) in substitution for the mortgaged property and (b) at the option of the lender, have a third party (the "Successor Borrower") assume all liability for such mortgage note and assume the interest of the borrower, subject to the security interest of Fannie Mae (or its agent) in the Substitute Collateral. The Substitute Collateral will consist of either (1) bonds, debentures, notes, participation certificates or other similar obligations issued by Fannie Mae (each a "Fannie Mae Investment Security") or (2) one or more direct obligations of the United States of America (each, a "U.S. Treasury Security"). The Successor Borrower may be a partnership, trust, corporation or other entity and may be owned in whole or in part by Fannie Mae. The Substitute Collateral will be in such amounts to provide sufficient cash flow to allow the Successor Borrower to make all payments required under the terms of the related mortgage note. The mortgage note generally will provide that, after a Defeasance Election, the Mortgage Loan may not be voluntarily prepaid by the borrower or the Successor Borrower at any time before the related maturity date. The prospectus supplement will identify whether a Defeasance Mortgage Loan is included in a pool.

When interest rates decline, borrowers often refinance their mortgage loans. If a loan in a particular pool is refinanced, the principal balance of the original loan would be repaid by the borrower, the loan would be removed from that pool and the loan proceeds would be distributed to the Certificateholders of that pool. Our current policy permits lenders that service Mortgage Loans included in our pools to advertise in a general manner their availability and willingness to handle refinancings, but they may not specifically target borrowers whose loans are in our pools. We also prohibit lenders from removing Mortgage Loans from our pools for the purpose of making loan modifications.

Generally, when current interest rates decline below the mortgage interest rates on existing loans, prepayments are likely to increase. Nevertheless, the prepayment rate is influenced by a variety of factors, including homeowner mobility and general economic circumstances.

It is increasingly difficult to predict how far interest rates must decline before significant prepayments occur. For instance, various lenders (in some cases in conjunction with us) have instituted streamlined procedures and liberalized fee structures and underwriting guidelines that may increase the number of Mortgage Loans eligible for refinance and narrow the interest rate differential that would make refinancing attractive to borrowers. In addition, increased borrower sophistication regarding the benefits of refinancing and extensive solicitation of borrowers by lenders (including our mortgage loan servicers) may increase the rate by which borrowers refinance Mortgage Loans in our pools. Our option to repurchase delinquent Mortgage Loans and Mortgage Loans as to which a breach of a representation or warranty has occurred (see "Description of Certificates—Payments on Mortgage Loans; Distributions on Certificates") and to repurchase the remaining Mortgage Loans in a pool in order to terminate that issue of Certificates (see "Description of Certificates—Termination") also may affect the rate of prepayment of our pools. Given these variables, we cannot estimate the future prepayment experience of the Mortgage Loans in our pools. You should consult our Information Statement for the most recent Mortgage Loan prepayment experience of our mortgage portfolio.

Certain pools may contain Mortgage Loans originated under lending programs designed to meet the objectives of the Community Reinvestment Act of 1977, as amended ("CRA"), as described more fully under "Fannie Mae Purchase Program." We have limited experience with pools that include higher concentrations of Mortgage Loans originated under CRA programs and are unaware of any reliable long-term historical data regarding prepayment, delinquency or loss rates of such mortgage loans. As a result, we are unable to estimate the future prepayment performance of pools that contain high concentrations of Mortgage Loans originated under CRA programs.

Certain pools consist only of Mortgage Loans that allow the noteholder to collect a mortgage prepayment premium or which restrict the borrower's ability to prepay the loan. We will describe any such restrictions or premiums in the prospectus supplement for the pool. Unless otherwise specified in the related prospectus supplement, we will retain any prepayment premiums that are collected rather than pass them through to Certificateholders. In all other cases, pools generally will not contain Mortgage Loans with prepayment premiums or restrictions. We cannot estimate the future prepayment performance of pools that contain Mortgage Loans with prepayment premiums or restrictions.

Certain pools may consist only of relocation loans. These are Mortgage Loans that are originated under an agreement between a lender and an employer that frequently relocates its employees. Pools of relocation loans are identified by a unique prefix to their pool identification numbers. Other pools also may contain relocation loans. However, relocation loans in any pool will not exceed 10% of the aggregate principal balance of the pool on its issue date (unless the related prospectus supplement provides otherwise). We cannot estimate the future prepayment performance of relocation loans or how their performance might compare with that of non-relocation loans, nor are we aware of any studies or statistics on the prepayment rate of relocation loans. In addition to the factors affecting loan prepayment rates in general, the prepayment of relocation loans depends on the circumstances of individual employees and employers and the characteristics of the specific relocation programs involved.

Certain other pools may be Cooperative Share Loan Pools, which are identified by a unique prefix to their pool identification number. In all other cases, Cooperative Share Loans in any given pool will not exceed 10% of the aggregate principal balance of the pool on the issue date (unless the related prospectus supplement provides otherwise). As with other types of loans, we cannot estimate the future prepayment performance of Cooperative Share Loans. In addition, certain aspects of the Collateral underlying Cooperative Share Loans may affect the timing of prepayments. Generally, the borrower's right to live in an apartment in the Cooperative is subordinate to the interest of the holder of the project mortgage. If the Cooperative defaults on the project mortgage, the holder of that mortgage could foreclose and terminate the borrower's occupancy rights. The borrower's right to live in a particular unit also may be subject to termination by the Cooperative, and the borrower's ownership interest in the Cooperative is subject to cancellation, if the borrower fails to make the required payments to the Cooperative. The Cooperative also may restrict the sale of the borrower's ownership interest in the Cooperative. Generally, the consent or approval of the Cooperative will be required prior to any sale.

Subordinate Lien Mortgage Loans

Mortgage Loans that are subordinate liens have original maturities of up to 30 years. Generally, subordinate lien Mortgage Loans can be prepaid in whole or in part at any time without penalty. Borrowers do not usually view subordinate lien loans as permanent financing because the loan term is typically shorter and the interest rate higher than a comparable first lien loan. So, while subordinate lien loans may prepay at a higher rate than traditional first lien loans having similar interest rates, we are not aware of any reliable statistics or studies on the prepayment rate of subordinate lien Mortgage Loans. In addition, any future limitation on the right of borrowers to deduct interest payments on subordinate lien Mortgage Loans for federal income tax purposes could result in a higher prepayment rate on those loans. We will enforce the "due-on-sale" provisions contained in subordinate lien Conventional Mortgage Loans (other than ARMs) to the same extent as we do with first lien Conventional Mortgage Loans.

FANNIE MAE PURCHASE PROGRAM

We summarize below certain aspects of our program for purchasing Mortgage Loans for inclusion in a given pool.

Eligible Lenders

We purchase Mortgage Loans from the following types of eligible institutions:

- savings and loan associations, savings banks, commercial banks and similar financial institutions whose accounts are insured by the Federal Deposit Insurance Corporation ("FDIC") or the National Credit Union Administration ("NCUA");
- state-insured financial institutions; and
- financial institutions, principally mortgage bankers, and finance companies that are Fannie Mae-approved mortgage sellers.

We determine whether to approve a particular financial institution as a lender under our purchase program by applying certain criteria which generally include depth of mortgage origination experience, servicing experience and financial capacity.

We will enter into a Mortgage Selling and Servicing Contract with each approved lender.

Eligible Mortgage Loans

We may include both Residential Property Loans and Cooperative Share Loans in a given pool. Unless we make an exception, each Mortgage Loan that we include in a pool will comply with the terms of our current Selling Guide and, if underwritten through Desktop Underwriter[4], our Guide to Underwriting with Desktop Underwriter (or any of our multifamily guides in the case of a Mortgage Loan secured by a multifamily property). Generally, we do not include construction loans or land development loans in our pools.

[4] Desktop Underwriter® is our automated underwriting software application.

A "Residential Property Loan" is a Mortgage Loan that is secured by a mortgage or similar instrument on (1) a single-family residence (including a unit in a condominium project or planned unit development) or a manufactured home or (2) a multifamily project with five or more apartments. A "Cooperative Share Loan" is a Mortgage Loan secured by the stock, shares, membership agreement or other contractual agreements that evidence the borrower's ownership in the Cooperative as well as the assignment of the occupancy rights to the borrower's dwelling unit in the cooperative housing project. Each Mortgage Loan will be documented by either the appropriate Fannie Mae/Freddie Mac Uniform Instrument in effect at the time the loan is originated or by an FHA or VA mortgage or other instrument that we accept. Each Mortgage Loan also will comply with all applicable federal and local laws, including laws covering usury, equal credit opportunity and disclosure.

We do not require that payments on every Mortgage Loan we include in a pool be due on the first day of the month.

In general, no Mortgage Loan can have a maturity date later than 30 years after origination.

CRA Mortgage Loans

Certain pools may contain Mortgage Loans that were originated under lending programs designed to meet the objectives of the CRA by providing credit to low- and moderate-income borrowers or to borrowers residing in low- and moderate-income neighborhoods and localities. Although the origination guidelines of the Mortgage Loans are generally consistent with Fannie Mae guidelines, the typical loan-to-value ratios of the Mortgage Loans and debt-to-income ratios of the borrowers may be higher than those generally applicable to Fannie Mae mortgage pools consisting primarily of loans that were not originated to meet CRA objectives. In addition, the mortgaged properties may be concentrated in low- and moderate-income neighborhoods and localities. At a lender's request, we may provide in the prospectus supplement (or otherwise as specified) additional information regarding the location of mortgaged properties, the income level of the borrowers, and the balance of each Mortgage Loan. Lenders may from time to time seek to form pools with a concentration of loans originated to meet CRA objectives (including loans concentrated in a particular geographic area) or for other purposes. An investor must make its own determination as to whether a particular pool meets the CRA objectives or other objectives relevant to that particular investor.

Conventional Mortgage Loans—Single-Family

- As required by our Selling Guide, a Conventional Mortgage Loan that is a Residential Property Loan must be in an original amount that did not exceed certain maximum amount limitations for first lien loans established by federal law for us (for computing this original amount, the original balance of any subordinate lien Mortgage Loan in which we have an interest must be added).
- A Conventional Mortgage Loan that is a Cooperative Share Loan must be in an original amount that did not exceed our maximum amount limitations for first

liens on one-family residences established by federal law. (If we also own an interest in the project mortgage for that Cooperative, the usual maximum for a Cooperative Share Loan must be reduced by the portion of the project mortgage that is attributable to the Cooperative Share Loan.)

