

Prospectus Dated August 1, 1994

Federal National Mortgage Association



Guaranteed MBS Pass-Through Securities

(“Mega Certificates”)

(Backed by GNMA Certificates)

THE CERTIFICATES, TOGETHER WITH INTEREST THEREON, ARE NOT GUARANTEED BY THE UNITED STATES. THE OBLIGATIONS OF FANNIE MAE UNDER ITS GUARANTY OF THE CERTIFICATES ARE OBLIGATIONS SOLELY OF THE CORPORATION AND DO NOT CONSTITUTE AN OBLIGATION OF THE UNITED STATES OR ANY AGENCY OR INSTRUMENTALITY THEREOF OTHER THAN THE CORPORATION. THE CERTIFICATES ARE EXEMPT FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT OF 1933 AND ARE “EXEMPTED SECURITIES” WITHIN THE MEANING OF THE SECURITIES EXCHANGE ACT OF 1934.

The Guaranteed MBS Pass-Through Securities (the “Certificates”) offered hereby are issued and guaranteed as to timely distribution of principal and interest by the Federal National Mortgage Association, a corporation organized and existing under the laws of the United States (the “Corporation” or “Fannie Mae”). The Certificates represent beneficial ownership interests in the principal and interest distributions on certain “fully modified pass-through” mortgage-backed securities (“GNMA Certificates”), guaranteed as to timely distribution of principal and interest by the Government National Mortgage Association (“GNMA”). The GNMA Certificates will be held for the Holders (as hereinafter defined) of Certificates by Fannie Mae in its capacity as Trustee of the related Trust (the “Trust”). All Certificates relating to a particular Trust are hereinafter referred to as an “Issue.” The GNMA Certificates represent beneficial interests in pools (“Pools”) of first lien, residential mortgage loans (the “Mortgage Loans”).

Each Issue of Certificates will be issued pursuant to a Trust Agreement dated as of April 1, 1988, executed by Fannie Mae in its corporate capacity and its capacity as Trustee, as supplemented by an Issue Supplement to the Trust Agreement (collectively, the “Trust Agreement”), dated as of the Issue Date specified in the Final Data Statement (described herein). The Certificates will evidence the entire beneficial interest in the distributions of principal of and interest on the underlying GNMA Certificates. Principal and interest will be distributed monthly on the 25th day of each month (or if such 25th day is not a business day, on the first business day next succeeding such 25th day, commencing in the month following the Issue Date) (each a “Distribution Date”) unless a different Distribution Date is specified in a Preliminary Data Statement hereto. The aggregate distributions of principal and interest required to be made by Fannie Mae on each Distribution Date to Holders of Certificates will be calculated as described herein. The portion of principal and interest to which the Holder of each Certificate is entitled will be equal to the percentage obtained by dividing the original principal amount or “denomination” of such Certificate by the aggregate original principal amount of all Certificates of the related Issue.

This Prospectus may not contain complete information regarding this offering and should be read in conjunction with any Preliminary Data Statement hereto.

THE GNMA CERTIFICATES

GNMA

The Government National Mortgage Association (“GNMA”) is a wholly owned corporate instrumentality of the United States within the Department of Housing and Urban Development. Section 306(g) of Title III of the National Housing Act of 1934, as amended (the “Housing Act”), authorizes GNMA to guarantee the timely payment of the principal of, and interest on, certificates that are based on and backed by a pool of mortgage loans insured by the Federal Housing Administration (the “FHA”) under the Housing Act or Title V of the Housing Act of 1949, or partially guaranteed by the Department of Veterans Affairs (“VA”) under the Servicemen’s Readjustment Act of 1944, as amended, or Chapter 37 of Title 38, United States Code.

Section 306(g) of the Housing Act provides that “the full faith and credit of the United States is pledged to the payment of all amounts which may be required to be paid under any guaranty under this subsection.” To meet its obligations under such guaranties, GNMA is authorized, under Section 306(d) of the Housing Act, to borrow from the United States Treasury with no limitations as to amount.

GNMA Certificates

Each GNMA Certificate underlying an Issue of Certificates will be a “fully modified pass-through” mortgage-backed security issued and serviced by a mortgage banking company or other financial concern approved by GNMA as a seller-servicer of loans insured by the FHA and/or loans partially guaranteed by the VA. Each of the Mortgage Loans will be a fixed-rate, fully amortizing Mortgage Loan secured by a first mortgage or deed of trust on a one- to four-family residential property. Although GNMA Certificates may be backed by 15-year Mortgage Loans, GNMA’s normal requirements provide that at least 90% of the principal amount of a pool or loan package must consist of Mortgage Loans with original maturities of at least 20 years. GNMA Certificates may be issued under either or both of the GNMA I program (“GNMA I Certificates”) and the GNMA II program (“GNMA II Certificates”). The holder of a GNMA Certificate has essentially the same rights with respect to a GNMA Certificate issued under either program. However, there are certain differences between the two programs.

