Prospectus

FannieMae

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 (‘‘Single Family Loans’’) or mortgage loans secured by multifamily projects consisting of five or more units, some of which may have balloon payments or other unique features (‘‘Multifamily Loans’’ and, together with the Single Family Loans, the ‘‘Mortgage Loans’’). Pools containing Single Family Loans are referred to herein as ‘‘Single Family Pools’’ and Pools containing Multifamily Loans are referred to herein as ‘‘Multifamily Pools.’’

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) or in a supplement to this Prospectus (the ‘‘Supplement’’). 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 the related Supplement. 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.

See “Risk Factors” beginning on page 2 herein for a discussion of certain risks that should be considered in connection with an investment in the Certificates.

The date of this Prospectus is June 1, 1997

Retain this Prospectus for future reference. This Prospectus may not be used to consummate sales of Certificates unless accompanied by a Supplement.

RISK FACTORS

The following section does not describe all of the risks and other ramifications of an investment in the Certificates. Investors should consult their own financial and legal advisors about the risks associated with an investment in the Certificates and the suitability of investing in such Certificates in light of their particular circumstances, and possible scenarios for economic, interest rate and other factors that may affect their investment.

Yield Considerations

The effective yield to Certificateholders will depend upon the purchase price of the related Certificates, the rate of principal payments (including prepayments) on the Mortgage Loans, and the actual characteristics of the Mortgage Loans. Generally, if the actual rate of payments on the Mortgage Loans is slower than the rate anticipated by an investor who purchased a Certificate at a discount, the actual yield to such investor will be lower than such investor's anticipated yield. If the actual rate of payment on the Mortgage Loans is faster than the rate anticipated by an investor who purchased a Certificate at a premium, the actual yield to such investor will also be lower than such investor's anticipated yield. An investor should purchase Certificates only after performing an analysis of such Certificates based upon the investor's own assumptions as to future rates of prepayment.

The timing of changes in the rate of principal payments (including prepayments) may significantly affect the yield to an investor, even if the average rate of principal prepayments is consistent with such investor's expectations. In general, the earlier the payment of principal, the greater the effect on an investor's yield to maturity. As a result, the effect on an investor's yield of principal payments (including prepayments) occurring at a rate higher (or lower) than the rate anticipated by the investor during the period immediately following the Issue Date may not be offset by any subsequent equivalent reduction (or increase) in the rate of principal payments (including prepayments).

The effective yield on the Certificates will be reduced below the yield otherwise produced because, unless otherwise specified in the related Supplement, the distribution of interest that accrues from the first day of each month will not be made until the 25th day of the month following the month of accrual. No interest at all will be paid on any Certificate after its principal balance has been reduced to zero. As a result of the foregoing, the market value of the Certificates will be lower than would have been the case if there were no such delay. Investors must make their own decisions as to the appropriate assumptions, including prepayment assumptions, to be used in deciding whether to purchase the Certificates.

Certain Investment Considerations

Investors in the Certificates should have sufficient knowledge and experience in financial and business matters to evaluate such Certificates, the merits and risks of investing in such Certificates and the information contained and incorporated by reference in this Prospectus or the related Supplement. In addition, such investors should have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of such investor's financial situation, such Certificates, the merits and risks of investing in such Certificates and the impact such Certificates will have on their overall investment portfolio. No investor should purchase a Certificate unless such investor understands and has sufficient financial resources to bear the yield, market, liquidity, structure, redemption, and other risks associated with such Certificate. Investors also should not purchase any Certificate without sufficient experience, financial resources and liquidity, relative to the potential risks, to manage their investments, including their investment in such Certificate. Before purchasing any Certificate, investors should understand thoroughly the terms of such Certificate, be familiar with the behavior of the relevant financial markets, and consider (possibly with the assistance of a financial advisor) possible scenarios for economic, interest rate and other factors that may affect their investment, and their ability to bear the associated risks under a variety of such scenarios. Investors also should consider any legal restrictions that may apply to their investments in Certificates.

Reinvestment Risk

The Mortgage Loans may be prepaid at any time, except to the extent otherwise specified in the related Supplement. In addition, the full principal balance of a GNMA Certificate may be distributed upon a default of the underlying Mortgage Loan, which could take place during an otherwise applicable lockout or prepayment penalty period. Accordingly, it is not possible to predict the rate at which distributions of principal of the Certificates will be received. Since prevailing interest rates are subject to fluctuation, there can be no assurance that investors in the Certificates will be able to reinvest the distributions thereon at yields equaling or exceeding the yields on the Certificates. It is possible that yields on such reinvestments will be lower, and may be significantly lower, than the yields on the Certificates. Prospective investors in the Certificates should carefully consider the related reinvestment risks in light of other investments that may be available to such investors.

Prepayment Considerations and Risks

The rate of distributions of principal of the Certificates is related directly to the rate of payments of principal of the Mortgage Loans, 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). As indicated below, many factors may affect the rate of prepayment of the Mortgage Loans. Accordingly, the Corporation cannot estimate what the prepayment experience of the Mortgage Loans will be.

In an environment of declining interest rates, lenders servicing mortgage loans often are asked by borrowers to refinance the mortgage loans through issuance of new loans secured by mortgages on the same properties. The resulting prepayments, if they involve the Mortgage Loans, will result in the distribution to Certificateholders of the principal balances of the prepaid Mortgage Loans.

