



FannieMae

## Guaranteed REMIC Pass-Through Certificates

---

THE CERTIFICATES, TOGETHER WITH ANY INTEREST THEREON, ARE NOT GUARANTEED BY THE UNITED STATES. THE OBLIGATIONS OF FANNIE MAE UNDER ITS GUARANTY OF THE CERTIFICATES ARE OBLIGATIONS SOLELY OF FANNIE MAE AND DO NOT CONSTITUTE AN OBLIGATION OF THE UNITED STATES OR ANY AGENCY OR INSTRUMENTALITY THEREOF OTHER THAN FANNIE MAE. 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 REMIC Pass-Through Certificates ("Certificates") are issued and guaranteed by the Federal National Mortgage Association ("Fannie Mae"), a corporation organized and existing under the laws of the United States, under the authority contained in Section 304(d) of the Federal National Mortgage Association Charter Act (12 U.S.C. 1716 *et seq.*). The Certificates of each Series will evidence the direct or indirect beneficial ownership interest in one or more securities issued and guaranteed by Fannie Mae and/or such other securities as are specified in the related Prospectus Supplement, which may include "fully modified pass-through" mortgage-backed securities guaranteed as to timely payment of principal and interest by the Government National Mortgage Association (collectively, the "Underlying Securities") and the related Trust Account (as hereinafter defined) and all cash and investments held therein (collectively, as to any Series of Certificates, the "Series Trust"), subject to the limits and the order of distribution described herein and in the related Prospectus Supplement.

Each Underlying Security directly or indirectly will represent all or part of the beneficial interest in a pool ("Pool") of first lien, single-family residential mortgage loans (the "Mortgage Loans"). The general characteristics of the Underlying Securities are described in the related prospectuses and/or prospectus supplements (each, an "Underlying Prospectus" and, collectively, the "Underlying Prospectuses"), and certain information relating to the Pool or Pools backing the Underlying Securities included in a Series Trust will be set forth in the related Underlying Prospectus or Prospectuses. The Underlying Securities will be held directly or indirectly for the Holders (as hereinafter defined) of Certificates by Fannie Mae in its capacity as Trustee of the related Series Trust. All Certificates relating to a particular Series Trust are referred to as a "Series."

Pursuant to its guaranty of the Certificates, Fannie Mae will be obligated to distribute on a timely basis to Holders of Certificates required installments of principal and interest as set forth in the related Prospectus Supplement and to distribute the principal balance of each Class of Certificates in full no later than the applicable Final Distribution Date, whether or not sufficient funds are available in the related Trust Account.

Each Series will consist of two or more Classes of Certificates. Interest on each interest bearing Class other than an Accrual Class (as hereinafter defined) will be distributable on each Distribution Date specified in the related Prospectus Supplement. Interest accrued on each Accrual Class will be distributable to the extent provided in the related Prospectus Supplement. Unless otherwise provided in the Prospectus Supplement, principal distributions on each Class of Certificates of a Series will be made pro rata among all Certificates of such Class.

Distributions on the Underlying Securities backing a Series will be sufficient to make required distributions of principal and interest on the Certificates of such Series to the extent set forth in the related Prospectus Supplement and to retire each such Class of Certificates not later than its Final Distribution Date without the necessity of any call on Fannie Mae under its guaranty of the Certificates. Because the rate of distribution of principal of each Class of Certificates generally will depend on the rate of payment (including prepayments) of the Mortgage Loans backing the related Underlying Securities, the actual final distribution with respect to any Class of Certificates could occur significantly earlier than its Final Distribution Date.

One or more elections will be made to treat the assets comprising the Series Trust as one or more "real estate mortgage investment conduits" (each, a "REMIC Trust") for federal income tax purposes. The Certificates of each Class will be designated as "regular interests" in a REMIC Trust, except that a separate Class will be designated as the "residual interest" with respect to each REMIC Trust.

*(Cover continued on next page)*

The Certificates may not be suitable investments for all investors. No investor should purchase Certificates unless such investor understands and is able to bear the prepayment, yield, structure, market, liquidity, redemption and other risks associated with such Certificates. **See "Certain Risk Factors" beginning on page 10 herein for a discussion of certain risks that should be considered in connection with an investment in the Certificates.** Certain Certificates are complex financial instruments. An investor in Certificates should possess the expertise necessary to evaluate the information contained or incorporated by reference in this Prospectus, the applicable Prospectus Supplement and any other applicable supplement or amendment hereto in the context of such investor's financial situation.

---

**The date of this Prospectus is November 12, 1997.**

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

INVESTORS SHOULD HAVE SUFFICIENT KNOWLEDGE AND EXPERIENCE IN FINANCIAL AND BUSINESS MATTERS TO EVALUATE THE MERITS AND RISKS OF INVESTING IN A PARTICULAR SERIES OF CERTIFICATES, AS WELL AS ACCESS TO, AND KNOWLEDGE OF, APPROPRIATE ANALYTICAL TOOLS TO EVALUATE SUCH MERITS AND RISKS IN THE CONTEXT OF THEIR FINANCIAL SITUATION. PARTICULAR SERIES OF CERTIFICATES ARE NOT AN APPROPRIATE INVESTMENT FOR INVESTORS WHO ARE UNSOPHISTICATED WITH RESPECT TO THE APPLICABLE PAYMENT CHARACTERISTICS WITH RESPECT TO SUCH SERIES OF CERTIFICATES. INVESTORS ALSO SHOULD HAVE SUFFICIENT FINANCIAL RESOURCES TO BEAR THE RISKS OF AN INVESTMENT IN CERTIFICATES.

THIS PROSPECTUS DOES NOT DESCRIBE ALL OF THE RISKS AND INVESTMENT CONSIDERATIONS (INCLUDING THOSE RELATING TO EACH INVESTOR'S PARTICULAR CIRCUMSTANCES) OF AN INVESTMENT IN CERTIFICATES. FANNIE MAE AND THE DEALERS DISCLAIM ANY RESPONSIBILITY TO ADVISE INVESTORS OF SUCH RISKS AND INVESTMENT CONSIDERATIONS AS THEY EXIST AT THE DATE OF THIS PROSPECTUS OR AS THEY MAY CHANGE FROM TIME TO TIME. INVESTORS SHOULD CONSULT THEIR OWN FINANCIAL AND LEGAL ADVISORS AS TO THE RISKS AND INVESTMENT CONSIDERATIONS ARISING FROM AN INVESTMENT IN A SERIES OF CERTIFICATES, THE APPROPRIATE TOOLS TO ANALYZE SUCH INVESTMENT, AND THE SUITABILITY OF SUCH INVESTMENT IN EACH INVESTOR'S PARTICULAR CIRCUMSTANCES. SEE "CERTAIN RISK FACTORS."

### **PROSPECTUS SUPPLEMENT**

With respect to any particular Series of Certificates, the description in the Prospectus will be supplemented, superseded or replaced, in whole or in part, by the Prospectus Supplement for such Series of Certificates. Investors should read such Prospectus Supplement in conjunction with the Prospectus.

The Prospectus Supplement relating to any Series of Certificates to be offered hereunder will, among other things, set forth with respect to such Series of Certificates: (i) the aggregate principal amount, the interest rate or method of determining the interest rate of each Class of such Series and whether any such Class constitutes an Accrual Class; (ii) certain characteristics of the Underlying Securities backing the Certificates of such Series, including the interest rates, if any, borne by such Underlying Securities and, in some cases, the ranges of weighted average coupons and/or weighted average maturities of the Mortgage Loans backing such Underlying Securities; (iii) the designation of each Class of the Certificates as either a "regular interest" or "residual interest"; (iv) the Final Distribution Date of each Class of such Series; (v) the method used to calculate the aggregate amount of principal required to be applied to the Certificates of such Series on each Distribution Date; (vi) the principal balance, expressed as a percentage, of each Class of such Series that would be outstanding on specified Distribution Dates if the Mortgage Loans relating to the Underlying Securities backing the Certificates of such Series were prepaid at various assumed rates; (vii) the book entry system on which certain Classes of Certificates will be maintained; and (viii) the Distribution Dates for such Series.

## DOCUMENTS INCORPORATED BY REFERENCE

This Prospectus should be read in conjunction with Fannie Mae's most recent Information Statement and any supplement thereto (collectively, the "Information Statement"), each of which is incorporated herein by this reference. The Information Statement contains financial and other information about Fannie Mae and is updated from time to time to reflect quarterly and annual financial results of Fannie Mae and as Fannie Mae otherwise determines.

Any Information Statement, supplement thereto, or proxy statement published by Fannie Mae subsequent to the date of this Prospectus and prior to the termination of the offering of the Certificates offered hereby shall be deemed to be incorporated herein by this reference. Any statement contained herein or in a document incorporated or deemed to be incorporated by reference herein shall be deemed to be modified or superseded for purposes of this Prospectus to the extent that a statement contained herein or in any other subsequent document that also is or is deemed to be incorporated by reference herein modifies or supersedes such statement. Any such statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Prospectus.

## AVAILABLE INFORMATION

The Information Statement, proxy statements and other information concerning Fannie Mae may be inspected at the offices of the New York Stock Exchange, the Chicago Stock Exchange and the Pacific Stock Exchange. Fannie Mae is not subject to the periodic reporting requirements of the Securities Exchange Act of 1934 and does not file reports or other information with the U.S. Securities and Exchange Commission.

Copies of this Prospectus may be obtained from the Dealers where lawful. Copies of the applicable Prospectus Supplement for an issue of Certificates may be obtained from the applicable Dealers for such issue. In connection with the initial distribution of each issue of Certificates, investors should obtain from Dealers the applicable Prospectus Supplement and, if not previously delivered, this Prospectus.

The following information is available from Fannie Mae by writing or calling its MBS Helpline at 3900 Wisconsin Avenue, N.W., Area 2H-3S, Washington, D.C. 20016 (telephone 1-800-BEST-MBS or 202-752-6547). Such information is supplied for information purposes only. Investors should contact a Dealer or other appropriate securities dealer or bank to obtain the appropriate Prospectus, Prospectus Supplement and other information.

- This Prospectus
- The Information Statement
- Prospectus Supplements (generally available approximately four business days prior to settlement of the related issue of Certificates)

Investors should note that certain Fannie Mae REMIC securities are offered by means of prospectuses and, if applicable, supplements thereto other than this Prospectus. Sales of any such securities should be consummated only when accompanied by the related offering documents.

## SUMMARY OF PROSPECTUS

*The following summary of certain pertinent information is qualified in its entirety by reference to the detailed information appearing elsewhere in this Prospectus, the MBS Prospectus (as defined below) and any other related Underlying Prospectus, and by reference to the information contained in the Prospectus Supplement to be prepared and delivered in connection with the offering of each Series of Certificates. Capitalized terms used and not otherwise defined in this Prospectus (including the Glossary contained herein) have the respective meanings assigned to such terms in the MBS Prospectus, unless otherwise indicated.*

**Title of Security** . . . . . Guaranteed REMIC Pass-Through Certificates (the “Certificates”).

**Issuer and Guarantor** . . . . . Fannie Mae, a corporation organized and existing under the laws of the United States.

### **The Underlying**

**Securities** . . . . . The Certificates will be backed by securities issued and guaranteed by Fannie Mae and/or such other securities as are specified in the related Underlying Prospectuses and, as to a particular Series of Certificates, in the related Prospectus Supplement. Such securities may include “fully modified pass-through” mortgage-backed securities (“Ginnie Mae Certificates”) guaranteed as to timely payment of principal and interest by the Government National Mortgage Association (“Ginnie Mae”).

**The Certificates** . . . . . The Certificates of each Series will be issued and guaranteed and each Series Trust will be maintained pursuant to the terms of a trust agreement and, if applicable, an issue supplement for such Series, each executed by Fannie Mae in its corporate capacity and in its capacity as Trustee (together, the “Trust Agreement”). The Certificates of each Series will represent the direct or indirect beneficial ownership interest in one or more Underlying Securities and the related Trust Account and all cash and investments held therein (collectively, as to any Series of Certificates, the “Series Trust”), subject to the limits and order of distribution described herein and in the Prospectus Supplement.

Each Series will consist of two or more Classes of Certificates. Interest on each interest bearing Class (other than an Accrual Class (as hereinafter defined)) will be distributable on each Distribution Date specified in the related Prospectus Supplement. Interest accrued on each Accrual Class will be distributable to the extent provided in the related Prospectus Supplement. Unless otherwise provided in the Prospectus Supplement, principal distributions on each Class of Certificates of a Series will be made pro rata among all Certificates of such Class.

Unless otherwise specified in the related Prospectus Supplement, the Certificates representing “regular interests” in a REMIC Trust and offered hereby and by the related Prospectus Supplement will be issued in minimum denominations of \$1,000 and integral multiples of \$1 in excess thereof, will be available in book-entry form only and will not be convertible to definitive form.