Under the GNMA I program, monthly payments will be made directly by the GNMA issuer to the registered holder of the GNMA I Certificate by the 15th calendar day of each month. Under the GNMA I program an individual GNMA issuer assembles a pool of mortgage loans against which it issues and markets GNMA I Certificates. All mortgage loans underlying a particular GNMA I Certificate must have the same annual interest rate, and the pass-through rate on each GNMA I Certificate will be 0.5% per annum less than the annual interest rate on the mortgage loans included in the pool of mortgage loans backing such GNMA I Certificate.

Under the GNMA II program, monthly payments will be made to the registered holder of the GNMA II Certificate through Chemical Bank, as paying agent, no later than the 20th calendar day of each month. Under the GNMA II program multiple issuer pools may be formed through the aggregation of loan packages of more than one GNMA issuer. Under this option, packages submitted by various GNMA issuers for a particular issue date and pass-through rate are aggregated into a single pool which backs a single issue of GNMA II Certificates. Each GNMA II Certificate issued under a multiple issuer pool is backed by a proportionate interest in the entire pool rather than solely by the loan package contributed by any one GNMA issuer. Single issuer pools also may be formed under the GNMA II program. Mortgages underlying a particular GNMA II Certificate may have annual interest rates that vary from each other by up to 1%, and the pass-through rate on each GNMA II Certificate will be between 0.5% and 1.5% per annum less than the highest annual interest rate on any mortgage loan included in the pool of mortgage loans backing such GNMA II Certificate.

Data Statements

Following the formation of a Trust and the issuance of the related Certificates, Fannie Mae will prepare a Final Data Statement setting forth the characteristics of the GNMA Certificates underlying an Issue of Certificates. Each Final Data Statement will set forth (i) the pass-through rate of the GNMA Certificates, (ii) the approximate aggregate outstanding principal balance of the GNMA Certificates, (iii) the aggregate original and unpaid principal balance of GNMA Certificates which will be GNMA II Certificates as of the Issue Date, (iv) the range of the remaining terms to maturity of the latest maturing Mortgage Loan in the various Pools at the respective issue dates of the related GNMA Certificates (adjusted by subtracting the number of months elapsed since each such issue date through the Issue Date), and (v) the pool number of each GNMA Certificate in the Trust. Final Data Statements will not accompany a Prospectus but will be made available by Fannie Mae to investors on request. To request Final Data Statements, call Fannie Mae at (202) 752-6547 or 1-800-BEST-MBS.

Investors should be aware that the information set forth in the Final Data Statement will not contain information as to certain characteristics of the underlying Mortgage Loans that may, under certain circumstances, affect their prepayment experience with resultant effects on the yields realized by investors in the related Certificates. For instance, the information set forth in the Final Data Statement as to the remaining terms to maturity of the latest maturing Mortgage Loan will be based on information as of the issue date of the GNMA Certificates and may, because of intervening prepayments, not be reflective of comparable statistics as of the Issue Date of the Certificates. In addition, such information will not disclose the range of coupons (in the case of GNMA II Certificates) or remaining terms to maturity of individual Mortgage Loans within a Pool. For example, all of the coupons of the Mortgage Loans underlying a GNMA II Certificate could be 1.50% in excess of the pass-through rate. Under certain interest-rate scenarios, such a Pool could experience significantly different prepayments from a Pool consisting of Mortgage Loans with coupons that are .50% in excess of the pass-through rate. Also, the Mortgage Loans in any Pool may have remaining terms to maturity that differ significantly and any such differences may affect the scheduled amortization and the prepayment rate of the related GNMA Certificates. Furthermore, no Final Data Statement will include information as to the geographic dispersion of the Mortgage Loans underlying the related GNMA Certificates, and investors will not be able to evaluate the possible effect of such geographic dispersion on prepayments.

A Preliminary Data Statement will accompany this Prospectus only if (i) the Distribution Date will not be the 25th day of each month (nor the first business day next succeeding the 25th day, when the 25th day is not a business day), or (ii) the Certificates will not be issued and maintained on the book-entry system of the Federal Reserve Banks (*see* “THE CERTIFICATES—Book-Entry Form” herein). The Preliminary Data Statement, if applicable, will specify the applicable Distribution Date and the entity and system on which the Certificates will be issued and maintained.

THE CERTIFICATES

The following summaries describing certain provisions of the Certificates do not purport to be complete and are subject to, and are qualified in their entirety by reference to, the provisions of the Trust Agreement, the remaining provisions of this Prospectus, and the provisions of any Preliminary Data Statement. Capitalized terms used and not otherwise defined in this Prospectus have the meanings assigned to such terms in the Trust Agreement.