- The maximum dollar amounts for both the Residential Property Loans and the Cooperative Share Loans that we can purchase are subject to adjustment each year. Any adjustment is effective as of January 1st and is set forth in our Selling Guide or in a Selling Guide Announcement. (You may obtain our current maximum dollar purchase limitations by calling us at 1-800-237-8627.)
- The maximum amounts for loans secured by single-family properties in Alaska, Hawaii and the Virgin Islands are 50% higher than the limits for the rest of the country that appear in our Selling Guide or Selling Guide Announcement.
- The original principal balance of a Mortgage Loan that is in subordinate lien position must not exceed 50% of our first lien limit for a single-family property. In addition, if we have dealt with the first lien loan on a single-family property, we will buy a subordinate lien on that property only if the combined original balances of the first lien and the subordinate lien do not exceed our maximum dollar purchase amounts for single-family loans.

If a first lien Conventional Mortgage Loan on a single-family property has a loan-to-value ratio greater than 80%, that loan usually must be insured or guaranteed by a qualified insurer at the coverage percentage specified in our Selling Guide. If a subordinate lien Conventional Mortgage Loan on a single-family property, together with the related first lien, has a loan-to-value ratio greater than 70%, that subordinate loan generally must be insured or guaranteed by a qualified insurer at the coverage percentage our Selling Guide requires. Any mortgage insurer must be acceptable to us. As an alternative to mortgage insurance, Lenders may contract with us either to repurchase Conventional Mortgage Loans that go in default under certain circumstances or to retain a minimum 10% participation interest in the Conventional Mortgage Loans.

The following table lists the maximum loan-to-value ratios (or combined loan-to-value ratios) we generally allow for various types of “purchase money” Conventional Mortgage Loans.

Category	LTV*	CLTV**
A. One-family property		
• Owner-occupied principal residence without subordinate financing		
– Fully amortizing fixed-rate first mortgage	97%	
– Balloon fixed-rate first mortgage	90%	
– ARM first mortgage	90%	
– Cooperative Share Loan	90%	

Category	LTV*	CLTV**
• Owner-occupied principal residence with subordinate financing		90%
• Owner-occupied second home without subordinate financing	80%	
• Owner-occupied second home with subordinate financing		90%
• Investment property without subordinate financing	70%	
• Investment property with subordinate financing		70%
• Second mortgage		80%
B. Two-family property		
• Owner-occupied without subordinate financing	90%	
• Owner-occupied with subordinate financing		90%
C. Three-to-four-family property		
• Owner-occupied without subordinate financing	80%	
• Owner-occupied with subordinate financing		80%

* Loan-to-value ratio at time of purchase.

** Combined loan to-value ratio at time of purchase including the balance of the first lien Conventional Mortgage Loan together with the subordinate financing or the balance of the second lien Conventional Mortgage Loan together with the senior financing.

Some pools of Conventional Mortgage Loans may include Mortgage Loans that are guaranteed directly by the Department of Housing and Urban Development (''HUD'') or by the Rural Housing Service (''RHS''), formerly known as the Farmer's Home Administration. These Mortgage Loans contain due-on-sale clauses that are generally enforceable subject to applicable laws and other limitations that we have established.

Our Selling Guide requires that each lender that sells us Conventional Mortgage Loans under our purchase program assume responsibility for underwriting these loans using the same underwriting criteria that we apply to our portfolio purchases. (We can, however, grant exceptions to these criteria.) Using a random selection process, we review the quality of the credit and property underwriting applied to these loans.

Conventional Mortgage Loans—Multifamily

The VA-HUD Appropriations Bill enacted in 1998 includes a provision that removed the Fannie Mae Charter Act limitations on the size of the multifamily loans that we are allowed to purchase. However, we currently expect in most cases to comply with the limitations described below. These limits are determined by the number of units in the apartment building securing the loan, the number of bedrooms in each unit and whether the apartment building is a ''walk up'' or has an elevator. To be eligible for purchase by us, a multifamily loan generally cannot be greater than 125% of the per unit dollar amounts set forth in Section 207(c)(3) of the National Housing Act. However, for buildings located in areas that HUD has designated as "high cost" areas, the per unit limits are 240% of the Section 207(c)(3) dollar amounts. These per unit limits for "high cost" areas are:

Number of Bedrooms	Non-Elevator Structure	Elevator Structure
0	$ 73,008	$ 84,240
1	80,870	94,349
2	96,595	115,690
3	119,059	144,893
4	141,984	163,829

For example, if a multifamily project contains 100 two-bedroom units in an elevator structure within a high cost area, the maximum original mortgage amount that we would purchase generally would be $11,569,000. (However, certain limited amounts attributable to the nonresidential components of a multifamily project may be deducted from the per unit mortgage amount.)

Government Mortgage Loans

- Government Mortgage Loans are either insured by the Federal Housing Administration ("FHA") or guaranteed by the Department of Veterans Affairs ("VA"), HUD or RHS.
- Under our Selling Guide, Government Mortgage Loans must be real estate loans with stated constant annual rates of interest that are secured by first or subordinate mortgages on residential properties.
- Each Government Mortgage Loan must have a valid and subsisting insurance policy or guaranty in full force and effect.
- The principal balance and loan-to-value ratio of each Government Mortgage Loan must comply with the standards established by the applicable government agency. In the case of VA Mortgage Loans, we generally do not purchase loans with a principal balance that exceeds $203,000. In addition, the unguaranteed portion of the VA Mortgage Loan amount cannot be greater than 75% of the purchase price of the property or 75% of the VA's valuation estimate, whichever is less.

DESCRIPTION OF CERTIFICATES

We will create each particular issue of Certificates under either the Fixed-Rate Trust Indenture or the ARM Trust Indenture depending on the type of pool. At the time of issuance, we will supplement the related Trust Indenture with an issue supplement that will specify certain terms of the Certificates such as the issue date, the Pass-Through Rate (in the case of a Fixed-Rate Pool) and any variations from the terms of the basic Trust Indenture applicable to that type of pool. We will describe these same terms in the related prospectus supplement.

If we do not already have in our portfolio the Mortgage Loans that will form the pool for a particular issue of Certificates, we will purchase them under a pool purchase contract in exchange for the Certificates in that pool. A Fannie Mae-approved lender (that is often the originator of the loans) will service these Mortgage Loans under the pool purchase contract.

The contract generally incorporates by reference provisions of the Selling Guide, Servicing Guide and any applicable multifamily guide that we publish (collectively, the ''Guides'') so that they are considered to form part of the contract.

We summarize below certain features of the Trust Indenture that are common to both the Fixed-Rate Trust Indenture and the ARM Trust Indenture. This summary is not complete and the actual provisions of each Trust Indenture will govern a particular issue of Certificates. You may obtain a copy of the Trust Indenture (and issue supplement) that applies to your issue of Certificates from our Washington, D.C. office.

General

The Certificates of an issue will represent fractional undivided interests (''Ownership Interests'') in the trust fund created under the Trust Indenture and the related issue supplement. The Ownership Interest represented by any Certificate will be equal to the initial principal denomination of that Certificate divided by the aggregate Stated Principal Balance[5] of the Mortgage Loans in that pool (the ''Pool Principal Balance'') as of the issue date. The trust fund for an issue consists of the following:

- the Mortgage Loans then subject to the Trust Indenture and issue supplement for that issue;
- payments on the Mortgage Loans or other recoveries that we hold (or someone holds on our behalf) for the Certificateholders of that issue;
- property acquired by foreclosure of the Mortgage Loans or by deed in lieu of foreclosure; and
- the Certificateholders' interest in our guarantee of the Certificates of that issue.

We will issue the Certificates in book-entry form on the book-entry system of the U.S. Federal Reserve Banks, unless we specify a different method in the applicable prospectus supplement. There is a fiscal agency agreement in effect between us and the Federal Reserve Bank of New York. Under this agreement, the regulations[6] that govern our use of the book-entry system and the pledging and transfer of interests apply to the book-entry Certificates.

[5] Whenever we refer to the ''Stated Principal Balance of a Mortgage Loan'' or the ''aggregate Stated Principal Balance of all Mortgage Loans in a Pool,'' we mean the principal balance or aggregate principal balance that we will use to calculate the then-outstanding principal balances of the Certificates. You should be aware that Stated Principal Balances may differ from actual principal balances because of supplemental payments we make on delinquent Mortgage Loans under our guaranty, delays in distributing certain Mortgage Loan receipts and for other reasons.

[6] Found at 24 C.F.R. Part 81, Subpart H, as amended.

These regulations may be modified, amended, supplemented, superseded, eliminated or otherwise altered without the consent of any Certificateholder. The Federal Reserve Banks' operating circulars and letters also apply. Book-entry Certificates can have a minimum denomination of $1,000 with additional increments of one dollar. They are freely transferable on the records of any Federal Reserve Bank but are not convertible to physical certificates.

Certificates will be maintained on the book-entry system of a Federal Reserve Bank and can be separately traded and owned. Acting on our behalf, the Federal Reserve Bank of New York will make payments on the Certificates on each Distribution Date by crediting accounts on its records (or on the records of other Federal Reserve Banks). Only entities that are eligible to maintain book-entry accounts with a Federal Reserve Bank may hold Certificates "of record," although these entities will not necessarily be the beneficial owners of the Certificates. We refer to holders of record as "Certificateholders." Ordinarily, beneficial owners will "hold" Certificates through one or more financial intermediaries, such as banks, brokerage firms and securities clearing organizations. A Certificateholder that is not the beneficial owner of a Certificate will be responsible for establishing and maintaining accounts for its customer. In the same way, all the other financial intermediaries in the chain to the beneficial owner of that Certificate will be responsible for establishing and maintaining accounts for their customers. The rights of the beneficial owner of a Certificate with respect to Fannie Mae and the Federal Reserve Banks may be exercised only through a Certificateholder. 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 according to the book-entry records maintained by the Federal Reserve Banks. In recording transfers of a Certificate, the Federal Reserve Banks will act only upon the instructions of a Certificateholder.

We will pay Certificateholders of record principal and interest on the Certificates on the 25th day of each month (or, if the 25th day is not a business day, on the first business day following the 25th day). We refer to each such date as a "Distribution Date." The Certificateholders of record are the persons in whose names the Certificates are entered on the books of a Federal Reserve Bank as of the close of business on the last day of the preceding month (the "Record Date"). We will make the first payments for each issue of Certificates the month after issuance. Payments will be made by wire no later than the Distribution Date.

Under the circumstances described below under the heading "Rights upon Event of Default," Certificateholders will have the right to appoint a successor trustee.

Transfer of Mortgage Loans to Pools

We will identify each Mortgage Loan that forms part of a pool in the Mortgage Loan Schedule to the issue supplement for that issue of Certificates. In addition, in our capacity as trustee of the Mortgage Loans, we will hold certain documents on behalf of the Certificateholders.