**Interest Distributions on  
Certificates** .....

Each interest bearing Class of a Series will bear interest at the rate per annum set forth in (or determined in the manner described in) the related Prospectus Supplement. Unless otherwise specified in the related Prospectus Supplement, interest on all interest bearing Classes will be distributed monthly on the day specified in the related Prospectus Supplement (each, a “Distribution Date”), in amounts accrued for the periods (each, an “Interest Accrual Period”) specified in the related Prospectus Supplement. See “Description of the Certificates—Distributions of Interest.”

**Principal Distributions on  
Certificates** .....

Unless the related Prospectus Supplement provides otherwise, principal distributions on each Series of Certificates will be made on each Distribution Date in an aggregate amount equal to the sum of (i) (a) in the case of Underlying Securities issued and guaranteed by Fannie Mae, an amount equal to all distributions of principal of such Underlying Securities in the period (a “Deposit Period”) subsequent to the previous Distribution Date (or subsequent to the first day of the month in which the related Series of Certificates is issued (each, an “Issue Date”) in the case of the initial Distribution Date) and (b) in the case of Underlying Securities that are Ginnie Mae Certificates, an amount equal to the aggregate distributions of principal of such Ginnie Mae Certificates, calculated as provided in the related Prospectus Supplement, for the month of such Distribution Date, and the distributions of principal of such Ginnie Mae Certificates received during the month prior to the Distribution Date to the extent not distributed previously, and (ii) the amount of interest, if any, accrued on the Accrual Classes of such Series during the preceding Interest Accrual Period but not then distributable thereon as interest. The Prospectus Supplement for each Series of Certificates will specify the manner in which the amount of each such aggregate principal distribution will be determined. Unless the related Prospectus Supplement provides otherwise, all distributions of principal on the Certificates of a particular Class will be applied pro rata among all Certificates of such Class. See “Description of the Certificates—Distributions of Principal.”

**Final Distribution Date** ....

The “Final Distribution Date” for Certificates of a particular Class is the date by which the principal balance thereof is required to be fully paid and will be specified in the related Prospectus Supplement. The Final Distribution Dates of the respective Classes of Certificates of a Series will be determined so that distributions on the Underlying Securities will be sufficient to retire each such Class on or before its Final Distribution Date without the necessity of any call on Fannie Mae under its guaranty of the Certificates. Because the rate of distribution of principal of each Class of Certificates will depend generally upon the rate of payment (including prepayments) of the Mortgage Loans backing the related Underlying Securities, the actual final distribution with respect to any Class of Certificates could occur significantly earlier than its Final Distribution Date. The rate of principal distributions on the Underlying Securities backing any



Series of Certificates will depend on the rate of principal payments (including prepayments) of the related Mortgage Loans, the characteristics of the Mortgage Loans, and the prevailing level of interest rates and other economic factors, and no assurance can be given as to the actual prepayment experience of the Underlying Securities in any Series Trust. See “Description of the Certificates—Prepayment Considerations and Risks” and “—Weighted Average Life and Final Distribution Dates.”

**Residual Certificates** . . . . . Holders of each Residual Certificate (as defined herein under “Description of the Certificates—Additional Characteristics of Residual Certificates”) will be entitled to receive (i) on each Distribution Date, the payments of principal and interest, if any, specified in the related Prospectus Supplement and (ii) the proceeds of the remaining assets, if any, of the related REMIC Trust (as defined herein) after the principal balances of all Classes issued in respect of such REMIC Trust have been reduced to zero.

Each Residual Certificate will be subject to transfer restrictions. See “Certain Federal Income Tax Consequences—Sales of Certificates—*Residual Certificates Transferred to or Held by Disqualified Organizations.*”

**Fannie Mae Guaranty** . . . . . Pursuant to its guaranty of the Certificates, Fannie Mae will be obligated to distribute on a timely basis to Holders (as defined below) of Certificates required installments of principal and interest to the extent set forth in the related Prospectus Supplement and to distribute the principal balance of each Class of Certificates in full no later than the applicable Final Distribution Date, whether or not sufficient funds are available in the related Trust Account. If Fannie Mae were unable to perform such guaranty obligations, distributions to Certificateholders would consist solely of distributions on the related Underlying Securities (which, except in the case of Ginnie Mae Certificates, generally would consist solely of payments and other recoveries on the related Mortgage Loans) and, accordingly, delinquencies and defaults on the related Mortgage Loans generally would affect distributions to Certificateholders. See “Description of the Certificates—Fannie Mae’s Guaranty.”

**Book-Entry Form** . . . . . Unless otherwise specified in the related Prospectus Supplement, the Certificates, other than a Residual Certificate, will be issued, maintained and may be transferred by Holders only on the book-entry system of the Federal Reserve Banks. Such Certificates may be held of record only by entities eligible to maintain book-entry accounts with the Federal Reserve Banks. Such entities whose names appear on the book-entry records of the Federal Reserve Banks as the entities for whose accounts Certificates have been deposited are herein referred to as “Holders” or “Certificateholders.” A Holder is not necessarily the beneficial owner of a Certificate. Beneficial owners ordinarily will hold Certificates through one or more financial intermediaries, such as banks, brokerage firms and securities clearing organizations. See

“Description of the Certificates—Denominations, Certificate Form.”

**Trust Account** . . . . . All distributions on the Underlying Securities backing a Series of Certificates will be remitted directly to one or more accounts (collectively, the “Trust Account”) to be maintained by Fannie Mae, as Trustee, and will be available for application to the distribution of principal of, and interest on, such Series of Certificates on the next Distribution Date. See “Description of the Certificates—Distributions on Underlying Securities, Deposits in the Trust Account.”

**REMIC Trust Factors** . . . . . As soon as practicable following the eleventh calendar day of each month, Fannie Mae will publish or otherwise make available for each Class of Certificates, the factor (carried to eight decimal places) which, when multiplied by the aggregate original principal balance of each Certificate of such Class, will equal the amount of principal remaining to be distributed with respect to such Certificate after giving effect to the distribution of principal to be made on the following Distribution Date (and the accretion of principal of any Accrual Classes).

**Termination** . . . . . Each Series Trust will terminate upon the distribution to Certificateholders of all required installments of the principal of and interest on the Certificates. In addition, the Prospectus Supplement will describe the terms and conditions of the right, if any, of Fannie Mae or any other party to terminate the Series Trust by purchasing the related Underlying Securities. Except as otherwise provided in the Prospectus Supplement with respect to any particular Series, Fannie Mae has agreed not to effect indirectly an early termination of any Series Trust through the exercise of its right, as described in “Description of Certificates—Termination” in the MBS Prospectus, to repurchase the Mortgage Loans in any Pool underlying any Fannie Mae Guaranteed Mortgage Pass-Through Certificate (“MBS”) unless only one Mortgage Loan remains in the Pool or the principal balance of such Pool at the time of repurchase is less than one percent of the original principal balance thereof.

**Tax Status of the Certificates** . . . . . One or more elections will be made to treat the assets comprising the Series Trust as one or more “real estate mortgage investment conduits” (“REMICs”) for federal income tax purposes. Each of these REMICs will be referred to herein as a “REMIC Trust.” The Certificates of each Class will be designated as the “regular interests” in a REMIC Trust, except that a separate Class will be designated as the “residual interest” with respect to each REMIC Trust. See “Certain Federal Income Tax Consequences—REMIC Election.”

As a consequence of the qualification of the assets comprising the Series Trust as one or more REMICs, the Certificates generally will be treated as “regular or residual interests in a REMIC,” as the case may be, for domestic building and loan associations, “real estate assets” for real estate investment trusts, and, except

for any Class designated as a residual interest, as “qualified mortgages” for other REMICs. See “Certain Federal Income Tax Consequences—Special Tax Attributes.”

Special tax considerations apply to Residual Certificates. The taxation of a Residual Certificate can produce a significantly less favorable after-tax return than if (i) the Residual Certificate were taxable as a debt instrument or (ii) no portion of the taxable income on the Residual Certificate were treated as “excess inclusions.” In certain periods, taxable income and the resulting tax liability on a Residual Certificate may exceed payments received on such Certificate. In addition, a substantial tax may be imposed on certain transferors of Residual Certificates and certain beneficial owners of Residual Certificates that are “pass-through entities.” See “Certain Federal Income Tax Consequences—Taxation of Residual Certificates.” Investors should not purchase Residual Certificates before consulting their tax advisors.

**Legality of Investment** . . . . . Under the Secondary Mortgage Market Enhancement Act of 1984, the Certificates will be considered to be “securities issued or guaranteed by . . . the Federal National Mortgage Association.” Accordingly, subject to applicable limitations governing investment practices, many investors whose investments are governed by state law may purchase, hold or invest in the Certificates to the same extent that they are authorized to invest in obligations issued by or guaranteed as to principal and interest by the United States or any agency or instrumentality thereof. In addition, many entities whose investments are governed by federal law (including national banks, federal savings and loan associations, federal savings banks and federal credit unions) are specifically authorized to purchase, hold and invest in Fannie Mae’s Guaranteed Mortgage Pass-Through Certificates. Subject to general considerations governing investment practices, the Certificates will be treated identically for such purposes for such entities.

**Legal Investment Considerations** . . . . . Institutions whose investment activities are subject to legal investment laws and regulations or to review by certain regulatory authorities may be subject to restrictions on investment in certain Classes of the Certificates of a Series. Investors should consult their own legal advisors in determining whether and to what extent the Certificates of a Series constitute legal investments or are subject to restrictions on investment. See “Legal Investment Considerations.”



**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’s Guaranteed Mortgage Pass-Through Certificates. Such rules do not, however, specify the collateral value which participants in particular transactions will accord the Certificates of any Class.

**Securities Law**

**Exemption** ..... The Certificates are exempt from the 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 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.*

### **Market and Liquidity Considerations**

Certificates may not have an established trading market when issued. There can be no assurance of a secondary market for any Certificates or the liquidity of such market if one develops. Consequently, investors may not be able to sell their Certificates readily or at prices that will enable them to realize an anticipated yield. This is particularly the case for Certificates that are especially sensitive to interest rate or market risks, that are designed for specific investment objectives or strategies or that have been structured to meet the investment requirements of limited categories of investors, which may have a more limited secondary market and less or no liquidity and may experience more price volatility than other similar mortgage-backed securities. Illiquidity may have a severely adverse effect on the market value of Certificates.

No investor should purchase Certificates unless such investor understands and is able to bear the risk that certain Certificates may not be readily saleable, that the value of Certificates will fluctuate over time, and that such fluctuations may be significant and could result in losses to such investor. This is particularly the case for investors whose circumstances may not permit them to hold the Certificates until maturity.

Further, depending upon the type of Certificates, market conditions and other factors, investors seeking to sell relatively small or relatively large amounts of Certificates may not be able to do so at prices comparable to those that may be available to other Investors.

In addition to the foregoing considerations, the following additional considerations, among others, relate to the Certificates indicated below.

In the case of Certificates of an Inverse Floating Rate Class, the interest rate will vary in the opposite direction of changes in the related index (the "Index"). The prices of such Certificates typically are more volatile than those of other similar floating rate mortgage-backed securities based on the same Index (and with otherwise comparable terms). This increased volatility is due to the fact that an increase in the index not only decreases the interest rate (and consequently the value) of such Certificate, but also reflects an increase in prevailing interest rates, which further adversely affects the value of such Certificate.

The prices at which Certificates of Principal Only and Interest Only Classes trade in the secondary market tend to fluctuate more in relation to general changes in interest rates than do such prices for interest-bearing mortgage-backed securities with comparable maturities. This also is generally true in the case of other securities issued at a substantial discount or premium from the principal amount payable on such securities, such as Certificates issued with significantly below-market or above-market interest rates. Generally, the longer the remaining term of such securities, the greater their price volatility as compared with that for conventional interest-bearing mortgage-backed securities with comparable maturities.

### **Suitability and Reinvestment 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 and the related Prospectus Supplement. In addition, such investors should have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of such investors' financial situation, such

Certificates, the merits and risks of investing in such Certificates and the impact such Certificates will have on their overall investment portfolios. No investor should purchase a Certificate unless such investor understands and has sufficient financial resources to bear, the prepayment, yield, structure, market, liquidity, 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 mortgage-backed securities markets, and consider (if necessary, 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. See “Legal Investment Considerations” herein.

Because the Mortgage Loans backing the related Underlying Securities may be prepaid at any time, it is not possible to predict the rate at which distributions of principal of the Certificates of any Series will be received. Accordingly, the Certificates generally would not be an appropriate investment for an investor requiring a particular distribution of principal on a specified date or an otherwise predictable stream of principal distributions. In addition, since prevailing interest rates are subject to fluctuation, there can be no assurance that investors in the Certificates of any Series will be able to reinvest the distributions thereon at yields equaling or exceeding the yields on such Certificates. It is possible that yields on any such reinvestments will be lower, and may be significantly lower, than the yields on such Certificates. Prospective investors in the Certificates should carefully consider the foregoing risks in light of other investments that may be available to such investors.