Distributions on GNMA Certificates; Deposits in the Certificate Account

Fannie Mae will deposit or credit to an account (the “Certificate Account”) an amount equal to the sum of the distributions of the principal of and interest on the GNMA Certificates in the Trust as the same are received. Amounts credited to the Certificate Account as of a Distribution Date will be available, to the extent described under “Distributions on Certificates” below, to be distributed to

Holder on such date. Any reinvestment earnings on amounts so deposited will be used by Fannie Mae to pay the expenses of the Trust and will not be included in the calculation of amounts distributable to Certificateholders.

The Trust Agreement permits Fannie Mae as Trustee to maintain the Certificate Account (i) as a trust account with an eligible depository institution (which account may contain other funds held by Fannie Mae in a trust capacity), (ii) as part of Fannie Mae's general assets, with appropriate entries being made on its books and records designating the funds and investments credited to the Trust, or (iii) in the form of any combination of accounts or book entries described in clauses (i) and (ii) above.

As noted above, Fannie Mae, as Trustee, has the option to maintain the Certificate Account as part of its general assets, by making appropriate entries on its books and records designating the funds and investments credited to the Trust. Although Fannie Mae is required to hold all such funds (and, upon deposit in the Certificate Account, the investment of such funds) for the account of Certificateholders in the Trust (subject to Fannie Mae's right to withdraw investment earnings for the purposes set forth above), the law applicable to a liquidation, reorganization or similar proceeding involving the assets of Fannie Mae is unclear and as a result no opinion can be rendered as to the status of Certificateholders' interest in such funds and investments in the event of any such proceeding.

Book-Entry Form

Unless otherwise specified in a Preliminary Data Statement, the Certificates will be issued, maintained and may be transferred by Holders (as defined below) only on the book-entry system of the Federal Reserve Banks. Certificates may be held of record only by entities eligible to maintain book-entry accounts with a Federal Reserve Bank. Such entities whose names appear on the book-entry records of a Federal Reserve Bank as the entities for whose accounts Certificates have been deposited are herein referred to as "Holders." A Holder is not necessarily the beneficial owner of a Certificate. Beneficial owners will ordinarily hold Certificates through one or more financial intermediaries, such as banks, brokerage firms and securities clearing organizations. A Holder that is not the beneficial owner of a Certificate, and each other financial intermediary in the chain to the beneficial owner, will have the responsibility of establishing and maintaining accounts for its respective 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 the Holder thereof. Fannie Mae and the Federal Reserve Banks will have no direct obligation to a beneficial owner of a Certificate that is not also the Holder of the Certificate. A Federal Reserve Bank will act only upon the instructions of the Holder in recording transfers of a Certificate.

A Fiscal Agency Agreement between Fannie Mae and the Federal Reserve Bank of New York makes generally applicable to the Certificates (i) regulations governing Fannie Mae's use of the book-entry system, contained in 24 C.F.R. Part 81, Subpart E, and (ii) such procedures, insofar as applicable, as may from time to time be established by regulations of the United States Department of the Treasury governing United States securities, as now set forth in Treasury Department Circular Number 300, 31 C.F.R. Part 306 (other than Subpart 0). The Certificates are also governed by applicable operating circulars and letters of the Federal Reserve Banks.

Authorized Denominations

Unless otherwise specified in a Preliminary Data Statement, Certificates will be issuable and transferable in minimum denominations of \$1,000 and integral multiples of \$1 in excess thereof.

Distributions on Certificates

On or about the fifth business day of each month, Fannie Mae will aggregate the amount of principal reported to be receivable on the GNMA I Certificates during such month on the basis of published GNMA factors for such month. For any GNMA I Certificate for which a factor is not available at such time and for all GNMA II Certificates, Fannie Mae will calculate the amount of scheduled payments of principal distributable in respect of such GNMA Certificates during such

month on the basis of the assumed amortization schedules of the underlying Mortgage Loans. The amortization schedules will be prepared on the assumption that: (i) each of the Mortgage Loans underlying a single GNMA Certificate had an original term to maturity of 360 months (except in the case of GNMA Certificates backed by 15-year Mortgage Loans) and has a remaining term to maturity equal to the remaining term to maturity of the latest maturing Mortgage Loan underlying such GNMA Certificate at the origination of such GNMA Certificate; (ii) each Mortgage Loan underlying a GNMA I Certificate bears an interest rate 0.5% per annum in excess of the pass-through rate of such GNMA I Certificate; and (iii) each Mortgage Loan underlying a GNMA II Certificate bears an interest rate 1.5% per annum in excess of the pass-through rate of such GNMA II Certificate. All such amounts, whether reported in GNMA factors or calculated by Fannie Mae, will be reflected in the factors for the related Issue for the Distribution Date (the “Mega Trust Factors”) in such month and will be distributed to Holders of such Issue of Certificates on the following Distribution Date, whether or not received. There will also be reflected in such Mega Trust Factors and distributable as principal on such Distribution Date the excess of (a) the distributions of principal of the GNMA Certificates received during the month prior to the month of such Distribution Date, over (b) the amounts of principal calculated as distributable previously in accordance with the GNMA factors and the assumed amortization schedules specified above.