In the case of whole Mortgage Loans that are Residential Property Loans and secured by single-family properties, we will hold each original mortgage note endorsed in blank and an assignment to us of the mortgage. Assignments of mortgage for single-family properties usually are in a form suitable for recording or filing, but we do not record or file them. Depending on the lender's servicing experience and financial condition, a blanket assignment of mortgages may be used to transfer a large number of Mortgage Loans even if the related properties are not located in the same recording or filing jurisdiction.

In the case of whole Mortgage Loans that are Cooperative Share Loans, we will hold the following:

- the original mortgage note endorsed in blank together with an assignment of the financing statement to us in a form suitable for filing but not filed and, unless we grant an exception, an original executed copy of the financing statement bearing the file stamp of the relevant filing office;
- the original recognition agreement (and, if applicable, the original assignment of the recognition agreement to the lender), together with a blanket assignment of the recognition agreement to us;
- the stock, shares, membership certificate or other contractual agreement that evidences the borrower's ownership in the Cooperative;
- an executed stock power in blank; and
- the borrower's original proprietary lease or occupancy agreement, together with all related instruments of assignment and transfer.

In addition, if a jurisdiction requires filing in the land records and we do not grant an exception, we also will hold:

- the original security agreement bearing the recording data of that recording office, together with an assignment of the security agreement to us in recordable form but not recorded;
- copies of all required recorded intervening assignments of the security agreement; and
- an assignment in blank of the borrower's ownership interest in the Cooperative (and the accompanying occupancy rights to a specific unit in the Cooperative) in recordable form but not recorded.

In the case of whole Mortgage Loans that are Residential Property Loans and secured by multifamily properties, we will hold each original mortgage note endorsed to Fannie Mae and an assignment to us of the mortgage. Assignments of mortgage for multifamily properties are usually recorded or filed.

At our option, we may choose to maintain the documents listed in the four preceding paragraphs with a custodian institution (the lender or another 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 FDIC or the NCUA. Before the Certificates are issued, we will review the Mortgage Loan Schedule for that issue and afterwards will conduct random spot checks to confirm that the related documents are sufficient.

We have the right to change these document delivery and custody requirements at any time so long as we determine that the change will not materially or adversely affect the Certificateholders' interests. We have set up these procedures to protect Certificateholders' interests in the 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 made regarding the status of the Certificateholders' interests in the Mortgage Loans if a proceeding of that type should occur.

Servicing Through Lenders

The Trust Indenture makes us responsible for servicing and administering the Mortgage Loans, but also gives us discretion to contract with the originator of each Mortgage Loan, or another eligible servicing institution, to perform those functions under our supervision. If we enter into a servicing contract or arrangement with a lender to service the Mortgage Loans directly, that contract is solely between us and the lender. The Certificateholders are not deemed to be parties to that contract or to have claims, rights, obligations, duties or liabilities with respect to that lender. (See Section 5.01 of the Trust Indenture.)

The applicable Guide requires lenders to perform with diligence not only all customary mortgage servicing duties but also the specific obligations set forth in that Guide. We monitor the lender's performance and have the right to remove any lender for cause if and when we believe that removing the lender is in the Certificateholders' best interest. Lenders' servicing duties include general loan servicing, collection and remittance of principal and interest payments, administration of mortgage escrow accounts, collection of insurance claims and foreclosure, if necessary.

For each Fixed-Rate Loan (other than Biweekly Loans), we retain the difference in interest between the annual mortgage interest rate on that Mortgage Loan and the Pass-Through Rate on the Certificates of that issue. For example, if a Mortgage Loan with an 8.00% mortgage interest rate is included in a pool out of which is issued a Certificate with a 7.00% Pass-Through Rate, we would be entitled to receive 1.00% per year on that Mortgage Loan. For each Biweekly Mortgage Loan, we retain the difference between the scheduled interest on that Mortgage Loan and the interest paid on that Mortgage Loan at the Pass-Through Rate. For each ARM, we retain an amount equal to the applicable percentage spread multiplied by the outstanding principal balance of that Mortgage Loan including any deferred interest that was added to the balance. See "Yield Considerations." We also have the right to retain prepayment premiums, late charges, assumption fees and similar charges if, but only if, they are collected from borrowers. We will compensate lenders for performance of their servicing duties in an amount up to (but never more than) the amount of interest we retain on those Mortgage Loans, less a set minimum amount that we will keep for ourselves in return for our guaranty obligations and general responsibility for servicing.

Payments on Mortgage Loans; Distributions on Certificates

On each Distribution Date for an issue, we will pay the related Certificateholders the principal due on the Mortgage Loans in that pool during that Due Period. A "Due Period" begins on the second day of the month prior to the month in which a Distribution Date occurs and ends on the first day of the month in which that Distribution Date occurs. Sometimes a pool includes Mortgage Loans that will not experience their first scheduled monthly principal and interest due date until the second Due Period after the issue date of the pool. In that case, the first payment to Certificateholders after the issue date of the pool will consist only of interest (and not principal) due on Mortgage Loans of this type. The applicable percentage of Mortgage Loans of this type that are included in that pool will be included as part of the "Pool Statistics" in the prospectus supplement for that pool.

On each Distribution Date for an issue, we will also pay the Certificateholders the following amounts:

- the Stated Principal Balance of each Mortgage Loan that was prepaid in full during the calendar month preceding that Distribution Date (including seriously delinquent Mortgage Loans that Fannie Mae elects to repurchase);
- the Stated Principal Balance of each Mortgage Loan that we elect to repurchase because of defects in loan documentation, breaches of lender warranties or other circumstances set forth below under the heading "—Collection and Other Servicing Procedures";
- as provided in the issue supplement for that issue, if applicable, the Stated Principal Balance of any converted ARM repurchased by Fannie Mae under the circumstances described under the heading "Yield Considerations—ARM Pools—General"; and
- the amount of any partial prepayment of a Mortgage Loan received during the calendar month preceding that Distribution Date.

The Distribution Date on which we distribute prepayments to Certificateholders depends on whether we receive prepayment information from the servicer of the Mortgage Loan in sufficient time to allow the monthly factors published in our Monthly Factor Report in *The Bond Buyer* (or elsewhere) to reflect the prepayment. If timely information is not available, we will distribute the prepayment on the next month's Distribution Date. In some cases, we may treat prepayments occurring on the first day of the month as if they actually occurred on the last day of the preceding month. Currently we do not receive information about partial prepayments of Mortgage Loans in pools comprised of Mortgage Loans from our own portfolio early enough to be included in the next month's payment.

On each Distribution Date, we also will pay the Certificateholders, for each Fixed-Rate Loan, one month's interest at the Pass-Through Rate on the principal balance of the Certificates that was reported to the Certificateholders on the preceding Distribution Date (or, in the case of the first payment, the principal balance of the Certificates on the issue date). In the case of an ARM having deferred interest features, the amount of interest payable on that Mortgage Loan during the Due Period may be less than one month's interest at the mortgage interest rate.

All interest accrued on the Certificates will be calculated on a monthly basis (with each month assumed to consist of 30 days), except as provided in the following paragraph. Thus, one month's interest on the Certificates of an issue will be equal to one-twelfth of the Pass-

Through Rate (or the Pool Accrual Rate, as applicable) multiplied by the unpaid principal balance of the Certificates immediately prior to the related Distribution Date. Although the Mortgage Loans we purchase generally provide for a similar method of calculating interest, it is possible that one or more Mortgage Loans in a particular pool will provide for accrual of interest on a daily basis (rather than on a monthly basis). Even if Mortgage Loans of that type are included in a pool, when the monthly interest and principal payable on the Mortgage Loans are calculated, we will treat all the interest as having accrued on a monthly basis and, for Mortgage Loans that accrue interest on a daily basis, we will calculate principal on the basis of the amortization schedules used for monthly accrual Mortgage Loans.

In the case of Certificates backed by pools consisting of multifamily Mortgage Loans using the Actual/360 Method, we will calculate interest monthly based on the actual number of days in that monthly accrual period. Thus, one month's interest on the Certificates of an issue will be equal to the product of (a) the Pass-Through Rate, (b) the unpaid principal balance of the Certificates immediately prior to the related Distribution Date, and (c) a fraction, the numerator of which is the actual number of days in the calendar month immediately preceding the month in which such Distribution Date occurs, and the denominator of which is 360.

Payments on any Distribution Date will be made to Certificateholders on the prior Record Date. Each Certificateholder will be entitled to receive its proportionate share of the payment calculated as follows: the total amount paid multiplied by the Ownership Interest percentage represented by the holder's Certificate.

The Fannie Mae Guaranty

Our guaranty consists of our obligation to pay Certificateholders amounts representing scheduled principal and interest on the Mortgage Loans in the related pool (whether or not we receive such amounts), together with the full principal amount of any foreclosed or otherwise liquidated Mortgage Loan (whether or not we recover any of the principal). If we were unable to perform our guaranty obligations, Certificateholders would receive only borrower payments and other recoveries on the Mortgage Loans in the pool. In that event, delinquencies and defaults on the Mortgage Loans would directly affect the amounts that Certificateholders would receive each month.

Neither the Certificates nor interest on the Certificates are guaranteed by the United States and they 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.

Reports to Certificateholders

With each payment, we will forward to the Certificateholders the following information for the related pool:

- any amount due on the Certificates on that Distribution Date on account of total scheduled and unscheduled principal (including any deferred interest);
- the amount due on the Certificates on that Distribution Date on account of interest;
- the total cash distribution on the Certificates on that Distribution Date;

- the principal balances of the Certificates on that Distribution Date after giving effect to any distribution of principal on that date and to any deferred interest added to the principal balances of the Mortgage Loans in that pool during the preceding Due Period;
- the amount of any deferred interest referred to in the first or fourth bullet point above; and
- for ARM Pools, the Pool Accrual Rate applicable to that Distribution Date.

(Some of the information listed above may not be applicable to the Certificates of a particular issue.)

Within a reasonable time after the end of each calendar year, we will furnish to each person who was a Certificateholder at any time during that year a statement containing any information required by the federal income tax laws.

Servicing Compensation and Payment of Certain Expenses by Fannie Mae

As compensation for our activities and obligations under the Trust Indenture, we will retain the amounts of interest that are not required to be paid to Certificateholders as described above. In addition, we may retain any amounts by which the proceeds of the liquidation of a Mortgage Loan exceed (1) the Stated Principal Balance of that Mortgage Loan and (2) interest on such balance at the Pass-Through Rate (in the case of a Fixed-Rate Loan) or at the Accrual Rate (in the case of an ARM). We will pay all the expenses we incur in connection with our servicing activities, including (but not limited to) fees to lenders. However, we are not entitled to reimbursement for such expenses from the related trust fund.

We also are entitled to retain prepayment premiums, assumption fees, late payment charges and other fees as additional servicing compensation.