### **Yield Considerations**

The effective yield to Certificateholders in the Trust will depend upon, among other things, the purchase price of the related Certificates, the level of the Index, if any, applicable to such Certificates as specified in the related Prospectus Supplement, the rate of principal payments, including prepayments, on the related 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 and, if applicable, levels of the Index.

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

### **Prepayment Considerations**

The rate of principal distributions of the Underlying Securities backing a Series of Certificates, and therefore of distributions on such Series of Certificates, is related 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

Fannie Mae or Ginnie Mae, as the case may be, or pursuant to any option to repurchase of Fannie Mae or of the applicable sponsor or trustee, in the case of a Ginnie Mae Certificate). 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, homeowner mobility and the applicability of any prepayment penalties. Moreover, it is increasingly difficult to generalize as to the degree to which interest rates must decline before significant prepayments are likely to be experienced.

In an environment of declining interest rates, lenders servicing mortgage loans often are asked by borrowers to refinance mortgage loans by issuing new loans secured by mortgages on the same properties. 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. Additionally, various lenders (in some cases in conjunction with Fannie Mae) have instituted streamlined procedures and liberalized fee structures and underwriting guidelines that can be expected both to increase the number of Mortgage Loans eligible for refinancing and narrow the interest rate differential that must exist before refinancing is both economic and practical. Moreover, certain rights of Fannie Mae (including its option to repurchase Mortgage Loans as to which breaches of representations or warranties have occurred or to repurchase delinquent Mortgage Loans from a Trust, as described below) may affect the rate of prepayment of the Mortgage Loans underlying the MBS in such Series Trust. However, 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 obtain refinancing. Based upon published information and Fannie Mae's own experience, the rate of prepayments on single-family loans has fluctuated significantly in recent years. Accordingly, Fannie Mae cannot estimate what the prepayment experience of the Mortgage Loans backing the Underlying Securities in any Series Trust will be. See the Information Statement for additional information concerning the recent mortgage loan prepayment experience of the Fannie Mae portfolio.

Acceleration of mortgage payments as a result of transfers of mortgaged properties is another factor affecting prepayment rates. The Mortgage Loans underlying the MBS typically will provide by their terms that, in the event of the transfer or prospective transfer of title to the underlying Mortgaged Property, the full unpaid principal balance of the Mortgage Loan is due and payable at the option of the holder of the related Mortgage Loan. As set forth under "The Trust Agreement—Collection and Other Servicing Procedures" in the MBS Prospectus, Fannie Mae generally is required to exercise its right to accelerate the maturity of Mortgage Loans containing enforceable "due-on-sale" provisions upon certain transfers of the Mortgaged Property. However, certain state and federal laws limiting the enforcement of "due-on-sale" provisions remain in effect.

All of the Mortgage Loans backing the Ginnie Mae Certificates will be first lien, single-family, residential mortgage loans that are either insured or guaranteed by the Federal Housing Association ("FHA"), the Department of Veterans Affairs ("VA") or the Rural Housing Service ("FmHA"). None of such Mortgage Loans includes a "due-on-sale" clause. Consequently, the holders of such Mortgage 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.

### **Repurchases Due to Breach of Representations and Warranties**

The seller of the Mortgage Loans underlying any MBS to Fannie Mae has made certain customary representations and warranties with respect to the Mortgage Loans. In the event of a material breach of any such representations and warranties, Fannie Mae may repurchase each affected Mortgage Loan from the related Pool at a price equal to the Stated Principal Balance thereof plus accrued interest thereon at the Pass-Through Rate (or the Accrual Rate, as applicable). The effect of any such repurchase will be the same as that of a prepayment in full of the related Mortgage Loan. See "—Prepayment Considerations" above.

## **Repurchases Due to Delinquency**

Fannie Mae has the option under the trust indenture relating to each Pool of Mortgage Loans underlying any MBS to repurchase from Pools those Mortgage Loans that are delinquent in whole or in part with respect to four consecutive monthly payments at a price equal to the Stated Principal Balance thereof plus accrued interest thereon at the Pass-Through Rate (or the Accrual Rate, as applicable). The effect of any such repurchase will be the same as that of a prepayment in full of the related Mortgage Loan. See “—Prepayment Considerations” above.

## **Fannie Mae Guaranty Considerations**

If Fannie Mae were unable to perform its guaranty obligations, distributions to the Holders would consist solely of distributions on the related Underlying Securities (which, except in the case of Ginnie Mae Certificates, generally would consist solely of payments and other recoveries on the related Mortgage Loans) and, accordingly, delinquencies and defaults on the related Mortgage Loans generally would affect monthly distributions to the Holders. See “Description of the Certificates—Fannie Mae’s Guaranty.”

## **Exchange Rate Risks**

Any principal of and any interest on the Certificates will be payable in U.S. dollars. For investors whose financial activities are denominated principally in a currency or currency unit other than U.S. dollars (the “Investor’s Currency”), an investment in Certificates entails significant risks that are not associated with a similar investment in a security denominated and payable in such Investor’s Currency. In connection with any conversion of payments made in U.S. dollars into the Investor’s Currency, such risks include, without limitation, the possibility of significant changes in the rate of exchange between the U.S. dollar and such Investor’s Currency (including changes as a result of devaluation of the U.S. dollar or revaluation of the Investor’s Currency) and the possibility of the imposition or modification of exchange controls by authorities with jurisdiction over such Investor’s Currency. Such risks generally depend on a number of factors, including financial, economic and political events over which Fannie Mae has no control. In recent years, the rates of exchange between the U.S. dollar and certain currencies have been highly volatile, and such volatility may continue in the future. Fluctuations in any particular exchange rate that have occurred in the past are not necessarily indicative, however, of fluctuations that may occur in the future. An appreciation in the value of the Investor’s Currency relative to the value of the U.S. dollar would result in a decrease in the Investor’s Currency-equivalent yield on the applicable Certificate and in the Investor’s Currency-equivalent value of the principal and/or interest payable on such Certificate, and generally in a decrease in the Investor’s Currency-equivalent market value of such Certificate. A depreciation in the value of the Investor’s Currency relative to the value of the U.S. dollar would have the opposite effect.

**For a discussion of certain additional risks, see “Certain Federal Income Tax Consequences,” “Legal Investment Considerations” and “ERISA Considerations” herein.**

## **DESCRIPTION OF THE CERTIFICATES**

The following description will apply to the Certificates unless otherwise specified in the Prospectus Supplement related to a Series of Certificates. With respect to any particular Series of Certificates or type or category of Certificates, the description herein will be supplemented, superseded or replaced, in whole or in part, by such Prospectus Supplement. Investors should read such Prospectus Supplement in conjunction with the Prospectus.

### **General**

The Guaranteed REMIC Pass-Through Certificates (“Certificates”) are issued and guaranteed by the Federal National Mortgage Association (“Fannie Mae”), a corporation organized and existing



under the laws of the United States, under the authority contained in Section 304(d) of the Federal National Mortgage Association Charter Act (12 U.S.C. 1716 *et seq.*). The Certificates of each Series will be issued and guaranteed and each Series Trust will be maintained pursuant to the terms of a trust agreement and, if applicable, an issue supplement for such Series, each executed by Fannie Mae in its corporate capacity and in its capacity as Trustee (together, the “Trust Agreement”).

Each Series of Certificates will consist of two or more Classes, which will represent the beneficial ownership interest in the Series Trust created pursuant to the Trust Agreement related to such Series, subject to the limits and the order of distribution described herein and in the related Prospectus Supplement. Each Series Trust will consist of (i) Underlying Securities directly or indirectly representing all or part of the beneficial ownership interests in pools of first lien, single-family residential mortgage loans (the “Pools”) and (ii) the Trust Account and all cash and investments held therein.

The following summaries describe certain provisions common to each Series of Certificates. The summaries do not purport to be complete and are subject to, and are qualified in their entirety by reference to, the Prospectus Supplement and the provisions of the Trust Agreement relating to each Series of Certificates. When particular provisions or terms used in the Trust Agreement are referred to, the actual provisions (including definitions of terms) are incorporated by reference as part of such summaries.

### **Denominations, Certificate Form**

Unless otherwise specified in the related Prospectus Supplement, the Certificates offered hereby and by the related Prospectus Supplement (other than any Residual Certificate) will be issued in minimum denominations of \$1,000 and integral multiples of \$1 in excess thereof and will be maintained on the book-entry system of the Federal Reserve Banks in a manner that permits separate trading and ownership. Each Class of Certificates will be assigned a CUSIP number and will be tradable separately under such CUSIP number.

Unless otherwise specified in the related Prospectus Supplement, Fannie Mae’s fiscal agent for the book-entry Certificates is the Federal Reserve Bank of New York. The Federal Reserve Banks will issue such Certificates in book-entry form and will maintain book-entry accounts with respect to such Certificates and make distributions on such Certificates on behalf of Fannie Mae on the applicable Distribution Dates by crediting Holders’ accounts at the Federal Reserve Banks.

Book-entry Certificates may be held of record only by entities eligible to maintain book-entry accounts with the Federal Reserve Banks. Such entities whose names appear on the book-entry records of the Federal Reserve Banks as the entities for whose accounts the Certificates have been deposited are herein referred to as “Holders” or “Certificateholders.” A Holder is not necessarily the beneficial owner of a book-entry Certificate. Beneficial owners will ordinarily hold book-entry 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 their respective customers. The rights of the beneficial owner of a book-entry Certificate with respect to Fannie Mae and the Federal Reserve Banks may be exercised only through the Holder of such Certificate. Fannie Mae and the Federal Reserve Banks will have no obligation to a beneficial owner of a book-entry Certificate that is not also the Holder of the Certificate. The Federal Reserve Banks will act only upon the instructions of the Holder in recording transfers of a book-entry Certificate.

A Fiscal Agency Agreement between Fannie Mae and the Federal Reserve Bank of New York makes generally applicable to the book-entry 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 O). The accounts of Holders of Certificates on the book-entry system of the Federal Reserve Banks are also governed by applicable operating circulars and letters of the Federal Reserve Banks.

The Residual Certificates offered hereby and by the related Prospectus Supplement will not be issued in book-entry form but will be issued in fully registered, certificated form. As to a Residual Certificate, “Holder” or “Certificateholder” refers to the registered owner thereof. The Residual Certificates will be transferable and exchangeable at the corporate trust office of the Transfer Agent as specified in the related Prospectus Supplement. A service charge may be imposed for any exchange or registration of transfer of a Residual Certificate and Fannie Mae may require payment of a sum sufficient to cover any tax or other governmental charge. Distributions on the Residual Certificates of any Series will be made in the manner set forth in the related Prospectus Supplement.

### **Class Definitions and Abbreviations**

Classes of Certificates fall into different categories. The following chart identifies and generally defines most categories. The first column of the chart shows Fannie Mae’s abbreviation for each category. The cover page of each Prospectus Supplement will identify the categories of Classes of the related Series of Certificates by means of one or more of these abbreviations.