On each Distribution Date (which may be a date other than the 25th day of the month, if so specified in a Preliminary Data Statement hereto), Fannie Mae will, respecting each Trust, distribute to Holders of Certificates their respective Percentage Interests (as defined below) in the principal distributions (calculated as described above) and interest distributions on the underlying GNMA Certificates. Distributions on any Distribution Date will be made to Holders of record on the prior Record Date (the close of business on the last day of the immediately preceding month). The Percentage Interest evidenced by a Certificate in principal and interest distributions on the underlying GNMA Certificates is equal to the percentage equivalent of a fraction the numerator of which is the principal denomination of such Certificate and the denominator of which is the aggregate of the principal denominations of all Certificates of the related Issue.

Fannie Mae Guaranty

In the Trust Agreement, Fannie Mae guarantees to the Holders of Certificates that (i) the amount distributed by Fannie Mae in respect thereof on each Distribution Date will include an amount as to interest which is equal to one month’s interest on the unpaid principal balance of the Certificates at the pass-through rate borne by the underlying GNMA Certificates and (ii) principal will be distributed on each Distribution Date in an amount calculated as described above, the aggregate of such principal distributions over the life of the Certificates being equal to the original principal amount of the Certificates. The obligations of Fannie Mae under its guaranty of the Certificates are obligations solely of Fannie Mae and are not backed by, nor entitled to, the full faith and credit of the United States. If Fannie Mae were unable to perform these guaranty obligations, distributions to Holders of Certificates would consist solely of payments on the related GNMA Certificates.

Prepayment Considerations and Risks

The rate of principal payments on the Certificates, is related directly to the rate of payments of principal of the Mortgage Loans backing the GNMA Certificates, which may be in the form of scheduled amortization or prepayments (for this purpose, the term “prepayment” includes prepayments and liquidations resulting from default, casualty or condemnation and payments made pursuant to any guaranty of payment by GNMA). In general, when the level of prevailing interest rates declines sufficiently relative to the interest rates on fixed-rate mortgage loans, the rate of prepayment is likely to increase, although the prepayment rate is influenced by a number of other factors, including general economic conditions and homeowner mobility. The prepayment rate may also be influenced by government subsidy programs, such as the Department of Housing and Urban Development (“HUD”) Section 235 mortgage program for which HUD has established procedures for refinancing certain high-coupon mortgages. All of the Mortgage Loans backing the GNMA Certificates will be first lien, single-family, fixed-rate residential mortgage loans that are either insured by the

FHA or partially guaranteed by the VA. None of such loans includes a “due-on-sale” clause. Consequently, the holders of such loans generally may not demand the payment in full of the remaining principal balance of any such loans on the sale or other transfer of the subject property.

Exchange of Certificates for GNMA Certificates

A Holder of an entire Issue of Certificates, with an aggregate original principal balance of \$25,000 or more, may exchange the Certificates for the underlying GNMA Certificates held by Fannie Mae in the Trust on behalf of the Holder. An administrative fee may be imposed for the exchange of the Certificates for the GNMA Certificates. As a result of the manner in which distributions of principal of the Certificates are calculated (*see* “THE CERTIFICATES — Distributions on Certificates”), it is unlikely that the GNMA Certificates will have an aggregate outstanding principal balance equal to the aggregate outstanding principal balance of the Certificates so exchanged. If the Holder elects to exchange the Certificates, the Holder will receive only the GNMA Certificates held by the Trustee and in no event will Fannie Mae be accountable to the Holder for any funds remaining in the Trust or for any difference between the aggregate outstanding principal balance of the GNMA Certificates and the aggregate outstanding principal balance of the Certificates so exchanged. Fannie Mae, at its discretion, may limit the days of the month on which exchanges of Certificates may occur. Any Certificates so exchanged will be cancelled and the Trust will be dissolved.

Information to Holders

With respect to each distribution on the Certificates, Fannie Mae will cause to be forwarded to each Holder thereof a statement setting forth the total cash distribution on such Distribution Date with respect to the Certificates held by such Holder together with information as to the allocation thereof as between principal and interest. Within a reasonable period of time after the end of each calendar year, Fannie Mae will furnish to each Holder who at any time during the calendar year was a Holder such information as shall be required pursuant to the Internal Revenue Code of 1986, as amended (the “Code”), and interpretations thereof.

THE TRUST AGREEMENT

The following summaries describe certain provisions of the Trust Agreement not otherwise summarized in this Prospectus. Certain capitalized terms in these summaries are used as defined in the Trust Agreement. These summaries do not purport to be complete and are subject to, and qualified in their entirety by reference to, the more complete provisions of the Trust Agreement.

Transfer of GNMA Certificates to Mega Trust

The GNMA Certificates transferred to a Trust will be identified in a Fannie Mae Security Schedule appearing as an exhibit to the Issue Supplement for such Trust, and will be held for the Holders of Certificates by Fannie Mae in its capacity as Trustee of the Trust.