Collection and Other Servicing Procedures

We are responsible for servicing the Mortgage Loans in each pool. As indicated above, however, we may service loans through lenders or other Fannie Mae-approved mortgage servicers. We have full authority to do (or have done by others) anything that we deem necessary or appropriate, in our sole discretion, to carry out our servicing responsibilities. One of those things is to foreclose upon, or otherwise convert, a defaulted Mortgage Loan. Instead of foreclosing, however, we have the option but not the obligation to repurchase from a trust fund any Mortgage Loan that is delinquent, or partially delinquent, for at least four consecutive installments of principal and interest (at least eight consecutive installments of principal and interest in the case of Biweekly Mortgage Loans). If we elect to repurchase a delinquent Mortgage Loan, the purchase price will be equal to the Stated Principal Balance of that Mortgage Loan together with accrued interest on the balance at the Pass-Through Rate (or the Accrual Rate in the case of an ARM). The purchase price will be distributed to Certificateholders in the same manner as full prepayments of Mortgage Loans. See above under the heading "—Payments on Mortgage Loans; Distributions on Certificates." (See Sections 5.01 and 5.03 of the Trust Indenture.)

If a Mortgage Loan provides that the lender can require payment in full if the borrower sells or transfers the related property, we are obligated to enforce this provision (called a “due-on-sale” clause) unless prohibited by law or we elect to withdraw the Mortgage Loan from the pool. In addition, we will not enforce the due-on-sale clause if the related property is being transferred from one co-borrower to another co-borrower under the circumstances we specify in our Guides. In the case of an ARM, however, the related issue supplement will provide that we will not enforce any due-on-sale clause but will permit creditworthy transferees of the related property to assume the ARM.

If for any reason we are not obligated to enforce the “due-on-sale” clause contained in any Conventional Mortgage Loan, we may release the original borrower from liability at the time the transferee of the property assumes the Mortgage Loan.

If we are required to enforce a due-on-sale clause upon the borrower’s transfer, or prospective transfer, of the related property, the Trust Indenture permits us to repurchase the Mortgage Loan at its Stated Principal Balance plus accrued interest at its Pass-Through Rate in the case of a Fixed-Rate Loan or at its Accrual Rate in the case of an ARM.

Certain Matters Regarding Fannie Mae

The Trust Indenture provides that we may not resign from our obligations and duties unless they are no longer permissible under applicable law. A resignation will be effective only after a successor has assumed our obligations and duties. However, no successor may succeed to our guaranty obligations, and we will continue to be responsible under our guaranty even if we are terminated from our other duties and responsibilities under the Trust Indenture.

If we were unable to fulfill our guaranty obligations, the Trust Indenture may be modified to require that monthly payments be made to Certificateholders from payments and other recoveries on the related Mortgage Loans in the same manner as for whole loans that are serviced for institutional investors. (See Section 9.01 of the Trust Indenture.)

The Trust Indenture also provides that neither we nor any of our directors, officers, employees or agents will be under any liability to any trust fund or to the Certificateholders for errors in judgment or for any action we take, or refrain from taking, in good faith pursuant to the Trust Indenture. However, neither we nor any such person will be protected against any liability due to willful misfeasance, bad faith or gross negligence or willful disregard of obligations and duties.

In addition, the Trust Indenture provides that we are not under any obligation to appear in, prosecute or defend any legal action that is not incidental to our responsibilities under the Trust Indenture and that in our opinion may involve us in any expense or liability. However, in our discretion, we may undertake any legal action that we deem necessary or desirable in the interests of the Certificateholders. In that event, we will pay the legal expenses and costs of the action, which will not be reimbursable out of any trust fund. (See Section 8.02 of the Trust Indenture.)

Any corporation into which we are merged or consolidated, any corporation that results from a merger, conversion or consolidation to which we are a party or any corporation that succeeds to our business will be our successor under the Trust Indenture. (See Section 9.02 of the Trust Indenture.)

Events of Default

Any of the following will be considered an Event of Default under the Trust Indenture for an issue of Certificates:

- if we fail to make a required payment to the Certificateholders, and our failure continues uncorrected for 15 days after we receive written notice from Certificateholders (who represent Ownership Interests totaling at least 5% of the related trust fund) that they have not been paid; or
- if we fail in a material way to fulfill any of our obligations under the Trust Indenture, and our failure continues uncorrected for 60 days after we receive written notice of our failure from Certificateholders (who represent Ownership Interests totaling at least 25% of the related trust fund); or
- if we become insolvent or unable to pay our debts or if other events of insolvency occur. (These insolvency events are specified in Section 9.03 of the Trust Indenture.)

Rights upon Event of Default

If one of the Events of Default listed above has occurred and continues uncorrected, Certificateholders who represent Ownership Interests totaling at least 25% of the related trust fund have the right to terminate, in writing, our obligations under the Trust Indenture for that issue both as trustee and in our corporate capacity. However, our guarantee obligations will continue in effect. The same proportion of Certificateholders that has the right to terminate us also may appoint, in writing, a successor to all of our terminated obligations. In addition, the successor that they appoint will take legal title to the Mortgage Loans included in the related trust fund. (See Section 9.03 of the Trust Indenture.)

Amendment

We may amend the Trust Indenture for an issue, without notifying or obtaining the consent of the related 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;
- cure any ambiguity or correct or add to any provision in the Trust Indenture or the related issue supplement, so long as no Certificateholder is adversely affected; and
- if we cannot fulfill our guaranty obligations, modify the Trust Indenture to provide for monthly distributions from payments and recoveries on the Mortgage Loans as generally happens with whole loans serviced for institutional investors. (See Section 11.01(v) of the Trust Indenture.)

If the Certificateholders that represent Ownership Interests totaling at least 66% of the related trust fund give their consent, we may amend the Trust Indenture for that issue to eliminate, change or add to the terms of that Trust Indenture or its issue supplement or to waive our compliance with any of those terms. Nevertheless, we may not terminate or change our guarantee obligations or reduce the percentage of Certificateholders who must give their consent to the types of amendments listed in the previous sentence. In addition, unless each affected Certificateholder consents, no amendment may reduce or delay the funds that are required to be distributed on any Certificate. (See Section 11.02 of the Trust Indenture.)

Termination

The Trust Indenture for any issue of Certificates will terminate when the last Mortgage Loan in that pool has been paid off or liquidated and the proceeds distributed. The Trust Indenture for any issue also will terminate if we exercise our option to repurchase all the Mortgage Loans remaining in that pool at par (*i.e.,* at 100% of the Stated Principal Balance of each Mortgage Loan) plus one month's interest at the Pass-Through Rate (or Pool Accrual Rate, as applicable). (See Section 10.01 of the Trust Indenture.) If we exercise this option, the effect will be to retire the Certificates of that issue. Although the Trust Indenture gives us the right to exercise this option when the Pool Principal Balance is less than 10% of the Pool Principal Balance on the related issue date, we have agreed not to exercise this option until the Pool Principal Balance is less than 1% of the Pool Principal Balance on the issue date. In addition, our policy is not to exercise this option for any pool if the following conditions are met: (i) we know that a Certificate of that issue has been pledged to secure an issue of cash flow obligations or is included in a pool underlying an issue of cash flow obligations; and (ii) the option would be exercised prior to the earliest date on which the issuer of those cash flow obligations (or the sponsor of that pool) can exercise an option to redeem those obligations (or purchase the Certificates) without paying a premium. In any event, the trust relating to any pool cannot continue after the 21st anniversary of the death of the last survivor of the persons named in the Trust Indenture. We will notify each holder of a definitive Certificate in writing of the termination of the Trust Indenture for each issue and will make the final payment to each person who is entitled to it. (See Section 10.01 of the Trust Indenture.)

CERTAIN FEDERAL INCOME TAX CONSEQUENCES

The Certificates and payments on the Certificates generally are subject to taxation. Therefore, you should consider the tax consequences of holding a Certificate before you acquire one. The following discussion describes certain U.S. federal income tax consequences to beneficial owners of Certificates. The discussion 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 Certificates acquired by beneficial owners at original issuance and held as ''capital assets'' (generally, property held for investment).
- This discussion does not address tax consequences to beneficial owners subject to special rules, such as dealers in securities, certain traders in securities, banks, tax-exempt organizations, life insurance companies, 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 advisors regarding the federal income tax consequences of holding and disposing of 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 in such a case, the term ''Mortgage Loan'' means the underlying mortgage loan and not the participation interest.

Internal Revenue Service Guidance Regarding the Certificates

In Revenue Ruling 84-10, 1984-1 C.B. 155, the Internal Revenue Service (''IRS'') set forth certain federal income tax consequences relating to investments in the Certificates issued with respect to a pool. Pursuant to Revenue Ruling 84-10, a pool will not be classified as an association taxable as a corporation for federal income tax purposes. Instead, a pool will be classified as a trust under subpart E of part I of subchapter J of the Internal Revenue Code of 1986, as amended (the ''Code''), 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. Revenue Ruling 84-10 also does not contemplate (i) the mandatory repurchase of ARMs from Pools pursuant to a borrower's exercise of an option to convert an ARM to a fixed-rate mortgage loan, (ii) the difference between the biweekly payments of interest received under Biweekly Loans from mortgagors and the monthly payments of interest made to beneficial owners of Certificates, or (iii) the differences between the principal and interest amounts received from mortgagors under Mortgage Loans that provide for the daily accrual of interest and the monthly payments of principal and interest made to beneficial owners of Certificates. However, our special tax counsel, Arnold & Porter, has rendered an opinion to us that the conclusions of Revenue Ruling 84-10 will be applicable to ARM Pools and Biweekly Mortgage Pools and pools that include Mortgage Loans providing for the daily accrual of interest.

Application of Revenue Ruling 84-10

Pursuant to the holdings of Revenue Ruling 84-10, a beneficial owner of a particular issue of Certificates must report on its federal income tax return its pro rata share of the entire income from each Mortgage Loan in that particular pool, consistent with the beneficial owner'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 beneficial owner can deduct its pro rata share of the servicing compensation as provided in section 162 or section 212 of the Code, consistent with its method of accounting and subject to the discussion below.

A beneficial owner must also allocate its basis in a Certificate among the Mortgage Loans included in that 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 beneficial owner may have "market discount" with respect to that Mortgage Loan, and if the basis exceeds the principal amount, the beneficial owner may have "premium" with respect to that Mortgage Loan. (Market discount and premium are discussed below.)

Original Issue Discount

Certain Mortgage Loans may be issued with original issue discount within the meaning of section 1273(a) of the Code. Original issue discount generally arises only with respect to ARMs that provide for an incentive interest rate or Mortgage Loans, including ARMs, that provide for the deferral of interest. If a Mortgage Loan is issued with original issue discount, a beneficial owner must include the original issue discount in income as it accrues, generally in advance of the receipt of cash attributable to such income.