<u>Abbreviation</u>	<u>Category of Class</u>	<u>Definition</u>
<b>PRINCIPAL TYPES</b>		
AD	Accretion Directed	A Class that is designed to receive principal payments primarily from the accrued and unpaid interest on one or more Accrual or Partial Accrual Classes. An Accretion Directed Class also may receive principal payments from principal paid on the Underlying Securities or other assets of the Series Trust.
AFC	Available Funds	A Class that may receive as principal, in addition to other amounts, the interest paid on the underlying assets of the related Series Trust to the extent such interest exceeds certain required interest distributions on such Class as set forth in the related Prospectus Supplement.
CPT	Component	A Class that consists of two or more segments or “components.” The components of a Component Class may have different principal payment characteristics but together constitute a single Class. Each component of a Component Class may be identified as falling into one or more of the categories in this chart.
NPR	No Payment Residual	A Residual Class that is designed to receive no payments of principal.
NSJ	Non-Sticky Jump	A Class with principal payment priorities that change temporarily upon the occurrence of one or more “trigger events.” A Non-Sticky Jump Class “jumps” to its new priority on each Distribution Date when the trigger condition is met and reverts to its original priority (does not “stick” to the new priority) on each Distribution Date when the trigger condition is not met.
NTL	Notional	A Class having no principal balance and bearing interest on its notional principal balance. The notional principal balance is used for purposes of the determination of interest distributions on an Interest Only Class that is not entitled to principal.
PAC	PAC (or Planned	A Class that is designed to receive principal payments (or has a notional principal balance that is designed to decline) using a

<u>Abbreviation</u>	<u>Category of Class</u>	<u>Definition</u>
	Principal Class)	predetermined principal balance schedule (a “Planned Balance”) derived by assuming two <i>constant</i> prepayment rates for the underlying Mortgage Loans. These two rates are the endpoints for the “structuring range” for the PAC Classes. The PAC Classes in any Series of Certificates may be subdivided into different categories (e.g., <i>Type I PAC Classes and Type II PAC Classes</i> (standard abbreviations: <i>PAC I and PAC II</i> )) having different effective structuring ranges and different payment priorities. The structuring range for the PAC I Class of a Series of Certificates is wider than that for the PAC II Class of such Series.
PT	Pass-Through	A Class that is not a Strip Class and that is designed to receive principal payments in direct relation to actual or scheduled payments on the Underlying Securities.
SC	Structured Collateral	A Class that is designed to receive principal payments based on the actual distributions on Underlying Securities representing “REMIC regular interests.”
SCH	Scheduled	A Class that is designed to receive principal payments (or has a notional principal balance that is designed to decline) using a predetermined principal balance schedule (a “Scheduled Balance”) but is not designated as a PAC or TAC Class. In many cases, the schedule is derived by assuming two <i>constant</i> prepayment rates for the underlying Mortgage Loans. These two rates are the endpoints for the “structuring range” for the Scheduled Class.
SEQ	Sequential Pay	Classes that receive principal payments in a prescribed sequence, that do not have predetermined schedules and that, in most cases, receive payments of principal continuously from the first Distribution Date on which they receive principal until they are retired. A single Class that receives principal payments before or after all other Classes in the same Series of Certificates may be identified as a Sequential Pay Class.
SJ	Sticky Jump	A Class with principal payment priorities that change permanently upon the occurrence of one or more “trigger events.” A Sticky Jump Class “jumps” to its new priority on the first Distribution Date when the trigger condition is met and retains (“sticks” to) that priority until retired.
STP	Strip	A Class that receives a constant proportion, or “strip,” of the principal payments on the Underlying Securities or other assets of the Series Trust.
SUP	Support (or Companion)	A Class that receives principal payments (or has a notional principal balance that declines) on any Distribution Date only if scheduled payments have been made on specified PAC, TAC and/or Scheduled Classes (except that such Classes may also receive principal payments from the accrued and unpaid interest on specified Accrual or Partial Accrual Classes).

<u>Abbreviation</u>	<u>Category of Class</u>	<u>Definition</u>
TAC	TAC (or Targeted Principal Class)	A Class that is designed to receive principal payments (or has a notional principal balance that is designed to decline) using a predetermined principal balance schedule (a “Targeted Balance”) derived by assuming a single <i>constant</i> prepayment rate for the underlying Mortgage Loans.
XAC	Index Allocation Class	A Class with a principal payment allocation that is based on the value of an index.

### **INTEREST TYPES**

AFC	Available Funds	A Class that receives as interest certain interest and/or principal payments on the underlying assets of the related Series Trust, which payments may be insufficient on any Distribution Date to cover fully the accrued and unpaid interest thereon at the specified interest rate for the related Interest Accrual Period. In the event of any such insufficiency, the unpaid interest amount may be carried over to subsequent Distribution Dates (and such unpaid interest amount may itself accrue interest) until payments, as specified in the related Prospectus Supplement, are sufficient to cover all such unpaid interest amounts. It is possible that such insufficiencies will remain unpaid and, in such case, such insufficiencies will not be covered by Fannie Mae’s guaranty.
ARB	Ascending Rate	A Class with an interest rate that increases one or more times on dates determined before issuance.
CPT	Component	A Class that consists of two or more segments or “components.” The components of a Component Class may have different interest payment characteristics but together constitute a single Class. Each component of a Component Class may be identified as falling into one or more categories in this chart.
DRB	Descending Rate	A Class with an interest rate that decreases one or more times on dates determined before issuance.
EXE	Excess	A Class that receives any principal and interest paid on the Underlying Securities or other assets of a REMIC Trust in excess of the amount of the prescribed principal and interest required to be paid on all Classes of Certificates in the Series. Excess Classes sometimes have specified principal balances but no specified interest rate.
FIX	Fixed Rate	A Class with an interest rate that is fixed throughout the life of the Class.
FLT	Floating Rate	A Class with an interest rate that resets periodically based upon a designated index and that varies directly with changes in such index.
IDC	Index Differential	A Class that bears a floating interest rate computed in part on the basis of the difference (or other specified relationship) between two designated indices (e.g., LIBOR and the Ten-Year Treasury Index).
INV	Inverse Floating Rate	A Class with an interest rate that resets periodically based upon a designated index and that varies inversely with changes in such index.

<u>Abbreviation</u>	<u>Category of Class</u>	<u>Definition</u>
IO	Interest Only	A Class that receives some or all of the interest payments made on the Underlying Securities or other assets of the Series Trust and little or no principal. Interest Only Classes have either a notional or a nominal principal balance. A notional principal balance is the amount used as a reference to calculate the amount of interest due on an Interest Only Class. A nominal principal balance represents actual principal that will be paid on the Class. It is referred to as nominal since it is extremely small compared to other Classes.
NPR	No Payment Residual	A Residual Class that is designed to receive no payments of interest.
PO	Principal Only	A Class that does not bear interest and is entitled to receive only payments of principal.
PZ	Partial Accrual	A Class that accretes a portion of the accrued interest thereon, which amount will be added to the principal balance of such Class on each applicable Distribution Date, with the remainder of such accrued interest to be distributed currently as interest on such Class. Such accretion may continue until a specified event has occurred or until such Partial Accrual Class is retired.
W	Weighted Average Coupon	A Class with an interest rate that represents an effective weighted average interest rate that may change from period to period. A Weighted Average Coupon Class may consist of components, some of which have different interest rates.
Z	Accrual	A Class that accretes the amount of accrued interest otherwise distributable on such Class, which amount will be added as principal to the principal balance of such Class on each applicable Distribution Date. Such accretion may continue until some specified event has occurred or until such Accrual Class is retired.
<b>OTHER TYPES</b>		
LIQ	Liquid Asset	A Class that is intended to qualify as “liquid assets” for purposes of the liquidity requirements applicable to certain depository institutions. Any Class designated as a Liquid Asset Class will have a Final Distribution Date not later than five years from the Settlement Date specified in the related Prospectus Supplement.
RDM	Redeemable	Certificates that are redeemable directly or indirectly by Fannie Mae as specified in the related Prospectus Supplement.
RTL	Retail	A Class that is designated for sale to retail investors. Retail Classes frequently are sold in small “units” or other increments and issued in book-entry form through the facilities of The Depository Trust Company. Retail Classes may be entitled to receive distributions of principal in accordance with special priorities and allocation procedures.

### **Distributions of Interest**

The Certificates of each interest bearing Class will bear interest on their unpaid principal balances from the date and at the rate per annum specified in (or determined as specified in) the related Prospectus Supplement (calculated on the basis of a 360-day year of twelve 30-day months) until the principal amount of the Certificates of such Class is paid in full. Interest accrued on the interest bearing Classes (other than any Accrual Class) during any Interest Accrual Period will be distributable on the Distribution Dates and at the applicable interest rates specified in the related Prospectus



Supplement. Interest accrued on each Accrual Class will be distributable to the extent provided in the related Prospectus Supplement, the amount of any such interest accrued and undistributed as of any Distribution Date being added to the principal balance of each Certificate of such Class. Any accrued interest so added will accrue interest from such Distribution Date or from such other date as may be specified in the related Prospectus Supplement.

## **Indices Applicable to Floating Rate and Inverse Floating Rate Classes**

### *LIBOR*

Unless otherwise specified in the related Prospectus Supplement, on the Index Determination Date for each Class whose interest rate is based upon LIBOR, Fannie Mae or its agent will determine LIBOR in accordance with one of the two methods described below:

#### *LIBO Method*

If using this method of determining LIBOR, Fannie Mae or its agent will rely on the quotations, as set forth on the Reuters Screen LIBO Page (as defined in the International Swap Dealers Association, Inc. Code of Standard Wording, Assumptions and Provisions for Swaps, 1986 Edition), offered by the principal London office of each of the designated reference banks meeting the criteria set forth herein (the "Reference Banks") for making one-month United States dollar deposits in leading banks in the London interbank market, as of 11:00 a.m. (London time) on such Index Determination Date. In lieu of relying on the quotations for those Reference Banks that appear at such time on the Reuters Screen LIBO Page, Fannie Mae or its agent will request each of the Reference Banks to provide such offered quotations at such time.

Under this method, LIBOR will be established by Fannie Mae or its agent on each Index Determination Date as follows:

(a) If on any Index Determination Date two or more Reference Banks provide such offered quotations, LIBOR for the next Interest Accrual Period shall be the arithmetic mean of such offered quotations (rounded upwards if necessary to the nearest whole multiple of  $\frac{1}{32}\%$ ).

(b) If on any Index Determination Date only one or none of the Reference Banks provides such offered quotations, LIBOR for the next Interest Accrual Period shall be whichever is the higher of (i) LIBOR as determined on the previous Index Determination Date or (ii) the Reserve Interest Rate. The "Reserve Interest Rate" shall be the rate per annum which Fannie Mae or its agent determines to be either (i) the arithmetic mean (rounded upwards if necessary to the nearest whole multiple of  $\frac{1}{32}\%$ ) of the one-month United States dollar lending rates that New York City banks selected by Fannie Mae or its agent are quoting, on the relevant Index Determination Date, to the principal London offices of at least two of the Reference Banks to which such quotations are, in the opinion of Fannie Mae or its agent, being so made, or (ii) in the event that Fannie Mae or its agent can determine no such arithmetic mean, the lowest one-month United States dollar lending rate which New York City banks selected by Fannie Mae or its agent are quoting on such Index Determination Date to leading European banks.

(c) If on the initial Index Determination Date for a Class specified in the related Prospectus Supplement, Fannie Mae or its agent is required but is unable to determine the Reserve Interest Rate in the manner provided in paragraph (b) above, LIBOR shall be deemed to be the per annum rate specified as such in the related Prospectus Supplement.

Each Reference Bank (i) shall be a leading bank engaged in transactions in Eurodollar deposits in the international Eurocurrency market; (ii) shall not control, be controlled by, or be under common control with Fannie Mae; and (iii) shall have an established place of business in London. If any such Reference Bank should be unwilling or unable to act as such or if Fannie

Mae should terminate the appointment of any such Reference Bank, Fannie Mae will promptly appoint or cause to be appointed another leading bank meeting the criteria specified above.

*BBA Method*

If using this method of determining LIBOR, Fannie Mae or its agent will determine LIBOR on the basis of the British Bankers' Association ("BBA") "Interest Settlement Rate" for one-month deposits in U.S. dollars as found on Telerate page 3750 as of 11:00 a.m. London time on each Index Determination Date. Interest Settlement Rates currently are based on rates quoted by eight BBA designated banks as being, in the view of such banks, the offered rate at which deposits are being quoted to prime banks in the London interbank market. Such Interest Settlement Rates are calculated by eliminating the two highest rates and the two lowest rates, averaging the four remaining rates, carrying the result (expressed as a percentage) out to six decimal places, and rounding to five decimal places.

If on any Index Determination Date, Fannie Mae or its agent is unable to calculate LIBOR in accordance with the method set forth in the immediately preceding paragraph, LIBOR for the next Interest Accrual Period shall be calculated in accordance with the LIBOR method described above under "*LIBO Method.*"

The establishment of LIBOR on each Index Determination Date by Fannie Mae or its agent and the calculation of the rate of interest for each applicable Class for the related Interest Accrual Period shall (in the absence of manifest error) be final and binding.

*COFI*

The Eleventh District Cost of Funds Index is designed to represent the monthly weighted average cost of funds for savings institutions in Arizona, California, and Nevada that are member institutions of the Eleventh Federal Home Loan Bank District (the "Eleventh District"). The Eleventh District Cost of Funds Index for a particular month reflects the interest costs paid on all types of funds held by Eleventh District member institutions and is calculated by dividing the cost of funds by the average of the total amount of those funds outstanding at the end of that month and of the prior month and annualizing and adjusting the result to reflect the actual number of days in the particular month. If necessary, before these calculations are made, the component figures are adjusted by the Federal Home Loan Bank of San Francisco ("FHLBSF") to neutralize the effect of events such as member institutions leaving the Eleventh District or acquiring institutions outside the Eleventh District. The Eleventh District Cost of Funds Index is weighted to reflect the relative amount of each type of funds held at the end of the relevant month. The major components of funds of Eleventh District member institutions are: (i) savings deposits, (ii) time deposits, (iii) FHLBSF advances, (iv) repurchase agreements and (v) all other borrowings. Because the component funds represent a variety of maturities whose costs may react in different ways to changing conditions, the Eleventh District Cost of Funds Index does not necessarily reflect current market rates.

