

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.**

<p>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.</p>	<p>The Mega Certificates are exempt from registration under the Securities Act of 1933 and are “exempt securities” under the Securities Exchange Act of 1934.</p>
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The date of this Prospectus is October 1, 1998

TABLE OF CONTENTS

Page

Information about Prospectus Supplements	3
Fannie Mae	3
Additional Information about Fannie Mae	4
Risk Factors	5
The Mega Certificates	8
Marginability; Repurchase Agreements	14
Certain Federal Income Tax Consequences	14
Legal Opinion	15
ERISA Considerations	15

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 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, 1998;
- the Supplements to the Information Statement dated May 15, 1998 and August 13, 1998; 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 penalties 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. 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 regulations¹ 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.

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.

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

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.

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