Certain Matters Regarding Fannie Mae

The Trust Agreement provides that Fannie Mae may not resign from its obligations and duties thereunder, except upon determination that those duties are no longer permissible under applicable law. No such resignation will become effective until a successor has assumed Fannie Mae’s obligations and duties under the Trust Agreement; provided, however, that no successor will succeed to Fannie Mae’s guaranty obligations described above. Fannie Mae will continue to be responsible under its guaranty notwithstanding any termination of its other duties and responsibilities under the Trust Agreement. See “Rights Upon Event of Default” below.

The Trust Agreement also provides that neither Fannie Mae nor any director, officer, employee, or agent of Fannie Mae will be under any liability to any Trust or to Holders for any action taken, or for refraining from the taking of any action, in good faith pursuant to the Trust Agreement or for errors in judgment; provided, however, that neither Fannie Mae nor any such person will be protected against any liability that would otherwise be imposed by reason of willful misfeasance, bad faith or gross negligence or by reason of willful disregard of obligations and duties.

In addition, the Trust Agreement provides that Fannie Mae is not under any obligation to appear in, prosecute, or defend any legal action that is not incidental to its responsibilities under the Trust Agreement and that in its opinion may involve it in any expense or liability. Fannie Mae may, however, in its discretion undertake any such legal action that it may deem necessary or desirable in the interests of the Holders. In such event, the legal expenses and costs of such action will be expenses and costs of Fannie Mae that will not be reimbursable to Fannie Mae out of any Trust.

Any corporation or other entity into which Fannie Mae may be merged or consolidated, or any corporation resulting from any merger, conversion, or consolidation to which Fannie Mae is a party, or any corporation or other entity succeeding to the business of Fannie Mae, will be the successor to Fannie Mae under the terms of the Trust Agreement.

Events of Default

Events of Default under the Trust Agreement will consist of (i) any failure by Fannie Mae to distribute to Holders any required payment that continues unremedied for 15 days after the giving of written notice of such failure to Fannie Mae by the Holders of Certificates evidencing Percentage Interests aggregating not less than five percent of the related Trust; (ii) any failure by Fannie Mae duly to observe or perform in any material respect any other of its covenants or agreements in the Trust Agreement, which failure continues unremedied for 60 days after the giving of written notice to Fannie Mae by the Holders of Certificates evidencing Percentage Interests aggregating not less than 25% of the related Trust; and (iii) certain events of insolvency, readjustment of debt, marshalling of assets and liabilities, or similar proceedings and certain actions by or against Fannie Mae indicating its insolvency, reorganization, or inability to pay its obligations.

Rights Upon Event of Default

As long as an Event of Default under the Trust Agreement for any Trust remains unremedied, the Holders of Certificates evidencing Percentage Interests aggregating not less than 25% of such Trust may, in writing, terminate all of the obligations and duties of Fannie Mae as Trustee and in its corporate capacity under the Trust Agreement in respect of such Trust (other than its guaranty obligations described above which continue notwithstanding any such termination) and name and appoint, in writing, a successor trustee that will succeed to all such responsibilities, duties, and obligations of Fannie Mae thereunder (other than Fannie Mae's guaranty obligations) and to the legal title to the GNMA Certificates held in such Trust.

Amendment

The Trust Agreement as it relates to any Trust may be amended by Fannie Mae and the Trustee without the consent of the Holders, to cure any ambiguity, to correct or supplement any provisions therein or to make any other provisions with respect to matters or questions arising under the Trust Agreement provided such provisions do not adversely affect the interests of any Holder.

The Trust Agreement as it relates to any Trust may also be amended by Fannie Mae with the consent of the Holders of Certificates evidencing Percentage Interests aggregating not less than 66% for the purpose of adding, changing or eliminating any provisions to the Trust Agreement or of modifying in any manner the rights of the Holders of Certificates. However, no amendment may, without the consent of all Holders, reduce the percentages of Certificates the Holders of which are required to consent to any amendment. In addition, no amendment shall, without the consent of each Holder affected thereby, reduce in any manner the amount of, or delay the timing of, payments received on the GNMA Certificates that are required to be distributed on any Certificate or modify the guaranty obligations of Fannie Mae.

Termination

The Trust Agreement as it relates to each Trust terminates upon the distribution to Holders of all amounts required to be distributed. In no event, however, will any Trust continue beyond the expiration of 21 years from the death of the last survivor of the person named in the Trust Agreement. Fannie Mae will not at any time have an option to repurchase any or all GNMA Certificates in any Trust and thereby retire the Certificates.

MARGINABILITY; REPURCHASE AGREEMENTS

The 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 Certificates, including repurchase agreements, are treated under such rules in the same manner as transactions in Fannie Mae Guaranteed Mortgage Pass-Through Certificates.