A number of factors affect the performance of the Eleventh District Cost of Funds Index, which may cause it to move in a manner different from indices tied to specific interest rates, such as United States Treasury Bills or LIBOR. Because the liabilities upon which the Eleventh District Cost of Funds Index is based were issued at various times under various market conditions and with various maturities, the Eleventh District Cost of Funds Index may not necessarily reflect the prevailing market interest rates on new liabilities of similar maturities. Moreover, as stated above, the Eleventh District Cost of Funds Index is designed to represent the average cost of funds for Eleventh District savings institutions for the month prior to the month in which it is due to be published. Additionally, the Eleventh District Cost of Funds Index may not necessarily move in the same direction as market interest rates at all times, since as longer term deposits or borrowings mature and are renewed at prevailing market interest rates, the Eleventh District Cost of Funds Index is influenced by the differential between the prior and the new rates on those deposits or borrowings. In addition, movements of the Eleventh District Cost of Funds Index, as compared to other indices tied to specific

interest rates, may be affected by changes instituted by the FHLBSF in the method used to calculate the Eleventh District Cost of Funds Index.

The FHLBSF publishes the Eleventh District Cost of Funds Index in its monthly Information Bulletin. Any individual may request regular receipt by mail of Information Bulletins by writing the Federal Home Loan Bank of San Francisco, P.O. Box 7948, 600 California Street, San Francisco, California 94120, or by calling (415) 616-1000. The current Eleventh District Cost of Funds Index may also be obtained by calling the FHLBSF at (415) 616-2600.

Listed below are historical values of the Eleventh District Cost of Funds Index since January 1992 as reported by the FHLBSF:

<u>Month (1)</u>	<u>Year</u>					
	<u>1997</u>	<u>1996</u>	<u>1995</u>	<u>1994</u>	<u>1993</u>	<u>1992</u>
January .....	4.821%	5.033%	4.747%	3.710%	4.360%	6.002%
February .....	4.759	4.975	4.925	3.687	4.333	5.800
March .....	4.780	4.874	5.007	3.629	4.245	5.611
April .....	4.822	4.841	5.064	3.672	4.171	5.427
May .....	4.864	4.823	5.141	3.726	4.103	5.290
June .....	4.853	4.809	5.179	3.804	4.050	5.258
July .....	4.887	4.819	5.144	3.860	3.998	5.069
August .....	4.904	4.839	5.133	3.945	3.958	4.874
September .....	4.941	4.834	5.111	4.039	3.881	4.805
October .....		4.839	5.116	4.187	3.823	4.597
November .....		4.835	5.119	4.367	3.822	4.508
December .....		4.842	5.059	4.589	3.879	4.432

(1) The Eleventh District Cost of Funds Index reflects the weighted average cost of funds of the members of the Eleventh District for the month indicated. It is usually announced by the FHLBSF on the last working day of the month following the month in which the cost of funds was incurred.

The FHLBSF has stated in its Information Bulletin that the Eleventh District Cost of Funds Index for a month “will be announced on or near the last working day” of the following month and also has stated that it “cannot guarantee the announcement” of such index on an exact date. So long as such index for a month is announced on or before the tenth day of the second following month, unless otherwise specified in the related Prospectus Supplement, the interest rate for each Class of Certificates as to which the applicable interest rate is determined by reference to an index denominated as COFI (each, a “COFI Class”) for the Interest Accrual Period commencing in such second following month will be based on the Eleventh District Cost of Funds Index for the second preceding month. If publication is delayed beyond such tenth day, such interest rate will be based on the Eleventh District Cost of Funds Index for the third preceding month.

If on the tenth day of the month in which any Interest Accrual Period commences for a COFI Class the most recently published Eleventh District Cost of Funds Index relates to a month prior to the third preceding month, the index for such current Interest Accrual Period and for each succeeding Interest Accrual Period will, except as described in the next to last sentence of this paragraph, be based on the National Monthly Median Cost of Funds Ratio to SAIF-Insured Institutions (the “National Cost of Funds Index”) published by the Office of Thrift Supervision (the “OTS”) for the third preceding month (or the fourth preceding month if the National Cost of Funds Index for the third preceding month has not been published on such tenth day of an Interest Accrual Period). Information on the National Cost of Funds Index may be obtained by writing the OTS at 1700 G Street, N.W., Washington, D.C. 20552 or calling (202) 906-6000, and the current National Cost of Funds Index may be obtained by calling (202) 906-6988. If on any such tenth day of the month in which an Interest Accrual Period commences the most recently published National Cost of Funds Index relates to a month prior to the fourth preceding month, the applicable index for such Interest Accrual Period and each succeeding Interest Accrual Period will be based on LIBOR, as determined by Fannie Mae or its agent in accordance with the Trust Agreement relating to such Series of

Certificates. A change of index from the Eleventh District Cost of Funds Index to an alternative index will result in a change in the index level, and, particularly if LIBOR is the alternative index, could increase its volatility.

The establishment of LIBOR by Fannie Mae or its agent and the calculation of the rates of interest applicable to any COFI Class for the related Interest Accrual Period shall (in the absence of manifest error) be final and binding.

#### *Treasury Index*

Unless otherwise specified in the related Prospectus Supplement, on the Index Determination Date for each Class whose interest rate is based upon a Treasury Index, Fannie Mae or its agent will ascertain the Treasury Index for Treasury securities of the maturity and for the date or dates specified in the related Prospectus Supplement. Unless otherwise specified in the related Prospectus Supplement, the Treasury Index for any period means the yield for the date specified or the average of the yield for each business day during the period specified, expressed in each case as a per annum percentage rate, on (i) U.S. Treasury securities adjusted to the “constant maturity” (as further described below) specified in such Prospectus Supplement or (ii) if no “constant maturity” is so specified, U.S. Treasury securities trading on the secondary market having the maturity specified in such Prospectus Supplement, in each case as published by the Federal Reserve Board in its Statistical Release No. H.15 (519). Statistical Release No. H.15 (519) is published on Monday or Tuesday of each week and may be obtained by writing or calling the Publications Department at the Board of Governors of the Federal Reserve System, 21st and C Streets, Washington, D.C. 20551 (202) 452-3244. If Fannie Mae or its agent has not yet received Statistical Release No. H.15 (519) for such week, then it will use such Statistical Release from the immediately preceding week.

Yields on U.S. Treasury securities at “constant maturity” are derived from the U.S. Treasury’s daily yield curve. This curve, which relates the yield on a security to its time to maturity, is based on the closing market bid yields on actively traded Treasury securities in the over-the-counter market. These market yields are calculated from composites of quotations reported by five leading U.S. Government securities dealers to the Federal Reserve Bank of New York. This method provides a yield for a given maturity even if no security with that exact maturity is outstanding. In the event that the Treasury Index is no longer published, Fannie Mae will designate a new index based upon comparable data and methodology.

The determination of the Treasury Index by Fannie Mae or its agent and the calculation of the rate of interest for each applicable Class for the related Interest Accrual Period shall (in the absence of manifest error) be final and binding.

#### *Prime Rate*

Unless otherwise specified in the related Prospectus Supplement, on the Index Determination Date for each Class whose interest rate is based upon the Prime Rate, Fannie Mae or its agent will ascertain the Prime Rate for the related Interest Accrual Period. Unless otherwise specified in the related Prospectus Supplement, the Prime Rate for an Interest Accrual Period will be the “Prime Rate” as published in the “Money Rates” section of *The Wall Street Journal* (or if not so published, the “Prime Rate” as published in a newspaper of general circulation selected by Fannie Mae in its sole discretion) on the related Index Determination Date. If a prime rate range is given, then the average of such range will be used. In the event that the Prime Rate is no longer published, Fannie Mae will designate a new index based upon comparable data and methodology.

The determination of the Prime Rate by Fannie Mae or its agent and the calculation of the rate of interest for each applicable Class for the related Interest Accrual Period shall (in the absence of manifest error) be final and binding.

## **Distributions of Principal**

On each Distribution Date for a Series of Certificates, Fannie Mae will be obligated to make principal distributions in the manner described in the related Prospectus Supplement to the Holders of the Certificates of such Series as to which principal is then due, and each such Class of Certificates will be fully paid no later than the Final Distribution Date for such Class specified in such Prospectus Supplement.

Unless the related Prospectus Supplement provides otherwise, the total amount of each principal distribution required to be made on the Certificates of a Series on a Distribution Date will be equal to the sum of (i) (a) in the case of Underlying Securities that are issued or guaranteed by Fannie Mae, an amount equal to all distributions of principal of such Underlying Securities in the period (a “Deposit Period”) subsequent to the preceding Distribution Date (or subsequent to the Issue Date in the case of the initial Distribution Date) and (b) in the case of Underlying Securities that are Ginnie Mae Certificates, an amount equal to the aggregate distributions of principal of such Ginnie Mae Certificates, calculated as provided in the related Prospectus Supplement, for the month of such Distribution Date, and the distributions of principal of such Ginnie Mae Certificates received during the month prior to the Distribution Date to the extent not distributed previously; and (ii) the interest, if any, that has accrued on the Accrual Classes of such Series during the preceding Interest Accrual Period but is not distributable thereon as interest. The Prospectus Supplement for each Series of Certificates will specify the manner in which the amount of such principal distributions will be determined.

## **Fannie Mae’s Guaranty**

Pursuant to its guaranty of the Certificates, Fannie Mae will be obligated to distribute on a timely basis to Holders of Certificates required installments of principal and interest to the extent set forth in the related Prospectus Supplement and to distribute the principal balance of each Class of Certificates in full no later than the applicable Final Distribution Date, whether or not sufficient funds are available in the related Trust Account. The obligations of Fannie Mae under its guaranty 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 Certificateholders would consist solely of distributions on the related Underlying Securities (which, except in the case of Ginnie Mae Certificates, generally would consist solely of payments and other recoveries on the related Mortgage Loans) and, accordingly, delinquencies and defaults on the related Mortgage Loans generally would affect distributions to Certificateholders.

## **Distributions on Underlying Securities, Deposits in the Trust Account**

On the day or days of each month specified in the related Prospectus Supplement, commencing in the month of the initial Distribution Date, Fannie Mae will deposit or credit to one or more accounts (collectively, the “Trust Account”) an amount equal to the sum of the distributions of the principal and interest on the Underlying Securities in the Series Trust.

Amounts credited to the Trust Account on a Distribution Date generally will be available to be distributed to Holders on such date. Unless otherwise specified in the Prospectus Supplement, certain amounts remaining in the Trust Account on each Distribution Date following the required distribution of principal and interest on the Certificates will be used to pay administrative expenses of the Series Trust. Certain amounts remaining thereafter will be distributed to the Holders of Certificates of the Class which constitutes the “residual interest” in the applicable REMIC Trust. In the case of Underlying Securities that are Ginnie Mae Certificates, to the extent specified in the related Prospectus Supplement, certain amounts credited to the Trust Account as of a Distribution Date will not be included in distributions to Certificateholders until the Distribution Date following such Distribution Date. Any reinvestment earnings on amounts so held will be used by Fannie Mae to pay



the expenses of the related Series 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 Trust Account either (i) as a trust account with an eligible depository institution (which account may contain other funds held by Fannie Mae in a trust capacity) or (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 applicable REMIC Trust. Although Fannie Mae is required to hold all funds maintained as part of Fannie Mae's general accounts (and, upon deposit in the Trust Account, the investment of such funds) for the account of Certificateholders in the related REMIC Trust, 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.

### **Reports to Certificateholders**

As soon as practicable following the eleventh calendar day of each month, Fannie Mae will publish or otherwise make available the REMIC Trust Factor (carried to eight decimal places) for each Class of Certificates after giving effect to the distributions of principal to be made on the following Distribution Date (and the accretion of principal of any Accrual Classes). The principal balance or, if applicable, notional balance, of a Certificate of any Class after giving effect to such principal distributions (and accretion) will be the product of the applicable REMIC Trust Factor and the applicable denomination or initial principal balance or notional balance of such Certificate. Fannie Mae also will furnish to each person who was a Certificateholder at any time during a calendar year such statements and information as shall be required to be furnished pursuant to the Internal Revenue Code of 1986, as amended (the "Code").

Calculations with respect to amounts due to Certificateholders will be made by Fannie Mae or on its behalf by another entity retained specifically for that purpose.