In general, when the level of prevailing interest rates declines sufficiently relative to the interest rate 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 as well, including general economic conditions and homeowner mobility. Certain Multifamily Mortgage Loans may have provisions restricting the borrower's ability to prepay the loan or may require the payment of mortgage prepayment penalties in varying amounts, which may or may not influence prepayment rates. In addition, it is increasingly difficult to generalize as to the degree to which interest rates must decline before significant prepayments are likely to be experienced. Increased borrower sophistication regarding the benefits of refinancing and extensive solicitation by lenders may result in an increase in the rate at which the Mortgage Loans are prepaid due to refinancing. On the other hand, lenders may have originated certain Mortgage Loans at above-market interest rates to provide a means for the payment of certain closing costs or interest rate buydown deposits. Such Mortgage Loans may have been made to borrowers who, for a variety of reasons, may not seek or readily be able to obtain refinancing.

Acceleration of mortgage payments as a result of the sale of the related Mortgaged Property is another factor affecting prepayment rates. Generally, FHA-insured mortgage loans may with the approval of the FHA be assumed by the transferee of title to the related mortgaged properties. 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.

Certain Risks of Multifamily Lending. Multifamily lending is generally viewed as exposing the lender to a greater risk of loss than one- to four-family residential lending. Multifamily lending typically involves larger loans to single Mortgagors or groups of related Mortgagors than residential one- to four-family mortgage loans. Furthermore, the repayment of Multifamily Mortgage Loans secured by income producing properties is typically dependent upon the successful operation of the related real estate project. If the cash flow from the project is reduced (for example, if leases are not obtained or renewed), the Mortgagor's ability to repay the Mortgage Loan may be impaired. Multifamily real estate can be affected significantly by supply and demand in the market for the type of property securing the Mortgage Loan and, therefore, may be affected by adverse economic conditions.

Market values may vary as a result of economic events or governmental regulations outside the control of the Mortgagor or lender such as rent control laws, which impact the future cash flow of the property. Certificateholders will continue to receive the required installment of principal and interest on each Distribution Date regardless of whether sufficient funds have been collected from the Mortgagors. See ''The Certificates — Fannie Mae Guaranty'' herein. However, principal prepayments resulting from liquidations of such Mortgage Loans due to defaults, casualties or condemnations affecting the Mortgaged Properties may significantly affect the yield to investors. See ''— Yield Considerations'' herein.

Corporate Guaranty Considerations

If the Corporation were unable to perform its guaranty obligations described under ''The Certificates — Fannie Mae Guaranty,'' distributions to Certificateholders would consist solely of payments and other recoveries on Mortgage Loans and, accordingly, delinquencies and defaults would affect monthly distributions to Certificateholders.

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 or guaranteed by the Federal Housing Administration (the ''FHA''), the Department of Veterans Affairs (the ''VA'') or the Rural Housing Service (the ''FmHA'').

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 Single Family Programs

Each GNMA Certificate underlying a Series of Certificates and representing beneficial ownership interests in a ''Single Family Pool'' 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 or guaranteed by the FHA, the VA or the FmHA. Such GNMA Certificates are issued under the GNMA I program (''GNMA I Certificates'') and the GNMA II program (''GNMA II Certificates''). Holders of GNMA I Certificates and GNMA II Certificates have essentially similar rights, although there are certain differences between the two programs.

Under the GNMA I program, monthly payments will be made to the registered holder of the GNMA I Certificate by the 15th of each month. 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 be of the same type (for example, all level payment single family mortgage loans) and 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 a paying agent (currently The Chase Manhattan Bank) by the 20th of each month. Mortgage 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 Certificate II 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.

Except as otherwise provided in the related Supplement, each GNMA II Certificate pool consists entirely of fixed rate mortgages or entirely of adjustable rate mortgages. Fixed rate mortgages underlying a particular GNMA II Certificate must be of the same type, but 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.

Except as otherwise provided in the related Supplement, adjustable rate mortgage loans underlying any particular GNMA II Certificate will have interest rates that adjust annually based on the Treasury one year constant maturity weekly average index. GNMA pooling specifications require that all adjustable rate mortgage loans in a given pool have an identical first adjustment date, annual adjustment date, index reference date and means of adjustment. All of the mortgage loans must have interest rates that are at least 0.5% but not more than 1.5% above the interest rate of the related GNMA II Certificate. In addition, the mortgage margin for any given mortgage loan must be at least 0.5% but not more than 1.5% greater than the margin for the related GNMA II Certificate. The mortgage loans and GNMA II Certificates will be subject to an annual adjustment cap of 1% and a lifetime cap of 5% above or below the initial interest rate. On each annual adjustment date, the payment amount of an adjustable rate mortgage loan will be reset so that the remaining principal balance of that mortgage loan would fully amortize in equal monthly payments over its remaining term to maturity, assuming its interest rate were to remain constant at the new rate.

Final 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 range of the remaining terms to maturity of the latest maturing Mortgage Loan in the various Pools at the respective issues dates of the related GNMA Certificates (adjusted by subtracting the number of months elapsed since each such issue date through the Issue Date), and (iv) 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 Statements 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.