SECURITIES LAW EXEMPTION

The Certificates are exempt from registration requirements of the Securities Act of 1933, as amended, and are “exempted securities” within the meaning of the Securities Exchange Act of 1934, as amended.

CERTAIN FEDERAL INCOME TAX CONSEQUENCES

This is a discussion of certain federal income tax consequences to persons purchasing Certificates. For purposes of this discussion, in applying a federal income tax rule that depends upon the origination date of a mortgage note or the characteristics of a mortgage note at its origination, the term “Mortgage Loan,” in the case of a participation interest, shall mean the underlying mortgage note and not the participation interest therein.

The discussion does not purport to deal with all aspects of federal taxation that may be relevant to particular investors. Prospective investors are advised to consult their 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 or other taxing jurisdiction.

With respect to an Owner’s exchange of Certificates for the underlying GNMA Certificates, although the exchange itself will not be a taxable event, certain other federal income tax consequences are unclear because the Owner’s basis in the Certificates may be more than the principal balance of the underlying GNMA Certificates for which they are exchanged. See “THE CERTIFICATES—Exchange of Certificates for GNMA Certificates,” herein. Thus, Owners should consult their own tax advisors regarding the federal income tax consequences for any such exchange.

Dewey Ballantine, special tax counsel to Fannie Mae, has delivered an opinion to Fannie Mae that each Trust will not be classified as an association taxable as a corporation, but will be classified as a trust of which the beneficial owners of the Certificates (the “Owners”) are the owners under Subpart E of Part I of Subchapter J of the Code. Accordingly, each Owner will be treated as the owner of a pro rata undivided interest in the Mortgage Loans underlying the GNMA Certificates.

Revenue Ruling 70-545, 1970-2 C.B. 7, sets forth certain federal income tax consequences relating to investments in the GNMA Certificates issued with respect to a Pool. Pursuant to Revenue Ruling 70-545, a Pool will not be classified as an association taxable as a corporation, but will be classified as a trust of which the beneficial owners of the Certificates (the “Owners”) are the owners under Subpart E of Part I of Subchapter J of the Internal Revenue Code of 1986, as amended (the “Code”). Each Owner will be treated as the owner of a pro rata undivided interest in the ordinary income and corpus of the trust attributable to that particular Pool and will be considered to be the equitable owner of a pro rata undivided interest in each of the Mortgage Loans included therein, subject to the discussion below concerning a possible recharacterization of a portion of the servicing compensation. Although Revenue Ruling 70-545 does not specifically address participation interests in mortgage

notes, other Internal Revenue Service (“IRS”) pronouncements clearly indicate that the holdings of Revenue Ruling 70-545 are equally applicable to a Certificate backed by a Pool consisting (in whole or in part) of participation interests.

Accordingly, Owners of a particular series will be required to report on their federal income tax returns, consistent with their methods of accounting, their pro rata share of the entire income from the Mortgage Loans in that particular Pool, including interest, prepayment penalties, assumption fees and late payment charges attributable to the Mortgage Loans in the Pool, plus any amount received and passed through by the Corporation as interest under the GNMA guaranty. Owners will be entitled to deduct their pro rata share of the GNMA guaranty fee and any compensation paid to service the Mortgage Loans (together, “Administrative Expenses”), as provided in section 162 or section 212 of the Code, consistent with their methods of accounting and subject to the discussions below.

The deduction for an Owner’s share of Administrative Expenses 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, such deduction, when aggregated with certain of the Owner’s other miscellaneous itemized deductions, is allowable only to the extent that such aggregate amount exceeds 2 percent of the Owner’s adjusted gross income. Adjusted gross income for an estate or nongrantor trust is to be computed 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.

An Owner that purchases a Certificate at a discount (*i.e.*, at a price less than its outstanding principal balance) also must include such discount in income over the remaining term of the Certificates. The precise method of amortizing discount into income depends on several factors, including whether the Owner’s discount (or the original issue discount, if any, on each Mortgage Loan in the Pool) is more or less than a specified *de minimis* amount. In general, *de minimis* discount is brought into income in proportion to principal payments on the Certificate while discount that is more than a *de minimis* amount must be reported as it accrues. Generally, discount will be treated as ordinary income. Distinctions between original issue discount and market discount are generally of little or no significance in the case of Certificates. Owners of Certificates acquired at a discount should consult with their tax advisors regarding the rules governing the timing and character of income arising from discount.

With respect to any undivided interest in a Mortgage Loan purchased at a premium, an Owner may elect to allocate the premium among the interest payments received on the Mortgage Loan on a yield to maturity basis under the rules of section 171 of the Code if the Mortgage Loan was originated after September 27, 1985. The amount of any such premium so allocated shall be applied against (and operate to reduce) the amount of any such interest includible in income. Correspondingly, an Owner’s basis in its undivided interest shall be decreased by the amount of premium applied to reduce any interest income. For Mortgage Loans originated before September 28, 1985, an Owner will be entitled to premium amortization under section 171 only if the mortgagor is not an individual and the other conditions for the application of that section are met. If section 171 is inapplicable or if an Owner does not make an election thereunder, (i) such an 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 such distribution is received, a loss equal to the premium allocated to such distribution will be recognized. Any tax benefit from the premium not previously recognized will be taken into account in computing gain or loss upon the sale or disposition of the Certificate.