Market Discount

A beneficial owner that acquires a Mortgage Loan for less than its principal amount generally has market discount in the amount of the difference between the principal amount and the beneficial owner's basis in that Mortgage Loan. In general, three consequences arise if a beneficial owner acquires an interest in a Mortgage Loan with market discount. First, the beneficial owner 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 beneficial owner held an interest in that Mortgage Loan. Second, the beneficial owner must treat gain on the disposition or retirement of such a Certificate as ordinary income under the circumstances discussed below under ''—Sales and Other Dispositions of Certificates.'' Third, a beneficial owner that incurs or continues indebtedness to acquire a 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 beneficial owner 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 beneficial owner makes this election, the beneficial owner must also apply the election to all debt instruments acquired by the beneficial owner on or after the beginning of the first taxable year to which the election applies. A beneficial owner may revoke the election only with the consent of the IRS.

A beneficial owner 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 beneficial owner elects to determine accrued market discount using a constant yield method. The IRS has authority to provide regulations for determining the accrual of market discount in the case of debt instruments, including Mortgage Loans, that provide for more than one principal payment, but has not yet issued such regulations. In addition, the legislative history to the Tax Reform Act of 1986 states that market discount on certain types of debt instruments may be treated as accruing in proportion to remaining accruals of original issue discount, if any, or if none, in proportion to remaining distributions of interest. You should consult your own tax advisors regarding the method a beneficial owner should use to determine accrued market discount.

Notwithstanding the above rules, market discount on a Mortgage Loan is considered to be zero if the 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 beneficial owner acquires an interest in the Mortgage Loan to the maturity of the Mortgage Loan (''*de minimis* market discount''). The IRS has authority to provide regulations to adjust the computation of *de minimis* market discount in the case of debt instruments, including Mortgage Loans, that provide for more than one principal payment, but has not yet issued such regulations. The IRS could assert, nonetheless, that *de minimis* market discount should be calculated using the remaining weighted average life of a Mortgage Loan rather than its final maturity. You should consult your own tax advisors regarding the ability to compute *de minimis* market discount based on the final maturity of a Mortgage Loan.

Premium

A beneficial owner that acquires 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 beneficial owner may elect to treat the premium as "amortizable bond premium." This election is available only with respect to an undivided interest in a Mortgage Loan that was originated after September 27, 1985. If the election is made, a beneficial owner 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 beneficial owner at the beginning of the first taxable year to which the election applies and to all fully taxable bonds thereafter acquired by the beneficial owner. A beneficial owner may revoke the election only with the consent of the IRS.

If a beneficial owner makes this election, the beneficial owner reduces the amount of any interest payment that must be included in the beneficial owner's income by the portion of the premium allocable to the period based on the Mortgage Loan's yield to maturity. Correspondingly, a beneficial owner 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 ARM is determined by reference to an equivalent fixed rate debt instrument constructed as of the date the beneficial owner acquires an interest in the Mortgage Loan.

If a beneficial owner does not elect to amortize premium, (i) the beneficial owner 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 Certificates."

Accrual Method Election

A beneficial owner may elect to include in income its entire return on a Mortgage Loan (*i.e.*, the excess of all remaining payments to be received on the Mortgage Loan over the amount of the beneficial owner's basis in the Mortgage Loan) based on the compounding of interest at a constant yield. Such an election for a Mortgage Loan with amortizable bond premium (or market discount) will result in a deemed election to amortize premium for all the beneficial owner's debt instruments with amortizable bond premium (or to accrue market discount currently for all the beneficial owner's debt instruments with market discount) as discussed above.

Servicing Compensation

A beneficial owner's ability to deduct its share of the servicing compensation paid to service the Mortgage Loans and administer the 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 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, and non-publicly offered regulated investment companies, but do not include estates, nongrantor trusts, cooperatives, real estate investment trusts and publicly offered regulated investment companies.

Generally, a beneficial owner can deduct its share of these costs only to the extent that these costs, when aggregated with certain of the beneficial owner's other miscellaneous itemized deductions, exceed two percent of the beneficial owner's adjusted gross income. For this purpose, an estate or nongrantor 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 provides that certain itemized deductions otherwise allowable for a beneficial owner who is an individual are reduced by an amount equal to 3% of the beneficial owner's adjusted gross income in excess of a statutorily defined threshold, but not more than 80% of itemized deductions otherwise allowable. Further, a beneficial owner may not be able to deduct any portion of these costs in computing its alternative minimum tax liability.

Sales and Other Dispositions of Certificates

Upon the sale, exchange or other disposition of a Certificate, the beneficial owner generally will recognize gain or loss equal to the difference between the amount realized upon the disposition and the beneficial owner's adjusted basis in the Certificate. The adjusted basis of a Certificate generally will equal the cost of the Certificate to the beneficial owner, increased by any amounts of original issue discount and market discount included in the beneficial owner's gross income with respect to the Certificate, and reduced by distributions on the Certificate previously received by the beneficial owner as principal and by any premium that has reduced the beneficial owner's interest income with respect to the 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 beneficial owner held the Certificate for more than one year. The ability to deduct capital losses is subject to limitations.

The Taxpayer Relief Act of 1997 amended section 1271 of the Code to provide that amounts received by a beneficial owner on retirement of any Mortgage Loan of a natural person are considered to be amounts received in exchange therefor. The legislation applies to Mortgage Loans originated after June 8, 1997, and any interest in a Mortgage Loan acquired after June 8, 1997. The application of section 1271 to a retirement of a Mortgage Loan that was acquired at a discount is unclear, and you should consult your own tax advisors regarding the application of section 1271 to a Certificate in such a case.

Special Tax Attributes

In Revenue Ruling 84-10, the IRS ruled on the status of the Certificates under specific sections of the Code. In particular, the IRS ruled as follows:

1. A Certificate owned by a domestic building and loan association is considered as representing "loans secured by an interest in real property" within the meaning of section 7701(a)(19)(C)(v) of the Code, provided 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 Certificate owned by a real estate investment trust is considered as representing "real estate assets" within the meaning of section 856(c)(5)(B) of the Code, and the interest income is considered "interest on obligations secured by mortgages on real property" within the meaning of section 856(c)(3)(B) of the Code.

If a Certificate represents an interest in a pool that contains a Cooperative Share Loan, an Escrow Mortgage Loan, a Lender Buydown Loan, a Government Loan, a loan secured by a manufactured home or a Defeasance Mortgage Loan, you should also consider the following tax consequences applicable to an undivided interest in those loans.

Cooperative Share Loans

The IRS has ruled that a Cooperative Share Loan will be treated as "a loan secured by an interest in real property" within the meaning of section 7701(a)(19)(C)(v) of the Code, provided that the dwelling unit that the Cooperative's stock entitles the tenant-shareholder to occupy is to be used as a residence. The IRS also has ruled that stock in a Cooperative qualifies as an interest in real property within the meaning of section 856(c)(5)(C) of the Code. Accordingly, interest on Cooperative Share Loans qualifies as "interest on obligations secured by mortgages on real property" for purposes of section 856(c)(3)(B) of the Code.

Escrow Mortgage Loans

In certain cases, a Mortgage Loan may be secured by additional collateral consisting of an escrow account held with a financial institution (an "Escrow Mortgage Loan"). The escrow account consists of an interest rate buydown account that meets the requirements of Fannie Mae's Selling Guide, an achievement agreement that meets the requirements of Fannie Mae's Multifamily Delegated Underwriting and Servicing Guide, or any other escrow account described in the related prospectus supplement. A beneficial owner's investment in an Escrow Mortgage Loan generally should be treated as a "loan secured by an interest in real property" within the meaning of section 7701(a)(19)(C)(v) of the Code, provided the escrow account does not represent an account with the beneficial owner. In addition, an investment in an Escrow Mortgage Loan by a real estate investment trust generally should be treated in its entirety as a "real estate asset" within the meaning of section 856(c)(5)(B) of the Code, provided the fair market value of the real property securing the Escrow Mortgage Loan equals or exceeds the principal amount of such Escrow Mortgage Loan at the time the real estate investment trust makes a commitment to acquire a Certificate. Because of uncertainties regarding the tax treatment of Escrow Mortgage Loans, you should consult with your tax advisors concerning the federal income tax treatment of investments in Escrow Mortgage Loans.

Lender Buydown Loans

Lenders may provide the funds for the interest rate buydown accounts that secure certain Escrow Mortgage Loans ("Lender Buydown Loans"). Under Fannie Mae's Selling Guide, the borrower is liable for the entire payment on a Lender Buydown Loan, without offset by any payments due from the buydown account. Accordingly, Fannie Mae plans to treat Lender Buydown Loans entirely as the obligation of the borrower.

The IRS could take the position, however, that a Lender Buydown Loan should be treated as if the borrower were obligated only to the extent of the net payment after application of the interest rate buydown account. If the IRS were able to maintain this position successfully, a beneficial owner of a Lender Buydown Loan would be treated as holding two instruments: one representing the Lender's rights with respect to the buydown account, and the other representing the borrower's debt to the extent of the net payment by the borrower. With respect to the instrument represented by the borrower's debt, this treatment would require the beneficial owner to accelerate the recognition of a portion of the interest payable after the buydown period. Moreover, during the buydown period and to the extent of the buydown account, the rulings described above regarding sections 856(c)(3)(B), 856(c)(5)(B) and 7701(a)(19)(C)(v) of the Code would be inapplicable. Because of uncertainties regarding the tax treatment of Lender Buydown Loans, you should consult with your tax advisors concerning the federal income tax treatment of investments in Lender Buydown Loans.

Government Mortgage Loans

Because no information is available with respect to the loan-to-value ratios of Government Mortgage Loans contained in Pools denoted by prefix TJ, TK, TQ or TT, no representations can be made regarding the qualification of such loans under sections 856(c)(3)(B), 856(c)(5)(B) and 7701(a)(19)(C)(v) of the Code.

Loans Secured by Manufactured Homes

For certain purposes of the Code, a Mortgage Loan secured by a manufactured home is treated as secured by an interest in real property if the manufactured home satisfies the conditions set forth in section 25(e)(10) of the Code. That section requires a manufactured home to have a minimum of 400 square feet of living space and a minimum width in excess of 102 inches and to be of a kind customarily used at a fixed location. Although Revenue Ruling 84-10 does not specifically refer to Mortgage Loans secured by manufactured homes, the conclusions discussed above regarding sections 856(c)(3)(B), 856(c)(5)(B) and 7701(a)(19)(C)(v) of the Code should be applicable to a beneficial owner's investment in a Mortgage Loan that is secured by property described in section 25(e)(10). With respect to Mortgage Loans secured by manufactured homes, the conditions of section 25(e)(10) will be satisfied.