GNMA Multifamily Programs and FHA Multifamily Insurance Programs

Each GNMA Certificate underlying an Issue of Certificates and representing beneficial ownership interests in a Multifamily Pool 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 Federal Housing Administration (the ''FHA'').

The Multifamily Mortgage Loans may consist of fixed-rate and/or adjustable-rate Multifamily Mortgage Loans and may have balloon payments, deferred interest and other unique features. Each Multifamily Mortgage Loan is secured by a mortgage, deed of trust or deed to secure debt that creates a first or second lien on the applicable borrower's fee simple estate in a multifamily property consisting of five or more dwelling units. Certain characteristics of the Multifamily Mortgage Loans for a particular Issue will be set forth in the related Supplement.

General

FHA multifamily insurance programs generally are designed to assist private and public mortgagors in obtaining insured financing for the construction, purchase or rehabilitation of rental housing pursuant to Title II of the National Housing Act (12 U.S.C. 1701) as amended (the ''Housing Act''). Mortgages are provided by FHA-approved institutions, which include mortgage bankers, commercial banks, savings and loan associations, trust companies, insurance companies, pension funds, state and local housing finance agencies and certain other approved entities.

Mortgages for multifamily projects must not exceed either the statutory dollar amount or loan ratio limitations established by the particular section of the Housing Act under which the mortgage is being insured, except that the FHA may increase the dollar amount limitations by up to 110 percent in certain high cost areas and by up to 140 percent on a project-by-project basis. References herein to estimated values and costs associated with maximum mortgage amounts represent estimates made by the FHA.

Mortgages insured under the programs described below will have such maturities and amortization features as the FHA may approve, provided that generally the minimum mortgage term will be at least ten years and the maximum mortgage term will not exceed the lesser of 40 years and 75 percent of the estimated remaining economic life of the improvements on the mortgaged property.

Tenant eligibility for FHA-insured projects generally is not restricted by income, except for projects as to which rental subsidies are made available with respect to some or all of the units therein or to specified tenants.

The following is a summary of the individual FHA multifamily and health care facility programs under which the Mortgage Loans are insured.

Section 207 (Project Mortgage Insurance)

Section 207 provides for federal insurance of private mortgage loans to public and private developers for the production of multifamily housing and for the construction or rehabilitation of manufactured mobile home courts and parks offering rental rates tailored to families within the market area. For a Section 207 project to be eligible, the property and project must be economically sound, the mortgage must cover the entire property, and the project must have a minimum of five units designed primarily for residential use (or at least fifty spaces in the case of a manufactured mobile home court or park) and otherwise conform to FHA standards.

The maximum mortgage amount for a multifamily housing project under Section 207 may not exceed the lesser of 90 percent of the value of the project (or the portion thereof containing the dwelling units) and a statutory dollar limitation based on the number of bedrooms in each dwelling unit (the ''statutory per dwelling unit amount'').

A mortgage relating to a multifamily project to be repaired or rehabilitated is subject to the following additional limitations: (i) if the mortgagor is the fee simple owner of the project, the maximum mortgage amount is the full estimated cost of the proposed repairs or rehabilitation; (ii) if

the project has an existing indebtedness that is to be refinanced with part of the insured mortgage, the mortgage may not exceed the estimated cost of the proposed repairs or rehabilitation plus such portion of the outstanding indebtedness not in excess of 90 percent of the estimated fair market value of the land and improvements prior to the repair or rehabilitation; (iii) if the project is to be acquired and financed with a part of the insured mortgage, the maximum mortgage amount may not exceed 90 percent of the sum of the estimated cost of the repair or rehabilitation plus the actual purchase price of the land and improvements not in excess of the estimated fair market value of such land and improvements prior to the repair or rehabilitation.

In the case of a mortgage for manufactured mobile home courts or parks, the maximum mortgage amount may not exceed the lesser of $9,000 per lot or 90 percent of the estimated value of the property with the improvements completed. These limits can be increased by up to 75 percent in high-cost areas and by up to 140 percent on a case-by-case basis. The maximum term for a mortgage on a manufactured home court or park is 20 years, which term may be increased up to 40 years with FHA approval.

Section 213 (Cooperative Project Mortgage Insurance)

Section 213 provides for federal insurance of cooperative project mortgages financed by either private or public mortgagors approved by the FHA. The four types of projects insured under Section 213 are (i) management projects, (ii) sales projects, (iii) investor projects and (iv) existing construction projects.

Management projects are owned by nonprofit cooperative housing corporations or trusts which restrict permanent occupancy to members of the corporation. The maximum insurable loan amount for management projects may not exceed the lesser of (i) 98 percent of the estimated replacement cost of the property inclusive of the proposed physical improvements and (ii) the statutory per dwelling unit amount.

Sales projects are owned by nonprofit housing corporations or trusts organized to purchase land and construct homes for their members. The maximum amount of the blanket mortgage for a sales project may not exceed the aggregate sum of the statutory maximum insurable mortgage amounts for individual occupant mortgagors for each of the single family units comprising the project. Such blanket mortgage may be replaced upon completion of construction by individual mortgages for each dwelling, provided that each individual mortgage does not exceed the unpaid balance of its portion of the blanket mortgage.