The IRS also ruled in Revenue Ruling 70-545, as modified by Revenue Ruling 74-169, 1974-1 C.B. 147, 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 is considered as representing “qualifying real property loans” within the meaning of section 593(d) 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. Thus, a Certificate owned by a domestic building and loan association or any other thrift institution described in section 593(a) of the Code will represent “qualifying real property loans” within the meaning of section 593(d) 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.

3. A Certificate owned by a real estate investment trust is considered as representing “real estate assets” within the meaning of section 856(c)(5)(A) 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.

In addition, the IRS has ruled that a loan (a “Cooperative Share Loan”) that is made for the purchase of stock in a cooperative housing corporation described in section 216(b) of the Code (a “Cooperative”), and that is secured by such stock, will be treated as (1) “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, and (2) a “qualifying real property loan” within the meaning of section 593(d) of the Code. The IRS also has ruled that stock in a Cooperative qualifies as an interest in real property within the meaning of section 856(c)(6) 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) of the Code. Dewey Ballantine has opined that such treatment is applicable to all Cooperative Share Loans, including those made to refinance existing Cooperative Share 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 may, for example, consist of an interest rate buydown account. Although the rulings described in the preceding paragraphs do not specifically refer to Escrow Mortgage Loans, the conclusions reflected in paragraphs 1 and 2 should be generally applicable to an Owner’s investment in an Escrow Mortgage Loan if the escrow account does not represent an account with the Owner. Owners and their tax advisors are advised to review section 1.593-11(d) of the Treasury Regulations and to compare Revenue Ruling 81-203, 1981-2 C.B. 137. In the case of the rulings referred to in paragraph 3, an investment in an Escrow Mortgage Loan by a real estate investment trust should also be treated in its entirety as a “real estate asset” within the meaning of section 856(c)(5)(A) of the Code if 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. This conclusion is supported by Treasury Regulation section 1.856-5(c)(1)(i), which specifies that if a mortgage loan is secured by both real property and by other property and the value of the real property alone equals or exceeds the amount of the loan, then all interest income will be treated as “interest on obligations secured by mortgages on real property” within the meaning of section 856(c)(3)(B) of the Code. Since there are no directly applicable precedents with respect to the federal income tax treatment of investments in Escrow Mortgage Loans, Owners should consult with their tax advisors concerning such tax treatment.

Lenders may provide the monies for the interest rate buydown accounts that secure certain Escrow Mortgage Loans (“Lender Buydown Loans”). If the borrower is liable for the entire payment on a Lender Buydown Loan, without offset by any payments due from the buydown account, a Lender Buydown Loan may be treated properly as entirely the obligation of the borrower.

It is possible, however, that the IRS will take the position 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, an Owner of a Lender Buydown Loan would be treated as holding two debt instruments: one issued by the Lender (to the extent of payments from the buydown account), and the other issued by the borrower (to the extent of the net payment by the borrower). Such treatment would require a reallocation of a portion of the interest to the period when the buydown account is in existence from the remaining term of the Certificate. Moreover, during the buydown period and to the extent of the buydown account, the three rulings described above would be inapplicable. Owners are advised to consult with their tax advisors concerning the tax treatment of Lender Buydown Loans.

In August 1991, 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 Owners of Mortgage Loans. Investors are advised, however, to consult their tax advisors about the IRS guidance and its application to investments in 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. 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 $\frac{1}{6}$ of one percent times the number of whole years to final stated maturity.

One consequence for Owners of Mortgage Loans that are treated as stripped bonds is that such Mortgage Loans will be treated as if originally issued on the date the Owner purchased the Certificate representing such Mortgage Loans. As a result, any premium on such a Mortgage Loan may be amortized over its remaining life. Another consequence is that 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 the discussion of discount, premium and miscellaneous itemized deductions above.

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 Owners of Mortgage Loans.

The IRS guidance also 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. These problems may result in further guidance from the IRS.

The Corporation will furnish to each holder of record with each distribution a statement setting forth the amount of such distribution allocable to principal and to interest. In addition, the Corporation will furnish or make available, within a reasonable time after the end of each calendar year, to

each holder who at any time during such year received a distribution from the Corporation, a statement setting forth such holder's pro rata share of interest received and administration 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 are a rate of 31 percent if the recipient of such a payment is not an "exempt recipient" and fails to furnish certain information, including its taxpayer identification number, to the Corporation or its 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 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.