### **The Underlying Securities**

Unless the related Prospectus Supplement provides otherwise, each Underlying Security will evidence the direct or indirect beneficial ownership interest in a Pool of Mortgage Loans that may consist of Government Mortgage Loans or Conventional Mortgage Loans. In addition, unless otherwise specified, up to 10% of the Underlying Securities by principal balance may evidence interests in Pools having pool numbers or legends denoting that the underlying Mortgage Loans include any one of the following: relocation mortgage loans, cooperative share mortgage loans, substantial buydown mortgage loans, biweekly mortgage loans or mortgage loans that are assumable by a creditworthy transferee upon transfer of the mortgaged property; however, such Underlying Securities, in the aggregate, may not constitute more than 15% of the Underlying Securities backing a Series of Certificates. The general characteristics of the Underlying Securities (other than Ginnie Mae Certificates) are described in the related Underlying Prospectuses. The general characteristics of the Ginnie Mae Certificates are described under "Ginnie Mae and the Ginnie Mae Programs" herein. Certain information regarding the interest rates borne by the Underlying Securities and the WACs, CAGES (or, if applicable, WALAs) and/or WAMs (or, if applicable, WARMS) of the Mortgage Loans backing the Underlying Securities included in a Series Trust will be contained in the Prospectus Supplement for the related Series of Certificates.

### **Weighted Average Life and Final Distribution Dates**

The weighted average life of a security refers to the average length of time, weighted by principal, that will elapse from the date of issuance to the date each dollar of principal is repaid to the investor. The weighted average life of a Certificate is determined by (a) multiplying the amount of the reduction, if any, of the principal balance of such Certificate from one Distribution Date to the next

Distribution Date by the number of years from the Settlement Date specified in the related Prospectus Supplement to the second such Distribution Date, (b) summing the results and (c) dividing the sum by the aggregate amount of the reductions in principal balance of such Certificate referred to in clause (a). The weighted average life of the Certificates will be influenced by, among other factors, the rate at which principal payments (including scheduled payments, principal prepayments, liquidations due to default, casualty and condemnation and payments made pursuant to any guaranty of payment by Fannie Mae or Ginnie Mae, as the case may be, or option to repurchase of Fannie Mae) are made on the underlying Mortgage Loans. Prepayments on the Mortgage Loans backing the related Underlying Securities will be applied to principal distributions on the Certificates.

The Final Distribution Date for Certificates of a particular Class is the date by which the principal balance is required to be fully paid and will be specified in the related Prospectus Supplement. The Final Distribution Dates of the respective Classes of Certificates of a Series will be determined so that distributions on the Underlying Securities will be sufficient to retire each such Class on or before its Final Distribution Date without the necessity of any call on Fannie Mae under its guaranty of the Certificates.

The Prospectus Supplement for each Series of Certificates will contain a table setting forth the weighted average life of each Class of Certificates of such Series, and the percentage of original principal amount of each Class of Certificates of such Series that would be outstanding on specified Distribution Dates for such Series, on the assumption that prepayments on the Mortgage Loans backing the related Underlying Securities are made at such rates and on such other assumptions as may be specified in such Prospectus Supplement. The actual final distribution of each Class of Certificates is likely to occur earlier, and could occur significantly earlier, than its Final Distribution Date because (i) the rate of distribution on the Certificates will be affected by the actual rate of payment (including prepayments) of principal on the Mortgage Loans backing the related Underlying Securities and (ii) some Mortgage Loans have stated maturities prior to the dates assumed and will have interest rates lower than that assumed. However, there can be no assurance that the final distribution of principal of any Class of Certificates will be earlier than the Final Distribution Date specified for such Class in the related Prospectus Supplement.

Subject to any specific provision set forth in the Prospectus Supplement with respect to any particular Series, Fannie Mae has agreed not to effect indirectly an early termination of any Series Trust through the exercise of its right, as described in “Description of Certificates—Termination” in the MBS Prospectus, to repurchase the Mortgage Loans underlying any MBS in the Series Trust unless only one Mortgage Loan remains in the Pool or the principal balance of such Pool at the time of repurchase is less than one percent of the original principal balance of such Pool. In addition, the Prospectus Supplement will describe the terms and conditions of the right, if any, of Fannie Mae or any other party to terminate the Series Trust by purchasing the Underlying Securities included therein.

## **Prepayment Models**

Prepayments of mortgage loans commonly are measured relative to a prepayment standard or model. One such model used to measure payments is The Bond Association’s standard prepayment model (“PSA”), which represents an assumed rate of prepayment each month of the then outstanding principal balance of a pool of new mortgage loans. 100% PSA assumes prepayment rates of 0.2% per annum of the then unpaid principal balance of such pool of mortgage loans in the first month of the life of such mortgage loans and an additional 0.2% per annum in each month thereafter (for example, 0.4% per annum in the second month) until the 30th month. Beginning in the 30th month and in each month thereafter during the life of such mortgage loans, 100% PSA assumes a constant prepayment rate of 6% per annum. Multiples may be calculated from this prepayment rate sequence. For example, 150% PSA assumes prepayment rates will be 0.3% per annum in month one, 0.6% per annum in month two, and increasing by 0.3% in each succeeding month until reaching a rate of 9% per annum in month 30 and remaining constant at 9% per annum thereafter. Similarly, 200% PSA

assumes prepayment rates will be 0.4% per annum in month one, 0.8% per annum in month two, and increasing by 0.4% in each succeeding month until reaching a rate of 12% per annum in month 30 and remaining constant at 12% per annum thereafter. 0% PSA assumes no prepayments.

Another model is the “Constant Prepayment Rate” or “CPR” model. The CPR model represents an annualized rate of prepayment relative to the then outstanding principal balance of a pool of new mortgage loans. Accordingly, 0% CPR indicates no prepayments; 15% CPR indicates prepayments at an annual rate of 15% and so on.

*Neither PSA nor the CPR model purport to be an historical description of the prepayment experience of any pool of mortgage loans or a prediction of the anticipated rate of prepayment of any pool of mortgage loans, including the Mortgage Loans relating to the Underlying Securities backing the Certificates of any Series.*

The Prospectus Supplement for each Series of Certificates will indicate the model used to measure prepayments.

### **Additional Characteristics of Residual Certificates**

A Certificate of any Class that is designated in the Prospectus Supplement as a residual interest in a REMIC Trust (a “Residual Certificate”) may not be transferred to a “disqualified organization” or any person who would hold a Residual Certificate on behalf of a disqualified organization. For purposes of the preceding sentence, a transfer includes any transfer of record or beneficial ownership, whether pursuant to a purchase, a default under a secured lending agreement or otherwise. The term “disqualified organization” includes the United States, any State or political subdivision thereof, any foreign government, any international organization, or any agency or instrumentality of the foregoing (other than certain taxable instrumentalities), any cooperative organization furnishing electric energy or providing telephone service to persons in rural areas, or any organization (other than a farmers’ cooperative) that is exempt from federal income tax, unless such organization is subject to the tax on unrelated business income. Each transferee of a Residual Certificate will be required to execute an affidavit, in a form acceptable to Fannie Mae, that: (i) it is not a disqualified organization, (ii) it is not acquiring the Residual Certificate for the account of a disqualified organization, (iii) it consents to any amendment of the Trust Agreement (or the applicable issue supplement) that shall be deemed necessary by Fannie Mae (upon advice of counsel) to constitute a reasonable arrangement to ensure that the Residual Certificates will not be owned directly or indirectly by a disqualified organization, (iv) no purpose of the acquisition of the Residual Certificate is to avoid or impede the assessment or collection of tax, (v) it understands that it may incur tax liabilities in excess of any cash flows generated by the Residual Certificate, (vi) it intends to pay taxes associated with holding the Residual Certificate as they become due, and (vii) it will not transfer such Residual Certificate unless (a) it has received from the transferee an affidavit containing these same seven representations and (b) as of the time of the transfer, it does not have actual knowledge that such affidavit is false. See “Certain Federal Income Tax Consequences—Sales of Certificates—Residual Certificates Transferred to or Held by Disqualified Organizations” below. Such transferee also must deliver a properly executed Internal Revenue Service (“IRS”) Form W-9 on which such transferee provides its taxpayer identification number. In addition, a pass-through entity (including a nominee) that holds a Residual Certificate may be subject to additional taxes if a disqualified organization is a record holder therein.

In addition, no transfer of record or beneficial ownership in a Residual Certificate (whether pursuant to a purchase, a default under a secured lending agreement or otherwise) will be allowed to any person that is not a “U.S. Person” without the written consent of Fannie Mae. The term “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 one or more United States persons have the authority to control all substantial decisions of the trust.

Under regulations issued by the Treasury Department (the “Regulations”), a transfer of a “noneconomic residual interest” to a U.S. Person will be disregarded for all federal tax purposes unless no significant purpose of the transfer is to impede the assessment or collection of tax. A Residual Certificate would be treated as constituting a noneconomic residual interest unless, at the time of the transfer, (i) the present value of the expected future distributions on the Residual Certificate is no less than the product of the present value of the “anticipated excess inclusions” with respect to such Certificate and the highest corporate rate of tax for the year in which the transfer occurs, and (ii) the transferor reasonably expects that the transferee will receive distributions from the applicable REMIC Trust in an amount sufficient to satisfy the liability for income tax on any “excess inclusions” at or after the time when such liability accrues. Anticipated excess inclusions are the excess inclusions that are anticipated to be allocated to each calendar quarter (or portion thereof) following the transfer of a Residual Certificate, determined as of the date such Certificate is transferred and based on events that have occurred as of that date and on the Prepayment Assumption. See “Certain Federal Income Tax Consequences—Taxation of Beneficial Owners of Regular Certificates—*Original Issue Discount*” and “—Taxation of Beneficial Owners of Residual Certificates—*Excess Inclusions*.”

The Regulations provide that a significant purpose to impede the assessment or collection of tax exists if, at the time of the transfer, a transferor of a Residual Certificate has “improper knowledge” (*i.e.*, either knew, or should have known, that the transferee would be unwilling or unable to pay taxes due on its share of the taxable income of the REMIC Trust). A transferor is presumed not to have improper knowledge if (i) the transferor conducts, at the time of a transfer, a reasonable investigation of the financial condition of the transferee and, as a result of the investigation, the transferor finds that the transferee has historically paid its debts as they come due and finds no significant evidence to indicate that the transferee will not continue to pay its debts as they come due in the future; and (ii) the transferee makes certain representations to the transferor in the affidavit relating to disqualified organizations discussed above. Transferors of a Residual Certificate should consult with their own tax advisors for further information regarding such transfers.

Fannie Mae will provide to Holders of Residual Certificates of each Series of Certificates (i) such information as is necessary to enable them to prepare their federal income tax returns and (ii) any reports regarding the Certificates of such Series that may be required under the Code.

## 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 Underlying Securities to a Series Trust

The Underlying Securities transferred to a Series Trust will be identified in a Mortgage Security Schedule appearing as an exhibit to the Trust Agreement for such Series Trust. The Underlying Securities will be held directly or indirectly for the Holders of Certificates by Fannie Mae in its capacity as Trustee of such Series 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 the Series Trust or to Certificateholders 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 Certificateholders. In such event, the legal expenses and costs of such action will be expenses and costs of Fannie Mae.

Any corporation 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 succeeding to the business of Fannie Mae, will be the successor of Fannie Mae under the terms of the Trust Agreement.

### **Voting Under Any Underlying Trust Indenture**

As set forth in the related Underlying Prospectus with respect to any Underlying Securities that are guaranteed by Fannie Mae, the Holders of such Underlying Securities evidencing in the aggregate certain minimum percentage interests in the related trust assets may terminate certain obligations and duties of Fannie Mae with respect thereto if an Event of Default under the related trust agreement (an "Underlying Trust Indenture") has occurred and is continuing. The Trust Agreement provides that Holders of Certificates may, upon the occurrence of an Event of Default with respect to such an Underlying Security in the related Series Trust, take, or join in, any such action to the extent of the product of the percentage interest represented by such Underlying Security and the percentage obtained by dividing the aggregate of the principal balances and, if applicable, notional principal balances of all Certificates of the related Series the Holders of which have taken or joined in such action by the aggregate balances of all Certificates of such Series.

As set forth in the related Underlying Prospectus with respect to any Underlying Securities that are guaranteed by Fannie Mae, the Holders of such Underlying Securities evidencing in the aggregate certain minimum percentage interests in the related trust assets may consent to certain amendments to the related Underlying Trust Indenture or waivers thereunder. The Trust Agreement provides that the Trustee may not vote any such Underlying Securities held in a Series Trust in favor of such an amendment or modification except upon the direction of the Holders of Certificates of the related Series having principal balances and, if applicable, notional principal balances aggregating not less than 66 percent of the aggregate balances of all Certificates of such Series.

### **Events of Default**

Events of Default under the Trust Agreement will consist of (i) any failure by Fannie Mae to distribute to Holders of Certificates of any Class any required distribution that continues unremedied for 15 days after the giving of written notice of such failure to Fannie Mae by the Holders of Certificates representing principal balances or, if applicable, notional principal balances aggregating not less than five percent of the aggregate balances of all Certificates of such Class; (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 of such failure to Fannie Mae by the Holders of Certificates of any Class representing



principal balances or, if applicable, notional principal balances aggregating not less than 25 percent of the aggregate balances of all of the Certificates of such Class; 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 Series Trust remains unremedied, the Holders of Certificates of any Class representing principal balances or, if applicable, notional principal balances aggregating not less than 25 percent of the aggregate balances of all Certificates of such Class 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 Series Trust (other than its guaranty obligations described above, which continue notwithstanding any such termination) and name and appoint, in writing, a successor to 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 Underlying Securities and other assets held in the Series Trust.