Investor projects are built by profit-motivated developers who certify their intention of selling a project to a cooperative group within two years. The maximum insurable amount of the mortgage for investor projects is the lesser of 90 percent of the estimated replacement cost following completion of the proposed physical improvements and the statutory per dwelling unit amount.

Existing construction projects involve the provision of federal mortgage insurance for supplementary cooperative loans (subordinate liens) obtained by nonprofit cooperative corporations or trusts with respect to any property insured under Section 213. Such supplementary loans may be used to finance (i) improvements or repairs of the property covered, (ii) community facilities necessary to serve the occupants of the property or (iii) refinancing for resales of memberships which involve increases in equity. The amount of a supplementary cooperative loan may not exceed the original principal mortgage loan when added to the outstanding indebtedness on the property, nor may such loan exceed the limits applicable to management project loans generally. The maturity of a supplementary loan may not exceed the remaining term of the mortgage covering the management project, except in the case of major rehabilitation projects covered by an uninsured mortgage and approved by the FHA, in which case the maturity date may be up to ten years in excess of the remaining term of the uninsured mortgage but cannot exceed 40 years from the beginning of the amortization of such mortgage.

Section 220 (Urban Renewal Mortgage Insurance)

Section 220 provides for federal insurance of mortgage loans secured by dwellings designed principally for multifamily rental projects located in areas with federally aided urban renewal or slum clearance activities or areas having a local redevelopment or urban renewal plan certified by the FHA. The mortgages may finance the rehabilitation of existing salvable housing (including the refinancing of existing indebtedness) or for the replacement of slums with new housing. Insurance on multifamily project mortgages may include coverage of construction advances. The purpose of this section is to aid in the elimination of slums and blight and the prevention of deterioration of residential property by supplementing the insurance of mortgages under Section 207.

A multifamily project mortgage loan under Section 220 may not exceed the least of (i) the statutory per dwelling unit amount, (ii) 90 percent of the estimated replacement cost of the property or project with the proposed improvements if the project is approved prior to new construction and (iii) 90 percent of the estimated value of the property or project with improvements if the project was not approved prior to new construction.

A mortgage relating to a project to be repaired or rehabilitated is subject to the following additional limitations: (i) if the mortgagor is the fee simple owner of the project, the maximum mortgage amount is the full estimated cost of the proposed repairs or rehabilitation; (ii) if the property is subject to an existing mortgage that is to be refinanced with part of the insured mortgage, the maximum mortgage amount may not exceed 90 percent of the estimated cost of the repair or rehabilitation and the estimated value of the property before repair or rehabilitation; and (iii) if the project is to be acquired and financed with a part of the insured mortgage, the maximum mortgage amount may not exceed 90 percent of the sum of the estimated cost of repair or rehabilitation and the actual purchase price of the land and improvements not in excess of the estimated fair market value of the land and improvements prior to the repair or rehabilitation.

For mortgages relating to the purchase of property rehabilitated by a local public agency with Federal assistance under Section 110(c)(8) of the Housing Act of 1949, such mortgages cannot exceed the lesser of 90 percent of the estimated appraisal value and 90 percent of the actual cost of acquisition.

Project improvement loans, to be eligible for FHA insurance under Section 220, must have a maturity between five and 20 years, or three-quarters of the estimated remaining economic life of the structure, whichever is less. Such loans may not exceed (i) the estimated cost of the improvements or $12,000 per unit, whichever is lower, (ii) an amount which, when added to outstanding indebtedness related to the property, creates a total indebtedness not in excess of the limits for project mortgage loans under this section, and (iii) if the proceeds are to be used for public improvements against which the mortgagor is assessed or is otherwise legally responsible, an amount which when added to the aggregate principal balance of other loans for the same purpose does not exceed $12,000.

Section 221(d) (Low and Moderate Income Multifamily Housing Mortgage Insurance)

Sections 221(d)(3) and 221 (d)(4) of the Housing Act provide for mortgage insurance to assist private industry in the construction or substantial rehabilitation of rental and cooperative housing for low- and moderate-income families and families that have been displaced as a result of urban renewal, governmental actions or disaster. Nonprofit sponsors may receive an insured mortgage for the full estimated value of the project under Section 221(d)(3), whereas profit-motivated sponsors under Section 221(d)(3) and all types of mortgagors under Section 221(d)(4) may receive only a maximum mortgage amount of 90 percent of such estimated value.

The maximum mortgage amounts under Section 221(d)(3) are as follows: (i) the maximum per dwelling unit amount (which is higher for nonprofit mortgagors); (ii) in the case of new construction, the estimated replacement cost of the property or project with improvements for nonprofit mortgagors (90 percent of such replacement cost in the case of a profit-motivated mortgagor); (iii) in the case of repair or rehabilitation, the sum of the estimated cost of the repair or rehabilitation of the project

plus the estimated value of the property before repair or rehabilitation (90 percent of such sum in the case of a profit-motivated mortgagor); (iv) if the mortgage involves financing of the purchase of property that has been rehabilitated by a local public agency with federal assistance pursuant to Section 110(c)(8) of the Housing Act of 1949, the lesser of the appraised value of the property at the time the mortgage is approved for insurance and the actual cost of acquisition (90 percent of such amounts in the case of a profit-motivated mortgagor).