Payments made to, or on behalf of, an Owner who is not a U.S. Person (a "Non-U.S. Person") on a Certificate that represents an undivided interest in a Pool of Mortgage Loans all of which were originated after July 18, 1984 generally will be exempt from U.S. federal income and withholding taxes, provided the following conditions are satisfied: (a) such Owner does not hold the Certificate in connection with the conduct by such person of a trade or business in the United States, (b) the 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, (c) the 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, (d) the Owner is not an "excluded person" (*i.e.*, a 10 percent shareholder of the Corporation within the meaning of section 871(h)(3)(B) of the Code or a "controlled foreign corporation" related to the Corporation within the meaning of section 881(c)(3)(C) of the Code), (e) the Owner signs a statement under penalties of perjury that certifies that it is a Non-U.S. Person or, in the case of an individual, that the Owner is neither a citizen nor resident of the United States, and provides the name, address and taxpayer identification number, if any, of the Owner and (f) the last U.S. Person in the chain of payment to the Owner (the "Withholding Agent") receives such non-U.S. beneficial ownership statement from the Owner or a financial institution holding on behalf of the Owner and does not have actual knowledge that such statement is false. That portion of interest income of an 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 an Owner that is such a Non-U.S. Person if the Owner or a financial institution holding on behalf of the Owner provides the non-U.S. beneficial ownership statement to the Withholding Agent.

The non-U.S. beneficial ownership statement referred to in the preceding paragraph may be made on an IRS Form W-8 or substantially similar substitute form. The Owner or financial institution holding on behalf of the 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 Form W-8 or substitute form must be filed by the Withholding Agent with the IRS. "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, or an estate or trust that is subject to U.S. federal income tax regardless of the source of its income.

LEGAL OPINION

Any purchaser of Certificates will be furnished upon request an opinion by the General Counsel or Deputy General Counsel of the Corporation as to the validity of the Certificates and the Trust Agreement.

ERISA CONSIDERATIONS

The Department of Labor issued a final regulation on November 13, 1986, which provides that in the case where an employee benefit plan (a “plan”) subject to the Employee Retirement Income Security Act of 1974, as amended (“ERISA”) acquires a “guaranteed governmental mortgage pool certificate” then, for purposes of the fiduciary responsibility provisions of ERISA and the prohibited transaction provisions of the Code, the plan’s assets include the certificate and all of its rights with respect to such certificate under applicable law, but do not, solely by reason of the plan’s holding of such certificate, include any of the mortgages underlying such certificate. Under the regulation, the term “guaranteed governmental mortgage pool certificate” is specifically defined to include a certificate “backed by, or evidencing an interest in specified mortgages or participation interests therein” and with respect to which interest and principal payable pursuant to the certificate are guaranteed by Fannie Mae. The effect of such regulation is to make clear that the sponsor (that is, the entity that organizes and services the trust, in this case Fannie Mae), the trustee, and other persons, in providing services with respect to the mortgages in the trust, would not be subject to the fiduciary responsibility provisions of Title I of ERISA, nor be subject to the prohibited transaction provisions of section 4975 of the Code, merely by reason of the plan’s investment in a certificate. At the time this Labor Department regulation was originally issued, certificates similar to the Certificates were not in existence. However, Fannie Mae has been advised by its counsel, Brown & Wood, that the Certificates qualify as “guaranteed governmental mortgage pool certificates,” and thus the acquisition and holding of the Certificates by plans would not be prohibited either by ERISA or related provisions of the Code.

No salesman, dealer, bank or other person has been authorized to give any information or to make any representations other than those contained or incorporated by reference in this Prospectus and any related Preliminary Data Statement and, if given or made, such information or representations must not be relied upon as having been authorized by the Corporation. This Prospectus and any related Preliminary Data Statement do not constitute an offer to sell or the solicitation of an offer to buy any securities other than the Certificates offered hereby nor an offer of the Certificates to any person in any state or other jurisdiction in which such offer would be unlawful. The Certificates have not been approved or disapproved by the Securities and Exchange Commission or any state securities commission nor has the Commission or any state securities Commission passed upon the accuracy or adequacy of this Prospectus or any related Preliminary Data Statement. Any representation to the contrary is a criminal offense.

This Prospectus and any related Preliminary Data Statement should be read only in conjunction with the most recently published Information Statement (the "Information Statement"), which is incorporated herein by this reference. The Information Statement, which is published several times per year, contains financial and other information about the Corporation. Copies of the Corporation's current Information Statement, additional copies of this Prospectus and any related Preliminary Data Statement and information regarding outstanding pools are available upon request by calling 1-800-BEST-MBS or 202-752-6547.

TABLE OF CONTENTS

	<u>Page</u>
The GNMA Certificates	2
The Certificates	3
The Trust Agreement	6
Marginability; Repurchase Agreements .	8
Securities Law Exemption	8
Certain Federal Income Tax Consequences	8
Legal Opinion	12
ERISA Considerations	13

Federal National Mortgage Association

Guaranteed MBS Pass- Through Securities