### **Amendment**

The Trust Agreement as it relates to any Series Trust may be amended by Fannie Mae and the Trustee without the consent of or notice to any of the Certificateholders, for one or more of the following purposes: (i) to add to the covenants of Fannie Mae; (ii) to evidence the succession of another party or parties to Fannie Mae and the assumption by such successor or successors of the obligations of Fannie Mae thereunder in its corporate capacity or in its capacity as Trustee or in both such capacities; (iii) to eliminate any right reserved to or conferred upon Fannie Mae in its corporate capacity; (iv) to make provisions for the purpose of curing any ambiguity or correcting or supplementing any provision in the Trust Agreement, provided that any such supplemental provision does not adversely affect the interest of any Certificateholder; or (v) to modify the Trust Agreement to maintain the qualification of each REMIC Trust as a REMIC.

The Trust Agreement as it relates to a Series Trust also may be amended by Fannie Mae with the consent of the Holders of Certificates of each Class representing principal balances or, if applicable, notional principal balances aggregating not less than 66 percent of the aggregate balances of all Certificates of such Class so as to waive compliance by Fannie Mae with any terms of the Trust Agreement, or to allow Fannie Mae to eliminate, change, add to or modify the terms of the Trust Agreement. However, no such waiver or amendment may, without the consent of all Certificateholders, terminate or modify the guaranty obligations of Fannie Mae or reduce the percentages of the Certificates the Holders of which are required to consent to any waiver or amendments. In addition, no waiver or amendment shall, without the consent of each Certificateholder affected thereby, reduce in any manner the amount of, or delay the timing of, payments received on Underlying Securities or other assets in the Series Trust that are required to be distributed on any Certificate, or, without the consent of all Holders of any residual interest in a REMIC Trust, adversely affect the rights of the Holders of such residual interest.

### **Termination**

Each Series Trust will terminate upon the distribution to Certificateholders of all required distributions of the principal of and interest on the Certificates. In addition, the Prospectus Supplement will describe the terms and conditions of the right, if any, of Fannie Mae or any other party to terminate the Series Trust by purchasing the Underlying Securities included therein. Except as otherwise provided in the Prospectus Supplement with respect to a particular Series, Fannie Mae has agreed not to effect indirectly an early termination of any Series Trust through the exercise of its right, as described in "Description of Certificates—Termination" in the MBS Prospectus, to repurchase the Mortgage Loans underlying any MBS in the Series Trust unless only one Mortgage Loan

remains in the Pool or the principal balance of such Pool at the time of repurchase is less than one percent of the original principal balance of such Pool.

## **GINNIE MAE AND THE GINNIE MAE PROGRAMS**

### **Ginnie Mae**

Ginnie Mae 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 Ginnie Mae to guarantee the timely payment of the principal of, and interest on, certificates that are based on and backed by a pool of mortgage loans insured by the FHA, the VA or 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, Ginnie Mae is authorized, under Section 306(d) of the Housing Act, to borrow from the United States Treasury with no limitations as to amount.

### **Ginnie Mae Programs**

Each Ginnie Mae Certificate underlying a Series of Certificates will be a “fully modified pass-through” mortgage-backed security issued and serviced by a mortgage banking company or other financial concern approved by Ginnie Mae as a seller-servicer of loans insured or guaranteed by the FHA, the VA or the FmHA. Ginnie Mae Certificates are issued under the Ginnie Mae I program (“Ginnie Mae I Certificates”) and the Ginnie Mae II program (“Ginnie Mae II Certificates”). Holders of Ginnie Mae I Certificates and Ginnie Mae II Certificates have essentially similar rights, although there are certain differences between the two programs.

Under the Ginnie Mae I program, monthly payments will be made to the registered holder of the Ginnie Mae I Certificate by the 15th of each month. Under the Ginnie Mae I program an individual Ginnie Mae issuer assembles a pool of mortgage loans against which it issues and markets Ginnie Mae I Certificates. All mortgage loans underlying a particular Ginnie Mae 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 Ginnie Mae 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 Ginnie Mae I Certificate.

Under the Ginnie Mae II program, monthly payments will be made to the registered holder of the Ginnie Mae II Certificate through a paying agent (currently The Chase Manhattan Bank) by the 20th of each month. Under the Ginnie Mae II program, mortgage pools may be formed through the aggregation of loan packages of more than one Ginnie Mae issuer. Under this option, packages submitted by various Ginnie Mae issuers for a particular issue date and pass-through rate are aggregated into a single pool which backs a single issue of Ginnie Mae II Certificates. Each Ginnie Mae II Certificate issued under a multiple issuer pool is backed by a proportionate interest in the entire pool rather than solely by the loan package contributed by any one Ginnie Mae issuer. Single issuer pools also may be formed under the Ginnie Mae II program.

Except as otherwise provided in the related Prospectus Supplement, each Ginnie Mae II Certificate pool consists entirely of fixed rate mortgages or entirely of adjustable rate mortgages. Fixed rate mortgages underlying a particular Ginnie Mae 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 Ginnie Mae 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 Ginnie Mae II Certificate.

Except as otherwise provided in the related Prospectus Supplement, adjustable rate mortgage loans underlying any particular Ginnie Mae II Certificate will have interest rates that adjust annually based on the Treasury one year constant maturity weekly average index. Ginnie Mae 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 Ginnie Mae 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 Ginnie Mae II Certificate. The mortgage loans and Ginnie Mae II Certificates will be subject to an annual adjustment cap of 1% and 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.

## **CERTAIN FEDERAL INCOME TAX CONSEQUENCES**

### **General**

The following is a general discussion of the material anticipated federal income tax consequences to beneficial owners of the purchase, ownership and disposition of the Certificates offered hereby. The discussion is based upon laws, regulations, rulings and decisions now in effect, all of which are subject to change. The discussion below does not purport to deal with all federal tax consequences applicable to all categories of investors, some of which may be subject to special rules. Investors should consult their own tax advisors in determining the federal, state, local and any other tax consequences to them of the purchase, ownership and disposition of the Certificates.

### **REMIC Election**

An election will be made to treat each REMIC Trust as a REMIC under the Code. Qualification as a REMIC requires ongoing compliance with certain conditions. With respect to each Series of Certificates, Arnold & Porter, special tax counsel to Fannie Mae, will deliver its opinion to Fannie Mae that (unless otherwise limited in the applicable Prospectus Supplement), assuming compliance with the Trust Agreement, each REMIC Trust will be treated as a REMIC for federal income tax purposes. The Certificates of each Class will be designated as “regular interests” in a REMIC Trust, except that a separate Class will be designated as the “residual interest” in each REMIC Trust. The Prospectus Supplement for each Series of Certificates will state whether Certificates of each Class will constitute a regular interest (a “Regular Certificate”) or a residual interest (a “Residual Certificate”).

### **Taxation of Beneficial Owners of Regular Certificates**

The Regular Certificates will be treated for federal income tax purposes as debt instruments issued by a REMIC on the date such Certificates are first sold to the public (the “Settlement Date”) and not as ownership interests in a REMIC or its assets. Beneficial owners of Regular Certificates (“Regular Owners”) that otherwise report income under a cash method of accounting will be required to report interest and other income with respect to such Certificates under an accrual method.

#### *Original Issue Discount*

Certain Regular Certificates may be issued with “original issue discount” within the meaning of section 1273(a) of the Code. A Regular Owner must include in gross income the sum of the “daily portions” of original issue discount on its Regular Certificate for each day during its taxable year on which it held such Certificate, generally in advance of receipt of the cash attributable to such income. Fannie Mae will supply, at the time and in the manner required by the IRS, to Holders of Regular

Certificates, brokers and middlemen information with respect to the original issue discount accruing on the Regular Certificates.

In general, a Regular Certificate will be considered to be issued with original issue discount equal to the excess, if any, of its “stated redemption price at maturity” over its “issue price.” The issue price of a Regular Certificate is the initial offering price to the public (excluding bond houses and brokers) at which a substantial amount of the Regular Certificates was sold. The issue price also includes any accrued interest attributable to the period between the beginning of the first Interest Accrual Period and the Settlement Date. The stated redemption price at maturity of a Regular Certificate generally is its stated principal amount, plus an amount equal to the excess (if any) of the interest payable on the first Distribution Date over the interest that accrues for the period from the Settlement Date to the first Distribution Date. The stated redemption price at maturity of a Regular Certificate that is a Notional Certificate or an Accrual Certificate, however, is equal to the sum of all distributions to be made under such Regular Certificate.

Notwithstanding the general definition, original issue discount will be treated as zero in the case of a Regular Certificate if such discount is less than 0.25 percent of the stated redemption price at maturity of such Certificate multiplied by its weighted average life. The weighted average life of a Regular Certificate is apparently computed for this purpose as the sum, for all distributions included in the stated redemption price at maturity of the Certificate, of the amounts determined by multiplying (i) the number of complete years (rounding down for partial years) from the Settlement Date until the date on which each such distribution is expected to be made under the assumption that the Mortgage Loans backing the related Underlying Securities prepay at the rate specified in the applicable Prospectus Supplement (the “Prepayment Assumption”) by (ii) a fraction, the numerator of which is the amount of such distribution and the denominator of which is the Regular Certificate’s stated redemption price at maturity. If original issue discount is treated as zero under this rule, the actual amount of original issue discount must be allocated to the principal distributions on the Regular Certificate and, when each such distribution is received, gain equal to the discount allocated to such distribution will be recognized.

For Regular Certificates considered to be issued with original issue discount, the daily portions of original issue discount will be determined as follows. A calculation will first be made of the portion of the original issue discount that accrued during each “accrual period.” Final regulations issued by the Treasury Department relating to the tax treatment of debt instruments with original issue discount (the “OID Regulations”) provide that for purposes of measuring the accrual of original issue discount on a debt instrument, each Regular Owner may use an accrual period of any length, up to one year, as long as each Distribution Date falls on either the final day or the first day of an accrual period. Unless otherwise disclosed in the applicable Prospectus Supplement, Fannie Mae will report original issue discount based on accrual periods of one month, beginning on a Distribution Date and ending on the day before the next Distribution Date.

The portion of original issue discount treated as accruing for any accrual period will equal the excess, if any, of (i) the sum of (A) the present values of all the distributions remaining to be made on the Regular Certificate, if any, as of the end of the accrual period and (B) the distribution made on such Certificate during the accrual period of amounts included in the stated redemption price at maturity, over (ii) the adjusted issue price of such Certificate at the beginning of the accrual period. The present value of the remaining distributions referred to in the preceding sentence will be calculated based on (i) the yield to maturity of the Regular Certificate, calculated as of the Settlement Date, giving effect to the Prepayment Assumption, (ii) events (including actual prepayments) that have occurred prior to the end of the accrual period, (iii) the Prepayment Assumption, and (iv) in the case of a Regular Certificate calling for a variable rate of interest, an assumption that the value of the index upon which such variable rate is based remains the same as its value on the Settlement Date over the entire life of such Certificate. The adjusted issue price of a Regular Certificate at any time will equal the issue price of such Certificate, increased by the aggregate amount of previously accrued original issue discount with respect to such Certificate, and reduced by the amount of any distributions

made on such Certificate as of that time of amounts included in the stated redemption price at maturity. The original issue discount accruing during any accrual period will then be allocated ratably to each day during the period to determine the daily portion of original issue discount.

The Code requires that the prepayment assumption used to calculate original issue discount be determined in the manner prescribed in Treasury regulations. To date, no such regulations have been promulgated. The legislative history of this Code provision indicates that the regulations will provide that the assumed prepayment rate must be the rate used by the parties in pricing the particular transaction. Fannie Mae anticipates that the Prepayment Assumption for each Series of Regular Certificates will be consistent with this standard. Fannie Mae makes no representation, however, that the Mortgage Loans backing the Underlying Securities for a given Series will prepay at the rate reflected in the Prepayment Assumption for that Series or at any other rate. Each investor must make its own decision as to the appropriate prepayment assumption to be used in deciding whether or not to purchase any of the Certificates.

A subsequent purchaser of a Regular Certificate that purchases such Certificate at a cost of less than its remaining stated redemption price at maturity also will be required to include in gross income for each day on which it holds such Certificate, the daily portion of original issue discount with respect to such Certificate (but reduced, if the cost of such Certificate to such purchaser exceeds its adjusted issue price, by an amount equal to the product of (i) such daily portion and (ii) a constant fraction, the numerator of which is such excess and the denominator of which is the sum of the daily portions of original issue discount on such Certificate for all days on or after the day of purchase).