The maximum mortgage amounts under Section 221(d)(4) for both nonprofit and profit-motivated mortgagors are the same as the maximum amounts under Section 221(d)(3) for profit-motivated mortgagors listed above, with the exception that the statutory per dwelling unit amounts are slightly lower under Section 221(d)(4).

Section 223(a)(7) (Refinancing of FHA-Insured Mortgages)

Section 223(a)(7) permits the FHA to refinance existing mortgage loans under any section or title of the Housing Act. Such refinancing results in prepayment of the existing insured mortgage. The principal amount of the new, refinanced mortgage loan generally is limited to the lesser of the original principal amount of the existing mortgage loan and the unpaid balance of the existing mortgage loan. The maximum amount for loans previously refinanced under Section 223(f) (described below) is based on the amount that can be amortized by 90 percent of the project's net operating income, which amount can be increased to 95 percent if the borrower is a nonprofit organization.

The term of a new mortgage loan insured under Section 223(a)(7) may not exceed the unexpired term of the existing mortgage loan, except that it may have a term of up to twelve years in excess of the unexpired term of the existing mortgage loan if the FHA determines that such extended term will inure to the benefit of the insurance fund under which the mortgage loan is insured, taking into consideration the outstanding insurance liability under the existing insured loan and the remaining economic life of the related property.

Section 223(d) (Insurance for Operating Loss Loans Secured by FHA-Insured Mortgages)

Section 223(d) authorizes the FHA to insure loans made to cover operating losses during the first two years of operation in the case of projects that are secured by existing FHA-insured mortgage loans and that cover any property containing other than a one- to four- family dwelling. An ''operating loss'' is defined as the amount by which the sum of the taxes, interest on the mortgage debt, mortgage insurance premiums, hazard insurance premiums and the expense of maintenance and operation of the project covered by the mortgage loan exceeds the income of the project.

Any loans insured under Section 223(d) will (i) bear interest at such rate and be secured in such a manner as the FHA shall require, (ii) be limited to a term not exceeding the unexpired term of the original mortgage loan and (iii) be insured under the same section as the original mortgage loan. The amount of the loan must not exceed the operating loss. In the event that the borrower fails to make any payment due under a Section 223(d) loan or under the original mortgage loan, and such default continues for a period of 30 days, both the 223(d) loan and the original mortgage loan shall be considered in default under FHA regulations. In such event, FHA insurance benefits shall be computed in the same manner as for the original mortgage loan.

Section 223(f) (Purchase or Refinancing of Existing Projects)

Section 223(f) provides for federal insurance of mortgage loans originated by FHA-approved lenders in connection with the purchase or refinancing of existing multifamily housing complexes that do not require substantial rehabilitation. The principal objective of the Section 223(f) program is to provide for lower debt service on the related projects in order to preserve an adequate supply of affordable rental housing. Such projects may have been financed originally with conventional or FHA-insured mortgages.

To be eligible for insurance under Section 223(f), a project must have rental income sufficient to pay operating expenses and annual debt service, and must have a reserve fund for replacements or provide an operating deficit fund on terms approved by the FHA. The cost of repairs, replacements

and improvements may not exceed the greater of 15 percent of the property's value after the improvements and $6,500 per dwelling unit (adjusted for high-cost areas); and no more than one major building component may be replaced. The project must have been completed at least three years prior to the application for mortgage insurance, and its remaining economic life must be at least ten years.

If the project is to be acquired by the mortgagor and financed in part with the insured mortgage, the maximum mortgage loan amount under Section 223(f) is 85 percent of the cost of acquisition as determined by the FHA (90 percent of such amount for a cooperative multifamily project and for projects financed with state or local assistance or located in older, declining urban areas that meet certain eligibility requirements). If, on the other hand, the property is to be refinanced without a change in ownership, then the maximum mortgage loan amount may not exceed: (a) for rental projects, the greater of 70 percent of the estimated value of the property and the cost of refinancing the existing indebtedness and (b) for cooperative projects, the cost of refinancing the existing indebtedness. In addition to the above limitations, a mortgage loan insured under Section 223(f) may not have a principal amount in excess of the lesser of 85 percent of the estimated value of the project and the statutory per dwelling unit amount.

Secondary financing on multifamily housing projects is permissible under Section 223(f). The secondary debt may be secured by a second lien on the related project and cannot mature prior to the maturity date of the original mortgage loan, but may be prepaid out of surplus cash from operations of the project. If a loan is made to finance the purchase of an existing project, the second mortgage loan may not exceed 7.5 percent of the lesser of the estimated value of the project and the cost of acquisition. In the case of secondary financing used to refinance an existing project, the second mortgage may not exceed the lesser of 7.5 percent of the estimated value of the project and 50 percent of the difference between the cost of refinancing the project and the maximum mortgage loan amount determined by the FHA.

Section 231 (Mortgage Insurance for Elderly Housing Projects)

Section 231 provides federal mortgage insurance for loans obtained for the new construction, acquisition, substantial rehabilitation or refinancing of elderly and handicapped housing projects. The maximum insurable loan for new construction under Section 231 is the lesser of (a) the statutory per dwelling unit amount and (b) for public and private nonprofit mortgagors, the estimated full replacement cost of the project or, for private, profit-motivated mortgagors, 90 percent of such estimated replacement cost. A mortgage for properties other than new construction may not exceed the estimated value of the project after completion of the rehabilitation for public and private nonprofit mortgagors, or 90 percent of such estimated value for private, profit-motivated mortgagors.