Defeasance Mortgage Loans

With respect to a Defeasance Mortgage Loan, if there is a release of the mortgaged property as discussed under ''Maturity and Prepayment Assumptions,'' that Mortgage Loan will no longer qualify as a ''loan secured by an interest in real property'' within the meaning of section 7701(a)(19)(C)(v) of the Code or a ''real estate asset'' within the meaning of section 856(c)(5)(B), and the interest income on that Mortgage Loan will no longer qualify as ''interest on obligations secured by mortgages on real property'' within the meaning of section 856(c)(3)(B). Thus, upon the release of the mortgaged property securing a Defeasance Mortgage Loan that underlies a Certificate, the rulings discussed above regarding the application of these Code sections would be limited to the remaining Mortgage Loans underlying the Certificate that are secured by an interest in real property.

Mortgage Loan Servicing

The IRS 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 beneficial owners 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 beneficial owner acquires the stripped bond. See ''—Application of Revenue Ruling 84-10—*Premium*.'' In addition, the excess portion of servicing compensation will be excluded from the income of Owners and thus will not be subject to the limitations on the deductibility of miscellaneous itemized deductions. See ''—Application of Revenue Ruling 84-10—*Servicing Compensation*.''

A Mortgage Loan is effectively not treated as a stripped bond, however, if the Mortgage Loan meets either the ''100 basis point'' test or the ''*de minimis*'' test. A Mortgage Loan meets 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 ⅙ of one percent times the number of whole years to final stated maturity. In addition, servicers are given the opportunity to elect to treat mortgage servicing fees up to a specified number of basis points (which depends on the type of Mortgage Loans) as ''reasonable'' servicing. No guidance has been provided as to the effect, if any, of such safe harbors and any elections thereunder on beneficial owners of Mortgage Loans.

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 advisors about the IRS guidance and its application to investments in the Certificates.

Information Reporting and Backup Withholding

With each distribution, we will furnish to each Certificateholder a statement setting forth the portions of such distribution 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 distribution 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 principal, as well as payments of proceeds from the sale of Certificates, may be subject to the ''backup withholding'' tax under section 3406 of the Code at a rate of 31 percent 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 such tax. Any amounts deducted and withheld from such a payment would be allowed as a credit against the beneficial owner'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.

Foreign Investors

Additional rules apply to a beneficial owner that is not a U.S. Person (a ''Non-U.S. Person''). ''U.S. Person'' means a citizen or resident of the United States, a corporation, partnership or other entity created or organized in or under the laws of the United States or any political subdivision thereof, an estate the income of which is subject to U.S. federal income tax regardless of the source of its income, or a trust if a court within the United States can exercise primary supervision over its administration and at least one U.S. Person has the authority to control all substantial decisions of the trust.

Payments on a Certificate made to, or on behalf of, a beneficial owner that is a Non-U.S. Person 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 within the meaning of section 871(h)(3)(B) of the Code or a ''controlled foreign corporation'' related to Fannie Mae 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. Person or, in the case of an individual, that the beneficial owner is neither a citizen nor resident of the United States, and provides the name, address and taxpayer identification number, if any, of the beneficial owner;
- the last U.S. 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; and
- the Certificate represents an undivided interest in a Pool of Mortgage Loans all of which were originated after July 18, 1984.

That portion of interest income of a beneficial owner who is a Non-U.S. Person on a Certificate that represents an interest in one or more Mortgage Loans originated before July 19, 1984 will be subject to a U.S. withholding tax at the rate of 30 percent or lower treaty rate, if applicable. Regardless of the date of origination of the Mortgage Loans, backup withholding will not apply to payments made to a beneficial owner that is a Non-U.S. Person 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-8 or 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-8 or substitute form with the IRS.

LEGAL OPINION

If you purchase 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 Certificates, the issue supplement and the Trust Indenture for that issue.

ERISA CONSIDERATIONS

The Employee Retirement Income Security Act of 1974, as amended (''ERISA''), and the Code impose certain requirements on employee benefit plans subject to ERISA (such as employer-sponsored retirement plans) and upon 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 certain entities in which the benefit plans or arrangements that are subject to ERISA and the Code invest. We refer to these plans, arrangements and entities as ‘‘Plans.’’ Any person who is a fiduciary of a Plan also is subject to the requirements imposed by ERISA and the Code. Before a Plan invests in any Certificate, the Plan fiduciary must consider whether the governing instruments for the Plan would permit the investment, whether the Certificates would be a prudent and appropriate investment for the Plan under its investment policy and whether such an investment might result in a transaction prohibited under ERISA or the Code for which no exemption is available.

On November 13, 1986, the U.S. Department of Labor issued a final regulation covering the acquisition by a Plan of a ‘‘guaranteed governmental mortgage pool certificate,’’ defined to include certificates which are ‘‘backed by, or evidencing an interest in specified mortgages or participation interests therein’’ and are guaranteed by Fannie Mae as to the payment of interest and principal. Under the regulation, investment by a Plan in a ‘‘guaranteed governmental mortgage pool certificate’’ does not cause the assets of the Plan to include the mortgages underlying the certificate or 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 in providing services with respect to the mortgages in the pool. Our counsel, Brown & Wood LLP, has advised us that the Certificates qualify under the definition of ‘‘guaranteed governmental mortgage pool certificates’’ and, as a result, the purchase and holding of 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.

INDEX OF DEFINED TERMS

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Mega Prospectus

Guaranteed MBS Pass-Through Securities (“Mega Certificates”)
(Backed by Fannie Mae MBS Certificates)

Principal and interest paid on the 25th day of each month

The Mega Certificates

We, the Federal National Mortgage Association or Fannie Mae, will issue and guarantee the Mega Certificates. Each issue of Mega Certificates will have its own identification number and will represent the ownership of principal and interest distributions on certain Fannie Mae Guaranteed Mortgage Pass-Through Certificates (the “MBS Certificates”). The MBS Certificates represent the ownership of pools of residential mortgage loans secured by single-family or multifamily properties. This Mega Prospectus does not contain complete information and **only** should be read together with the accompanying MBS Prospectus.

Fannie Mae Guaranty

We guarantee that the holders of the Mega Certificates will receive timely payments of interest and principal. **Neither the Mega Certificates nor interest on the Mega Certificates are guaranteed by the United States, and they 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 Mega Certificates.

The Mega Certificates are exempt from registration under the Securities Act of 1933 and are “exempted securities” under the Securities Exchange Act of 1934.

The date of this Prospectus is October 1, 1999

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INFORMATION ABOUT PROSPECTUS SUPPLEMENTS

In cases where adjustable-rate mortgage loans or multifamily mortgage loans back the MBS Certificates underlying an issue of Mega Certificates, we will prepare a prospectus supplement. The disclosure documents for any particular issue of Mega Certificates are this prospectus, any related prospectus supplement and the prospectus for Fannie Mae Guaranteed Mortgage Pass-Through Certificates (the ‘‘MBS Prospectus’’) together with any information incorporated in these documents by reference as discussed below under the heading ‘‘Additional Information About Fannie Mae.’’ If a prospectus supplement is prepared for a particular issue of Mega Certificates, it will contain specific information about that issue. Accordingly, you should rely on the information in the prospectus supplement to the extent it is different from the information in this prospectus.

You can obtain copies of this prospectus, any related prospectus supplement and the MBS Prospectus by writing us at Fannie Mae, 3900 Wisconsin Avenue, N.W., Area 2H-3S, Washington, D.C. 20016 or by calling the Fannie Mae Hotline at 1-800-237-8627 or (202) 752-6547. The prospectus supplement is generally available three business days before settlement of the related issue of Mega Certificates.

FANNIE MAE

Fannie Mae is a federally chartered and stockholder-owned corporation organized and existing under the Federal National Mortgage Association Charter Act, 12 U.S.C. § 1716 *et seq.* We were established in 1938 as a United States government agency to provide supplemental liquidity to the mortgage market and were transformed into a stockholder-owned and privately managed corporation by legislation enacted in 1968. Today we are the largest investor in residential mortgage loans in the United States.

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 MBS Certificates, receiving guaranty fees for our guaranty of timely payment of principal and interest on the certificates. We issue MBS Certificates primarily in exchange for pools of mortgage loans from lenders. By issuing Mega 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, N.W., Washington, D.C. 20016 (telephone: (202) 752-7000).

ADDITIONAL INFORMATION ABOUT FANNIE MAE

You also should read:

- our current Information Statement dated March 31, 1999;
- the Supplements to the Information Statement dated May 14, 1999 and August 13, 1999; and
- any additional Supplements and any more current Information Statement.

These documents contain important financial and other information about Fannie Mae which we are incorporating by reference in this prospectus. This means that we are disclosing important information to you by referring to these documents, so you should read them together with this prospectus.

We publish our Information Statement annually and update it from time to time generally to reflect quarterly and annual financial results. When we use the term ''Information Statement'' in this prospectus, we mean our most recent Information Statement as of the issue date for a particular issue of Mega Certificates, together with any Supplements to that Information Statement. You should always rely on the most current information. You can read our Information Statement and other information about us at the offices of the New York Stock Exchange, the Chicago Stock Exchange and the Pacific Exchange. We are not subject to the periodic reporting requirements of the Securities Exchange Act of 1934, so we do not file reports or other information with the Securities and Exchange Commission.

You can obtain copies of our Information Statement, all the other documents incorporated by reference and additional information about us, without charge, by writing us at Office of Investor Relations, Fannie Mae, 3900 Wisconsin Avenue, N.W., Washington, D.C. 20016, or by calling us at 1-800-701-4791. You also can obtain certain of these documents from our World Wide Web site at http://www.fanniemae.com.

We may discontinue providing any of the information referenced in this section at any time without notice.

RISK FACTORS

We have listed below some of the risks associated with an investment in the Mega 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 Mega Certificates are a suitable investment for you.

Suitability

The Mega Certificates are **not** a suitable investment for every investor.

- Before investing, you should have sufficient knowledge and experience to evaluate the merits and risks of the Mega Certificates and the information contained in this prospectus, any related prospectus supplement, the MBS Prospectus and the information incorporated in these documents by reference.
- You should thoroughly understand the terms of the Mega Certificates.
- You should be able to evaluate (either alone or with the help of a financial advisor) the economic, interest rate and other factors that may affect your investment.
- You should have sufficient financial resources and liquidity to bear all risks associated with the Mega Certificates.
- You should investigate any legal investment restrictions that may apply to you.

Yield Considerations

Your effective yield on the Mega Certificates will depend upon:

- the price you paid for the Mega Certificates;
- how quickly or slowly borrowers prepay mortgage loans in the underlying pools;
- when and if mortgage loans in the underlying pools are liquidated due to borrower defaults, casualties or condemnations affecting the properties securing those loans;
- when and if mortgage loans in the underlying pools are repurchased; and
- the actual characteristics of the mortgage loans in the underlying pools.