A mortgage that involves repair or rehabilitation is subject to the following additional limitations under Section 231: (i) if the mortgagor is the fee simple owner of the project, the maximum mortgage is the estimated cost of the proposed repairs or rehabilitation; (ii) if the mortgage is in part for the refinancing of a project subject to an outstanding indebtedness, the maximum amount is the sum of the estimated cost of repair or rehabilitation plus, for a nonprofit mortgagor, the portion of the outstanding indebtedness not exceeding the estimated fair market value of the land and improvements prior to the repair or rehabilitation, and for a profit-motivated mortgagor, 90 percent of such estimated value; (iii) if part of the insured mortgage is to finance the acquisition of a project, the maximum mortgage amount is as follows: (a) for a nonprofit mortgagor, the estimated cost of the proposed repair or rehabilitation plus the actual purchase price of the land and improvements not in excess of the estimated fair market value of the land and improvements prior to the repair or rehabilitation; and (b) for a profit-motivated mortgagor, 90 percent of the estimated cost of the repair or rehabilitation, plus 90 percent of the lesser of (x) the actual purchase price of the land and improvements and (y) the estimated fair market value of such land and improvements prior to repair or rehabilitation.

Section 232 (Mortgage Insurance for Nursing Homes and Other Care Facilities)

Section 232 provides for federal insurance of private construction mortgage loans to finance new or rehabilitated nursing homes, intermediate care facilities, board and care homes, assisted living for the frail elderly or allowable combinations thereof, including equipment to be used in their operation. Section 232 also provides for supplemental loans to finance the purchase and installation of fire safety equipment in these facilities. However, these loans are governed by different restrictions and limitations than those set forth below for the actual facilities.

The maximum mortgage amount that is insurable under Section 232 for new construction and substantial rehabilitation is, for profit-motivated mortgagors, 90 percent of the estimated value of the project, including the equipment to be used in the operation, when the proposed improvements are completed and the equipment is installed, and 95 percent of such value for private nonprofit mortgagors.

A mortgage executed in connection with the purchase or refinancing of existing projects under Section 232 pursuant to Section 223(f) of the Housing Act must have a principal amount no greater than 85 percent for a profit-motivated mortgagor (90 percent for a private nonprofit mortgagor) of the estimated value of the project, including major equipment and any repairs and improvements. Such mortgage also may not exceed the amount that could be amortized by 85 percent for profit-motivated mortgagors (90 percent for nonprofit) of the net projected project income available for payment of debt service. If the project is to be refinanced by the insured mortgage without a change in ownership, the maximum mortgage may not exceed the cost to refinance the existing indebtedness, as determined by the FHA. If the mortgage insured pursuant to Section 223(f) is to be used in part to finance the acquisition of the project by the mortgagor, in addition to the above-mentioned limits, the maximum loan amount is 85 percent of the cost of acquisition for profit-motivated mortgagors and 90 percent for nonprofit mortgagors.

Section 241 (Supplemental Financing and Equity Take Out Loans)

Section 241 provides for FHA insurance to finance property improvements, energy-conserving improvements or additions to any FHA-insured multifamily loan. Pursuant to legislation enacted in 1987, Section 241(f) provides, as a specific element of a ''plan of action'' approved by the FHA, insurance for second mortgage financing and for loans to facilitate the take out of accumulated equity. The overall purpose of the Section 241 loan program is to provide a project with a means to remain competitive, extend its economic life and finance the replacement of obsolete equipment without the refinancing of the existing mortgage.

Supplemental loans that are insured under Section 241 may be in an amount of up to 90 percent of the value of improvements, additions or equipment financed by the loan; provided that such amount, when added to any outstanding balance of the mortgage covering the project, may not exceed the maximum mortgage amount insurable under the section or title pursuant to which the mortgage covering such project is insured. For supplemental loans relating to the purchase and installation of energy conserving improvements on a property not previously insured by the FHA, the maximum insurable amount is the least of (a) the cost of the improvements, (b) an amount which can be supported by residual income, as determined by FHA, and (c) an amount which when added to the existing indebtedness does not exceed the estimate of the value of the project after installation of the energy-conserving improvements.

An equity loan insured under Section 241(f) may not exceed 90 percent of the owner's equity in the project, nor may it exceed an amount which, when added to the existing indebtedness on the property, can be supported by 90 percent of the projected net operating income of the project. An equity loan made to an owner who agrees to extend the low-income affordability restrictions on the related housing pursuant to a plan of action may not exceed an amount equal to the amount of rehabilitation costs required by the plan and the lesser of (i) 70 percent of the preservation equity in the project and (ii) an amount determined to be supported by the project on the basis of an eight

percent return on the extension preservation equity, assuming normal debt service coverages. Such an equity loan must also provide for the lender to deposit ten percent of the loan in an escrow account for five years.

An acquisition loan insured under Section 241(f) may not exceed the amount of rehabilitation costs as determined under an approved plan of action and related charges, plus 95 percent of the transfer preservation equity of the project. If the purchaser is a qualified priority purchaser as defined under FHA regulations, the loan may include any expenses associated with obtaining the loan implementing the plan of action, as approved by the FHA. Acquisition loans have a term of 40 years.

Section 242 (Mortgage Insurance for Hospitals)

Section 242 provides federal insurance for mortgage loans to finance the construction or rehabilitation of both nonprofit and profit- motivated hospitals (including the financing of equipment necessary for the operation of the facility). The purpose of this section is to assist the provision of urgently needed hospitals for the care and treatment of persons who are acutely ill or who otherwise require the medical care and related services customarily or most effectively furnished only by hospitals.

Prior to issuing mortgage insurance under this section, the FHA must have received assurance from a designated state agency for the state in which the hospital is located certifying that there is a need for the hospital and that there are in force reasonable minimum standards of licensure and methods of operation for hospitals, and that such standards will be applied and enforced with respect to any hospital located in that state. If no such state agency exists, or such agency is not empowered to provide the necessary certification, the state must prepare a study that provides the necessary assurances described in the statute and regulations.

The maximum insurable loan amount under Section 242 may not exceed 90 percent of the estimated replacement cost of the hospital, including its operating equipment. The mortgage shall have a maturity not to exceed 25 years from the date amortization begins.

Certain Additional Characteristics of the Multifamily Mortgage Loans

Lockouts. Certain of the Multifamily Mortgage Loans may have provisions that prohibit voluntary prepayment for a number of years following origination (''lockout provisions''). Further, in the case of mortgage loans insured under Section 232, full or partial prepayments by nonprofit mortgagors cannot be effected without prior written consent from the FHA. The enforceability of these lockout provisions under certain state laws is unclear. The related Supplement will set forth certain information with respect to the lockout provisions of the Multifamily Mortgage Loans.

Mortgage Prepayment Penalties. Certain of the Multifamily Mortgage Loans may have a period (a ''prepayment penalty period'') during which voluntary and involuntary prepayments (except for prepayments resulting from condemnation or casualty losses) must be accompanied by a mortgage prepayment penalty equal to a specified percentage of the principal amount of the Multifamily Mortgage Loan being prepaid. The prepayment penalty period may extend beyond the termination of the lockout provision. Exhibit A to the related Supplement will set forth, for each Multifamily Mortgage Loan, a description of the related mortgage prepayment penalty and the period during which the mortgage prepayment penalty applies as well as the last day of any applicable lockout provision. Unless otherwise specified in the related Supplement, any mortgage prepayment penalties actually received in respect of the GNMA Certificates will be distributed to Holders of Certificates.

Notwithstanding the foregoing, the Multifamily Mortgage Loans must include a provision which allows the FHA to override any lockout and/or prepayment penalty provisions when such loan is in default if the FHA determines that it is in the best interest of the federal government to allow the mortgagor to refinance or partially prepay the mortgage loan without restrictions or penalties and thereby avoid or mitigate an FHA insurance claim.

Coinsurance. Certain of the Multifamily Mortgage Loans may be federally insured under FHA coinsurance programs that provide for the retention by the mortgage lender of a portion of the

mortgage insurance risk that otherwise would be assumed by FHA under the applicable FHA insurance program. As part of such coinsurance programs, FHA may delegate to mortgage lenders approved by FHA for participation in such coinsurance programs certain underwriting functions generally performed by FHA. Accordingly, there can be no assurance that such Multifamily Mortgage Loans were underwritten in conformity with FHA underwriting guidelines applicable to mortgage loans that were solely federally insured or that the default risk with respect to coinsured mortgage loans is comparable to that of FHA-insured mortgage loans generally. As a result, there can be no assurance as to the likelihood of future default or as to the rate of prepayment on the coinsured Mortgage Loans.

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 the related Supplement. 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. Unless otherwise specified in the related Supplement, Fannie Mae also will credit or deposit to the Certificate Account any mortgage prepayment penalties actually received on the GNMA Certificates 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 Holders 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. Although Fannie Mae is required to hold all funds maintained as part of Fannie Mae's general accounts (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 the related Supplement, 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.

In May 1997, the Department of Housing and Urban Development issued a rule that makes final, with limited amendments, the revised HUD Book-Entry Regulations that were issued in December 1996. The final rule, including those amendments, will become offective on June 30, 1997. (See Federal Register, vol. 62. p. 28,975 (May 29, 1997).) The HUD Book-Entry Regulations apply to all Certificates that are issued or maintained on the book-entry system of the Federal Reserve Banks.

Authorized Denominations

Unless otherwise specified in the related Supplement. Certificates will be issuable and transferable in minimum denominations of $1,000 and integral multiples of $1 in excess thereof.