Generally, if you purchase a Mega Certificate at a discount and the rate at which principal is paid on the mortgage loans is slower than you anticipated, your yield on that Mega Certificate will be less than what you expected it would be. Similarly, if you purchase a Mega Certificate at a premium and the rate at which principal is paid on the mortgage loans is faster than you anticipated, your yield on that Mega Certificate also will be less than you expected.

Even if the average rate at which principal is paid on the mortgage loans in the underlying pools is consistent with your expectations, how that average rate may have varied over time can significantly affect your yield. Generally, the earlier the payment of principal, the greater the effect on the yield to maturity. As a result, if the rate of principal prepayment during any period is faster or slower than you anticipated, a corresponding reduction or increase in the prepayment rate during a later period may not fully offset the effect of the earlier rate on the yield.

In addition, because interest accrues on the underlying MBS Certificates during each calendar month but is not paid to Certificateholders until the 25th day of the following month, the effective yield will be less than it would be if we paid interest earlier. As a result, the market value of the Mega Certificates will be correspondingly reduced.

For a more detailed discussion, see "Yield Considerations" in the MBS Prospectus.

You must make your own decision as to the principal prepayment assumptions you will use in deciding whether to purchase the Mega Certificates.

Prepayment Considerations

The rate of principal payments on the underlying MBS Certificates will depend on the rate of principal payments on the underlying mortgage loans. Principal payments will occur as a result of scheduled amortization or prepayments.

Many mortgage loans provide that the lender can require repayment in full if the borrower sells the property that secures the loan. In this way, property sales by borrowers can affect the rate of prepayment. In addition, certain multifamily loans permit the lender to require repayment in full if additional liens are placed on the mortgaged properties. Furthermore, borrowers often seek to refinance their loans by obtaining new loans secured by the same properties. Refinancing of loans also affects the rate of prepayment. In general, the rates of prepayment may be influenced by:

- the level of current interest rates relative to the rates borne by the loans in a particular pool,
- homeowner mobility,
- the existence of any prepayment premiums or prepayment restrictions,
- borrower sophistication regarding the benefits of refinancing,
- solicitation by competing lenders, and
- general economic conditions.

Because so many factors affect the rate of prepayment of a pool of mortgage loans, we cannot estimate the prepayment experience of the mortgage loans in a particular pool.

See "Maturity and Prepayment Assumptions" in the MBS Prospectus.

Repurchases Due to Breach of Representations and Warranties

The financial institution that sells us the mortgage loans in an underlying pool makes certain representations and warranties with respect to them. If there is a material breach of these representations and warranties, we may choose to repurchase the affected loans. If we do, we will purchase those loans at their stated principal balance plus accrued interest at the pass-through rate in the case of fixed-rate mortgage loans or the accrual rate in the case of adjustable-rate mortgage loans. See "Description of Certificates—Collection and Other Servicing Procedures" in the MBS Prospectus.

Repurchases Due to Delinquency

We may repurchase from any underlying pool mortgage loans that are delinquent by at least four consecutive monthly payments (or at least eight consecutive biweekly payments). If we do, we will purchase the mortgage loans at a price equal to their principal balance plus accrued interest at the pass-through rate in the case of fixed-rate mortgage loans or the accrual rate in the case of adjustable-rate mortgage loans. See "Description of Certificates—Payments on Mortgage Loans; Distributions on Certificates" in the MBS Prospectus.

Reinvestment Risk

Generally, a borrower may prepay a mortgage loan at any time. See "Maturity and Prepayment Assumptions" in the MBS Prospectus. As a result, we cannot predict the amount of principal payments on the Mega

Certificates. The Mega Certificates may not be an appropriate investment for you if you need to receive a specific amount of principal payments on a regular basis or on a specific date. Because interest rates fluctuate, you may not be able to reinvest the principal payments on the Mega Certificates at an interest rate that is as high as the interest rate borne by the Mega Certificates. You may have to reinvest those funds at a much lower interest rate. You should consider this reinvestment risk in light of other investments that may be available to you.

Market and Liquidity Considerations

We cannot be sure that a market for resale of the Mega Certificates will develop. Further, if a market develops, it may not continue or be sufficiently liquid to allow you to sell your Mega Certificates. Even if you are able to sell your Mega Certificates, the sale price may not be comparable to similar investments that have a developed market. Moreover, you may not be able to sell small or large amounts of Mega Certificates at prices comparable to those available to other investors.

A number of factors may affect the resale of Mega Certificates, including the following:

- the method, frequency and complexity of calculating principal or interest;
- the average age of the mortgage loans in the underlying pools;
- the outstanding principal amount of Mega Certificates;
- the amount of Mega Certificates offered for resale from time to time;
- any legal restrictions or tax treatment limiting demand for the Mega Certificates;
- the availability of comparable securities; and
- the level, direction and volatility of interest rates generally.

Underlying Pools of Multifamily Loans

Multifamily loans are considered to be riskier than single-family loans for reasons that include those listed below.

- They typically are much larger in amount, thus increasing the risk represented by the default of a single borrower.
- Repayment of the loan usually depends upon successful operation of the multifamily property that secures the loan.
- Changing economic conditions will affect the supply and demand of rental units and the rents that the market will bear.
- Government regulations (such as rent control laws) may adversely affect future income from the property.

In addition, because individual multifamily loans often are large, principal prepayments resulting from defaults, casualties or condemnations may significantly affect your yield.

Fannie Mae Guaranty Considerations

If we were not able to perform our guaranty obligations, Certificateholders would receive only borrower payments and other recoveries on the mortgage loans in the underlying pools. If that happened, delinquencies and defaults on the mortgage loans would directly affect the amounts that the Certificateholders would receive each month.

THE MEGA CERTIFICATES

General

The Fannie Mae Guaranteed MBS Pass-Through Securities (the ''Mega Certificates'') offered by this prospectus represent fractional undivided interests in a trust. Each trust will be comprised of beneficial ownership interests in the principal and interest distributions on certain Fannie Mae Guaranteed Mortgage Pass-Through Certificates (the ''MBS Certificates''). In our capacity as trustee, we will hold the MBS Certificates in each trust either directly or through one or more pooled Mega Certificates. Unless the prospectus supplement for a pool provides otherwise, the MBS Certificates represent beneficial ownership interests in pools of first lien residential mortgage loans (the ''Mortgage Loans'') secured by either single-family or multifamily properties. The MBS Prospectus describes the general characteristics of the MBS Certificates.

We will create a trust for each issue of Mega Certificates under the Trust Agreement dated as of April 1, 1988, executed by Fannie Mae both in its corporate capacity and as trustee. In addition, each issue of Mega Certificates will be governed by an issue supplement to the Trust Agreement. We summarize below certain features of the Trust Agreement. This summary is not complete and the actual provisions of the Trust Agreement will govern a particular issue of Mega Certificates. You may obtain a copy of the Trust Agreement, the applicable issue supplement and any applicable trust indenture by writing or calling our Washington, D.C. office as described on page 3.

The MBS Certificates

The MBS Certificates satisfy the general characteristics described in the MBS Prospectus. All of the Mortgage Loans for a particular issue of MBS Certificates will be either Government Mortgage Loans (*i.e.*, insured or guaranteed by a United States government agency) or Conventional Mortgage Loans (*i.e.*, not so insured or guaranteed). Substantially all of the Mortgage Loans will have original maturities of up to 15 years or between 16 and 30 years. Each of the Mortgage Loans (other than cooperative share loans) will be secured by a mortgage or deed of trust on a one- to four-family (''single-family'') residential property or on a multifamily residential property. Each cooperative share loan will be secured by a lien on the borrower's shares or other ownership interest in a cooperative corporation and the assignment of the borrower's right to occupy a particular dwelling unit in the cooperative housing project. If single-family fixed-rate Mortgage Loans underlie the MBS Certificates, all of the MBS Certificates will have the same pass-through interest rate as described in the MBS Prospectus. If adjustable-rate Mortgage Loans or multifamily Mortgage Loans underlie the MBS Certificates, we will describe the characteristics of the MBS Certificates in the prospectus supplement for that issue of Mega Certificates.

Transfer of MBS Certificates to the Trust

We will identify in a Fannie Mae Security Schedule the MBS Certificates or pooled Mega Certificates transferred to a trust for the related issue of Mega Certificates. The Fannie Mae Security Schedule will appear as an exhibit to the issue supplement for the trust. We will register the MBS Certificates or pooled Mega Certificates in our name, as trustee, on the books of a U.S. Federal Reserve Bank and will hold them for the benefit of the holders of the Mega Certificates.

Book-Entry Form

Unless otherwise specified in any related prospectus supplement, we will issue the Mega Certificates in book-entry form on the book-entry system of the U.S. Federal Reserve Banks. There is a fiscal agency agreement in effect between us and the Federal Reserve Bank of New York. Under this agreement, the regulations[1] that govern our use of the book-entry system and the pledging and transfer of interests apply to the book-entry Mega Certificates. These regulations may be modified, amended, supplemented, superseded, eliminated or otherwise altered without the consent of any Certificateholder. The Federal Reserve Banks' operating circulars and letters also apply. Book-entry Mega Certificates can have a minimum denomination of $1,000 with additional increments of one dollar. They are freely transferable on the records of any Federal Reserve Bank but are not convertible to physical certificates.

Mega Certificates will be maintained on the book-entry system of a Federal Reserve Bank and can be separately traded and owned. Acting on our behalf, the Federal Reserve Bank of New York will make payments on the Mega Certificates on each Distribution Date by crediting accounts on its records (or on the records of other Federal Reserve Banks). Only entities that are eligible to maintain book-entry accounts with a Federal Reserve Bank may hold Mega Certificates "of record," although these entities will not necessarily be the beneficial owners of the Mega Certificates. We refer to these holders of record as "Certificateholders." Ordinarily, beneficial owners will "hold" Mega Certificates through one or more financial intermediaries, such as banks, brokerage firms and securities clearing organizations. A Certificateholder that is not the beneficial owner of a Mega Certificate will be responsible for establishing and maintaining accounts for its customer. In the same way, all the other financial intermediaries in the chain to the beneficial owner of that Mega Certificate will be responsible for establishing and maintaining accounts for their customers. The rights of the beneficial owner of a Mega Certificate with respect to Fannie Mae and the Federal Reserve Banks may be exercised only through a Certificateholder. Neither we nor the Federal Reserve Banks will have any direct obligation to the beneficial owner of a Mega Certificate who is not also a Certificateholder according to the book-entry records maintained by the Federal Reserve Banks. In recording transfers of a Mega Certificate, the Federal Reserve Banks will act only upon the instructions of a Certificateholder.

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[1] Found at 24 C.F.R. Part 81, Subpart H, as amended.

Distributions on Mega Certificates

We will pay Certificateholders their respective Percentage Interests of principal and interest on the 25th day of each month (or, if the 25th day is not a business day, on the first business day following the 25th day). We refer to each such date as a "Distribution Date." Certificateholders of record are the persons in whose names the Mega Certificates are entered on the books of a Federal Reserve Bank as of the close of business on the last day of the preceding month (the "Record Date"). We will make the first payments for each issue of Mega Certificates the month after issuance. Payments will be made by wire not later than the Distribution Date.

The "Percentage Interest" evidenced by a Mega Certificate in principal and interest distributions on the underlying MBS Certificates is equal to:

- the principal denomination of the Mega Certificate divided by
- the principal denominations of all Mega Certificates of the issue.

The Fannie Mae Guaranty

Our guaranty consists of our obligation to pay Certificateholders the following amounts:

- **Interest—**one month's interest on the unpaid principal balance of the Mega Certificates as follows:

  if the underlying MBS Certificates are backed by single-family fixed-rate Mortgage Loans—interest paid at the pass-through rate borne by the underlying MBS Certificates;

  if the underlying MBS Certificates are backed by pools of multifamily fixed-rate Mortgage Loans—interest paid at the weighted average pass-through rate borne by the underlying MBS Certificates; and

  if the underlying MBS Certificates are backed by pools of adjustable-rate Mortgage Loans—interest paid at the weighted average of the then current pool accrual rates of the underlying MBS Certificates

- **Principal—**the aggregate concurrent distributions of principal of the underlying MBS Certificates, with the aggregate of the principal distributions over the life of the Mega Certificates being equal to the original principal amount of the Mega Certificates.

Neither the Mega Certificates nor interest on the Mega Certificates are guaranteed by the United States, and they 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.

Reports to Certificateholders

With each payment, we will forward to the Certificateholders a statement of the total amount paid on the related Certificates on that date and how the payment is allocated between principal and interest.

Within a reasonable time after the end of each calendar year, we will furnish to each person who was a Certificateholder at any time during that year a statement containing any information required by the federal income tax laws.

Certain Matters Regarding Fannie Mae

The Trust Agreement provides that we may not resign from our obligations and duties unless they are no longer permissible under applicable law. A resignation will be effective only after a successor has assumed our obligations and duties. However, no successor may succeed to our guaranty obligations, and we will continue to be responsible under our guaranty even if we are terminated from our other duties and responsibilities under the Trust Agreement. See "Rights upon Event of Default" below.

The Trust Agreement also provides that neither we nor any of our directors, officers, employees or agents will be under any liability to any trust or to the Certificateholders for errors in judgment or for any action we take, or refrain from taking, in good faith pursuant to the Trust Agreement. However, neither we nor any such person will be protected against any liability due to willful misfeasance, bad faith or gross negligence or willful disregard of obligations and duties.

In addition, the Trust Agreement provides that we are not under any obligation to appear in, prosecute or defend any legal action that is not incidental to our responsibilities under the Trust Agreement and that in our opinion may involve us in any expense or liability. However, in our discretion, we may undertake any legal action that we deem necessary or desirable in the interests of the Certificateholders. In that event, we will pay the legal expenses and costs of the action, which will not be reimbursable out of any trust.

Any corporation into which we are merged or consolidated, any corporation that results from a merger, conversion or consolidation to which we are a party or any corporation that succeeds to our business will be our successor under the Trust Agreement.

Voting

As set forth in the MBS Prospectus under the heading "Description of Certificates-Rights upon Event of Default," holders of MBS Certificates who represent ownership interests totaling at least 25% of the related trust fund have the right to terminate certain of our obligations under the related trust indenture if an event of default under the trust indenture has occurred and continues uncorrected. In that event, the Trust Agreement for the Mega Certificates provides that the Certificateholders have the right to vote their aggregate Percentage Interests in the underlying MBS Certificates. Certificateholders are given similar voting rights in the case of proposed waivers or amendments under the related trust indenture;

however, in such cases we cannot vote the entire ownership interest represented by an MBS Certificate unless Certificateholders who represent Percentage Interests of at least 66% agree.

Events of Default

Any of the following will be considered an Event of Default under the Trust Agreement for an issue of Mega Certificates:

- if we fail to make a required payment to the related Certificateholders, and our failure continues uncorrected for 15 days after we receive written notice from Certificateholders (who represent Percentage Interests totaling at least 5% of the related trust) that they have not been paid; or
- if we fail in a material way to fulfill any of our obligations under the Trust Agreement, and our failure continues uncorrected for 60 days after we receive written notice of our failure from Certificateholders (who represent Percentage Interests totaling at least 25% of the related trust); or
- if we become insolvent or unable to pay our debts or if other events of insolvency occur.

Rights upon Event of Default

If one of the Events of Default listed above has occurred and continues uncorrected, Certificateholders who represent Percentage Interests totaling at least 25% of the related trust have the right to terminate, in writing, our obligations under the Trust Agreement for that issue both as trustee and in our corporate capacity. However, our guarantee obligations will continue in effect. The same proportion of Certificateholders that has the right to terminate us also may appoint, in writing, a successor to all of our terminated obligations. In addition, the successor that they appoint will take legal title to the MBS Certificates included in the related trust.

Amendment

We may amend the Trust Agreement for an issue, without notifying or obtaining the consent of the related 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 Agreement in our capacity as trustee or in our corporate capacity or both;
- eliminate any of our rights in our corporate capacity under the Trust Agreement; and
- cure any ambiguity or correct or add to any provision in the Trust Agreement or the related issue supplement, so long as no Certificateholder is adversely affected.

If Certificateholders that represent Percentage Interests totaling at least 66% of the related trust give their consent, we may amend the Trust Agreement for that issue to eliminate, change or add to the terms of the Trust Agreement or its issue supplement or to waive our compliance with any of those terms. Nevertheless, we may not terminate or change our guaranty obligations or reduce the percentage of Certificateholders who must give their consent to the types of amendments listed in the previous sentence. In addition, unless each affected Certificateholder consents, no amendment may reduce or delay the funds that are required to be distributed on any Mega Certificate.

Termination

The Trust Agreement for any issue of Mega Certificates will terminate when we have distributed all required amounts to the related Certificateholders. In any event, the trust relating to any issue of Mega Certificates cannot continue after the 21st anniversary of the death of the last survivor of the persons named in the Trust Agreement. The Trust Agreement does not give us the right to repurchase any of the underlying MBS Certificates. Although the trust indenture for each issue of MBS Certificates gives us the right to repurchase all the Mortgage Loans in the related pool at par (plus one month's interest) when the pool principal balance is less than 10% of the original pool principal balance, we have agreed not to exercise this option until the pool principal balance is less than 1% of the original pool principal balance. See "Description of Certificates—Termination" in the MBS Prospectus.

Because the Trust Agreement does not impose any restriction on our repurchase right in the MBS Prospectus, payment on the Mega Certificates on any Distribution Date may include the proceeds of our repurchase of the Mortgage Loans underlying one or more of the MBS Certificates in the related trust. Once no MBS Certificate remains in a trust as a result of our repurchases, we will terminate that trust and pay the related Certificateholders the repurchase proceeds as a final distribution in retirement of the Mega Certificates.

MARGINABILITY; REPURCHASE AGREEMENTS

The Mega Certificates are "exempted securities" for purposes of the margin rules of the Board of Governors of the Federal Reserve System and the New York Stock Exchange and transactions in the Mega Certificates, including repurchase agreements, are treated under those rules in the same manner as transactions in MBS Certificates.

CERTAIN FEDERAL INCOME TAX CONSEQUENCES

Our special tax counsel, Arnold & Porter, has delivered an opinion to us that each trust will not be classified as an association taxable as a corporation for federal income tax purposes but instead will be classified as a trust under subpart E of part I of subchapter J of the Internal Revenue Code of 1986, as amended (the "Code"), and that a beneficial owner of a Mega Certificate will be considered to be the beneficial owner of a pro rata undivided interest in each of the MBS Certificates that directly or indirectly underlie that Mega Certificate. For a general discussion of the federal income tax consequences of the ownership of MBS Certificates, see the MBS Prospectus under the heading ‘‘Certain Federal Income Tax Consequences.’’

LEGAL OPINION

If you purchase Mega 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 Mega Certificates, the Trust Agreement and the related issue supplement.

ERISA CONSIDERATIONS

The Employee Retirement Income Security Act of 1974, as amended (‘‘ERISA’’), and the Code impose certain requirements on employee benefit plans subject to ERISA (such as employer-sponsored retirement plans) and upon 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 certain entities in which the benefit plans or arrangements that are subject to ERISA and the Code invest. We refer to these plans, arrangements and entities as ‘‘Plans.’’ Any person who is a fiduciary of a Plan also is subject to the requirements imposed by ERISA and the Code. Before a Plan invests in any Mega Certificate, the Plan fiduciary must consider whether the governing instruments for the Plan would permit the investment, whether the Mega Certificates would be a prudent and appropriate investment for the Plan under its investment policy and whether such an investment might result in a transaction prohibited under ERISA or the Code for which no exemption is available.

On November 13, 1986, the U.S. Department of Labor issued a final regulation covering the acquisition by a Plan of a ‘‘guaranteed governmental mortgage pool certificate,’’ defined to include certificates which are ‘‘backed by, or evidencing an interest in specified mortgages or participation interests therein’’ and are guaranteed by Fannie Mae as to the payment of interest and principal. Under the regulation, investment by a Plan in a ‘‘guaranteed governmental mortgage pool certificate’’ does not cause the assets of the Plan to include the mortgages underlying the certificate or the sponsor, trustee and other servicers of the pool to be subject to the fiduciary responsibility provisions of ERISA or the prohibited transaction provisions of ERISA or section 4975 of the Code in providing services with respect to the mortgages in the pool. Our counsel, Brown & Wood LLP, has advised us that the Mega Certificates qualify under the definition of ‘‘guaranteed governmental mortgage pool certificates’’ and, as a result, the purchase and holding of Mega 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.

No one is authorized to give information or to make representations in connection with this offering other than those contained in this Prospectus and the Mega Prospectus. You must not rely on any unauthorized information or representation. This Prospectus and the Mega Prospectus Documents do not constitute an offer or solicitation with regard to the MBS Certificates or the Mega Certificates if it is illegal to make such an offer or solicitation to you under state law. By delivering this Prospectus and the Mega Prospectus at any time, no one implies that the information contained in these documents is correct after their date.

The Securities and Exchange Commission nor any state securities commission has not approved or disapproved the MBS Certificates or the Mega Certificates or determined if this Prospectus or the Mega Prospectus or any supplement to either 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 1-800-237-8627 or 202-752-6547.

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PROSPECTUS

FannieMae