Distributions on Certificates

Unless otherwise specified in the related Supplement, on or about the fifth business day of each month, in the case of GNMA Certificates backed by Single Family Pools, and on or about the seventh day of each month, in the case of GNMA Certificates backed by Multifamily Pools, Fannie Mae will aggregate the amount of principal reported to be receivable on the GNMA Certificates during such month on the basis of published GNMA factors for such month. For any GNMA 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. In the case of any GNMA Certificate relating to a Single Family Pool, the amortization schedules will be prepared on the assumptions that: (i) each of the Mortgage Loans underlying a single GNMA Certificate had an original term to maturity of 360 months (or in the case of GNMA Certificates backed by 15-year Mortgage Loans, 180 months) 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. In the case of any GNMA Certificate relating to a Multifamily Pool, Fannie Mae will create those schedules by using available remaining term to maturity and interest rate information and adjusting such remaining term to maturity to the current month. Such calculations will reflect payment factor information previously reported to Fannie Mae and calculated subsequent scheduled amortization (but not prepayments) on the related Mortgage Loans. Fannie Mae's determination of the principal payments by the methodology described above will be final.

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, Fannie Mae will, respecting each Trust, distribute to Holders of Certificates their respective Percentage Interests (as defined below) in (i) the principal distributions (calculated as described above), (ii) the interest distributions on the underlying GNMA Certificates and (iii) unless otherwise specified in the related Supplement, any mortgage prepayment penalties actually received in respect of the 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. Fannie Mae will not guarantee the collection or the distribution to Holders of Certificates of any mortgage prepayment penalties. 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.

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 that any such supplemental 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

General

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.

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.

Taxation of the 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 Revenu 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.

Discount

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 ARMs that provide for an incentive interest rate, an Owner may be required to reallocate a portion of the interest from the periods when such rate is not in effect to the period during which such rate is in effect. An Owner also may be required to treat any interest, the payment of which is deferred because of a ''negative amortization'' feature of an ARM, as includible in income at the time such interest would have been payable in the absence of such deferral. Owners are advised to consult their own tax advisors concerning these matters.

Premium

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. Under proposed regulations relating to the treatment of bond premium under section 171 of the Code and issued by the IRS on June 26, 1996, 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 Owner purchases its Certificate. The regulations are proposed to be effective after the date of their adoption in final form and are subject to change.

Allocated premium shall be applied against (and operate to reduce) the amount of any 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.

Exchanges

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.

Special Tax Attributes

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 GNMA 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 GNMA 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 GNMA 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.

The Small Business Job Protection Act of 1996 repeals the bad debt reserve method of accounting for mutual savings banks and domestic building and loan associations for tax years beginning after December 31, 1995. As a result, section 593(d) of the Code is no longer applicable to treat the Certificates as ''qualifying real property loans.''

Cooperative Share Loans

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.

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 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.

Lender Buydown Loans

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.

Mortgage Loan Servicing

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 ⅙ 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 under ''—Taxation of the Certificates.''

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.

Information Reporting and Backup Withholding

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 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 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.

Foreign Investors

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, 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 United States fiduciary has the authority to control all substantial decisions of the trust.

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 Employee Retirement Income Security Act of 1974, as amended (''ERISA'') and the Code impose certain requirements on employee benefit plans and certain other retirement plans and arrangements, as well as on collective investment funds and separate accounts in which such plans or arrangements are invested (all of which are hereinafter referred to as a ''Plan'') and on persons who are fiduciaries with respect to such Plans. Any Plan fiduciary which proposes to cause a Plan to acquire any Certificates would be required to determine whether such an investment is permitted under the governing Plan instruments and is prudent and appropriate for the Plan in view of its overall investment policy and the composition and diversification of its portfolio. In addition, ERISA and the Code prohibit certain transactions involving the assets of a Plan and ''disqualified persons'' (within the meaning of the Code) and ''parties in interest'' (within the meaning of ERISA) who have certain specified relationships to the Plan. Therefore, a Plan fiduciary considering an investment in Certificates should also consider whether such an investment might constitute or give rise to a prohibited transaction under ERISA or the Code.

The United States Department of Labor (''Labor'') issued a final regulation on November 13, 1986 (the ''Regulation''), which provides that in the case where a Plan 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 the 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 assets 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 the Regulation was originally issued, certificates similar to the Certificates were not in existence. However, Fannie Mae has been advised by its counsel, Brown & Wood LLP, that the Certificates qualify as ''guaranteed governmental mortgage pool certificates,'' and thus the acquisition and holding of the Certificates by Plans should not be considered to be the acquisition and holding of the Mortgage Loans underlying the Certificates.

This Prospectus should be read only in conjunction with the most recently published Information Statement and any supplement thereto (the "Information Statement"), which is incorporated herein by this reference. The Information Statement contains financial and other information about the Corporation. Copies of the Corporation's current Information Statement can be obtained without charge from Fannie Mae by writing or calling its MBS Helpline at 3900 Wisconsin Avenue, NW, Area 2H-3S, Washington, D.C. 20016 (telephone: 1-800-BEST-MBS or 202-752-6547).

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, if given or made, such information or representations must not be relied upon as having been authorized by the Corporation. This Prospectus does not constitute an offer to sell or the solicitation of an offer to buy any securities other than the Certificates offered hereby and by the related Supplement nor an offer of the Certificates to any person in any state or other jurisdiction in which such offer would be unlawful. The delivery of this Prospectus at any time does not imply that the information contained herein is correct as of any time subsequent to the date hereof.

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. Any representation to the contrary is a criminal offense.

Additional prospectuses and information regarding outstanding pools are available upon request by calling 1-800-BEST MBS or 202-752-6547.

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Guaranteed MBS Pass-Through Securities

PROSPECTUS

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