#### *Floating Rate and Inverse Floating Rate Classes*

The OID Regulations define and provide special rules applicable to variable rate debt instruments (“VRDIs”). Most Floating Rate and Inverse Floating Rate Classes will be VRDIs under the OID Regulations. To be a VRDI, a Regular Certificate generally must satisfy three requirements. First, the issue price (including accrued interest) must not exceed the total noncontingent principal payments by more than (i) 1.5 percent of the product of the total noncontingent principal payments and the weighted average life, or (ii) 15 percent of the total noncontingent principal payments, whichever is smaller. Second, the Regular Certificate must bear interest at a “qualified floating rate” or an “objective rate,” or certain combinations of such rates and possibly a fixed rate. Third, under the terms of the Regular Certificate, the qualified floating rate or objective rate must be based on a current value of the applicable interest index. An interest index (such as LIBOR, COFI, Treasury or the Prime Rate) or an interest index plus or minus a fixed rate generally is a qualified floating rate. A floating or inverse floating rate equal to a positive or negative multiple of an interest index plus or minus a fixed rate is an objective rate and may be a qualified floating rate.

Under the OID Regulations, a debt instrument that provides for a variable rate of interest but that does not meet all three requirements is a contingent payment debt instrument. The regulations governing contingent payment debt instruments, however, do not apply to Regular Certificates. Therefore, in the absence of further guidance and unless otherwise stated in the applicable Prospectus Supplement, Fannie Mae will compute accruals of interest and original issue discount on all Floating Rate and Inverse Floating Rate Classes by applying the principles of the OID Regulations applicable to VRDIs.

#### *Certificates Purchased at a Premium*

A purchaser of a Regular Certificate that purchases such Certificate at a cost (net of accrued interest) greater than its remaining stated redemption price at maturity will be considered to have purchased such Certificate (a “Premium Certificate”) at a premium. Such a purchaser need not include in income any remaining original issue discount and may elect, under section 171(c)(2) of the Code, to treat such premium as “amortizable bond premium.” If a Regular Owner makes such an election, the amount of any interest payment that must be included in such Regular Owner’s income



for each period ending on a Distribution Date will be reduced by the portion of the premium allocable to such period based on the Premium Certificate's yield to maturity. In addition, the legislative history of the Tax Reform Act of 1986 states that such premium amortization should be made under principles analogous to those governing the accrual of market discount (as discussed below under "*Market Discount*"). If such election is made by the Regular Owner, the election will also apply to all bonds (as well as all REMIC regular interests) the interest on which is not excludible from gross income ("fully taxable bonds") held by the Regular Owner at the beginning of the first taxable year to which the election applies and to all such fully taxable bonds thereafter acquired by it, and is irrevocable without the consent of the IRS. If such an election is not made, (i) such a Regular Owner must include the full amount of each interest payment in income as it accrues, and (ii) the premium must be allocated to the principal distributions on the Premium Certificate 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 Premium Certificate.

Some Regular Certificates may provide for only nominal distributions of principal in comparison to the distributions of interest thereon. It is possible that the IRS or the Treasury Department may issue guidance excluding such Certificates from the rules generally applicable to debt instruments issued at a premium. In particular, it is possible that such a REMIC interest will be treated as having original issue discount equal to the excess of the total payments to be received thereon over its issue price. Unless and until the Treasury Department or the IRS publishes specific guidance relating to the tax treatment of such Certificates, Fannie Mae intends to furnish tax information to Holders of such Certificates in accordance with the rules described in the preceding paragraph.

#### *Market Discount*

A Regular Owner that purchases a Regular Certificate at a price that is less than the remaining stated redemption price at maturity of such Certificate (or in the case of a Regular Certificate issued with original issue discount, less than the adjusted issue price of such Certificate) has market discount with respect to such Certificate in the amount of such difference. An owner that purchases a Regular Certificate at a market discount is required to treat any principal payments on such certificate as ordinary income to the extent of the market discount that accrued while such owner held such certificate, unless the owner elects to include such market discount in income on a current basis. An owner may also be required to treat gain on the disposition or retirement of such a Certificate as ordinary income under the circumstances discussed below under "Sales and Other Dispositions of Certificates—*In General*."

The legislative history to the Tax Reform Act of 1986 states that market discount on a regular certificate may be treated as accruing in proportion to remaining accruals of original issue discount, if any, or if none, in proportion to remaining distributions of interest on the regular certificate. An owner may instead elect to determine the accrual of market discount under a constant yield method. Fannie Mae will make available to Holders of Regular Certificates information necessary to compute the accrual of market discount, in the manner and form as required by the IRS.

A regular owner that incurs or continues indebtedness to acquire a Regular Certificate at a market discount may be required to defer the deduction of all or a portion of the interest on such indebtedness until the corresponding amount of market discount is included in income.

Notwithstanding the above rules, market discount on a Regular Certificate will be considered to be zero if such discount is less than 0.25 percent of the remaining stated redemption price at maturity of such Certificate multiplied by its weighted average remaining life. Weighted average remaining life presumably would be calculated in a manner similar to weighted average life, taking into account payments (including prepayments) prior to the date of acquisition of the Regular Certificate by the subsequent purchaser. If market discount on a Regular Certificate is treated as zero under this rule, the actual amount of market discount must be allocated to the remaining principal distributions on

the Regular Certificate and, when each such distribution is received, gain equal to the discount allocated to such distribution will be recognized.

### *Special Election*

For any Regular Certificate acquired on or after April 4, 1994, the OID Regulations permit a Regular Owner to elect to include in gross income all “interest” that accrues on the Regular Certificate by using a constant yield method. For purposes of the election, the term “interest” includes stated interest, acquisition discount, original issue discount, de minimis original issue discount, market discount, de minimis market discount and unstated interest, as adjusted by any amortizable bond premium or acquisition premium. A Regular Owner should consult its own tax advisor regarding the time and manner of making and the scope of the election and the implementation of the constant yield method.

## **Taxation of Beneficial Owners of Residual Certificates**

### *Daily Portions*

Except as indicated below, a beneficial owner of a Residual Certificate (“Residual Owner”) for a given REMIC Trust generally will be required to report its daily portion of the taxable income or net loss of the REMIC Trust for each day during a calendar quarter that the Residual Owner owned such Residual Certificate. For this purpose, the daily portion shall be determined by allocating to each day in the calendar quarter its ratable portion of the taxable income or net loss of the REMIC Trust for such quarter and by allocating the amount so allocated among the Residual Owners (on such day) in accordance with their percentage interests on such day. Any amount included in the gross income or allowed as a loss of any Residual Owner by virtue of this paragraph will be treated as ordinary income or loss.

The requirement that each Residual Owner report its daily portion of the taxable income or net loss of the REMIC Trust will continue until there are no Certificates of any Class outstanding, even though the Residual Owner may have received full payment of the stated interest and principal on its Residual Certificate.

### *Taxable Income or Net Loss of a REMIC Trust*

The taxable income or net loss of a REMIC Trust will be the income from the “qualified mortgages” it holds and any reinvestment earnings less deductions allowed to the REMIC Trust. Such taxable income or net loss for a given calendar quarter will be determined in the same manner as for an individual having the calendar year as the taxable year and using the accrual method of accounting, with certain modifications. The first modification is that a deduction will be allowed for accruals of interest (including any original issue discount, but without regard to the investment interest limitation in section 163(d) of the Code) on the Regular Certificates (but not the Residual Certificates), even though Regular Certificates are for non-tax purposes certificates of beneficial ownership rather than indebtedness of a REMIC Trust. Second, market discount equal to the difference between the total Stated Principal Balances of the qualified mortgages and the basis to the REMIC Trust therein generally will be included in income by the REMIC Trust as it accrues under a constant yield method, taking into account the Prepayment Assumption. If a REMIC Trust is treated as having acquired the qualified mortgages at a premium, such premium also will be amortized using a constant yield method. The basis to a REMIC Trust in qualified mortgages is the aggregate of the issue prices of all the Regular and Residual Certificates in the REMIC Trust on the Settlement Date. If, however, a substantial amount of a Class of Regular or Residual Certificates has not been sold to the public, then the fair market value of all the Regular or Residual Certificates in that Class as of the date of the Prospectus Supplement should be substituted for the issue price. Third, no item of income, gain, loss or deduction allocable to a prohibited transaction (see “Taxes on a REMIC Trust—*Prohibited Transactions*” below) will be taken into account. Fourth, a REMIC Trust generally may

not deduct any item that would not be allowed in calculating the taxable income of a partnership by virtue of section 703(a)(2) of the Code. Finally, the limitation on miscellaneous itemized deductions imposed on individuals by section 67 of the Code will not be applied at the REMIC Trust level to any administrative fees, such as servicing and guaranty fees. (See, however, “*Pass-Through of Servicing and Guaranty Fees to Individuals*” below.) In addition, under the Regulations, any expenses that are incurred in connection with the formation of a REMIC Trust and the issuance of the Regular and Residual Certificates are not treated as expenses of the REMIC Trust for which a deduction is allowed. If the deductions allowed to a REMIC Trust exceed its gross income for a calendar quarter, such excess will be a net loss for the REMIC Trust for that calendar quarter. The Regulations also provide that any gain or loss to a REMIC Trust from the disposition of any asset, including a qualified mortgage or “permitted investment” (as defined in section 860G(a)(5) of the Code) will be treated as ordinary gain or loss.

For purposes of determining the taxable income or net loss of a REMIC Trust, original issue discount will be calculated by taking into account the following. First, if all the regular interests of a REMIC Trust are issued to another REMIC Trust, such regular interests will be treated as a single debt instrument because they were issued to a single holder in a single transaction. Second, if the qualified mortgages of a REMIC Trust include Regular Certificates, an election will be made to have such REMIC Trust include in gross income all interest that accrues on such Regular Certificates by using a constant yield method. See “Taxation of Beneficial Owners of Regular Certificates—*Special Election*” above. Third, if the qualified mortgages of a REMIC Trust include a Regular Certificate (an “Underlying Certificate”), the accruals of original issue discount on such Underlying Certificate will be determined using the same Prepayment Assumption used to calculate the accruals of original issue discount on the related regular interests in such REMIC Trust as specified in the applicable Prospectus Supplement. The IRS, however, could take the position that the proper Prepayment Assumption to be used is the Prepayment Assumption originally established for such Underlying Certificate.

A Residual Owner may be required to recognize taxable income without being entitled to receive a corresponding amount of cash. This could occur, for example, if the qualified mortgages are considered to be purchased by the REMIC Trust at a discount, some or all of the Regular Certificates are issued at a discount, and the discount included as a result of a prepayment on a Mortgage Loan that is used to pay principal on the Regular Certificates exceeds the REMIC Trust’s deduction for unaccrued original issue discount relating to such Regular Certificates. Taxable income may also be greater in earlier years because interest expense deductions, expressed as a percentage of the outstanding principal amount of the Regular Certificates, may increase over time as the earlier Classes of Regular Certificates are paid, whereas interest income with respect to any given Mortgage Loan backing an Underlying Security, expressed as a percentage of the outstanding principal amount of that Mortgage Loan, will remain constant over time.

#### *Basis Rules and Distributions*

A Residual Owner has an initial basis in its Residual Certificate equal to the amount paid for such Residual Certificate. Such basis is increased by amounts included in the income of the Residual Owner and decreased by distributions and by any net loss taken into account with respect to such Residual Certificate. A distribution on a Residual Certificate to a Residual Owner is not included in gross income to the extent it does not exceed such Residual Owner’s basis in the Residual Certificate (adjusted as described above) and, to the extent it exceeds the adjusted basis of the Residual Certificate, shall be treated as gain from the sale of the Residual Certificate.

A Residual Owner is not allowed to take into account any net loss for any calendar quarter to the extent such net loss exceeds such Residual Owner’s adjusted basis in its Residual Certificate as of the close of such calendar quarter (determined without regard to such net loss). Any loss disallowed by reason of this limitation may be carried forward indefinitely to future calendar quarters and, subject to the same limitation, may be used only to offset income from the Residual Certificate.

### *Excess Inclusions*

Any excess inclusions with respect to a Residual Certificate are subject to certain special tax rules. With respect to a Residual Owner, the excess inclusion for any calendar quarter is defined as the excess (if any) of the daily portions of taxable income over the sum of the “daily accruals” for each day during such quarter that such Residual Certificate was held by such Residual Owner. The daily accruals are determined by allocating to each day during a calendar quarter its ratable portion of the product of the “adjusted issue price” of the Residual Certificate at the beginning of the calendar quarter and 120 percent of the “Federal long-term rate” in effect on the Settlement Date, based on quarterly compounding, and properly adjusted for the length of such quarter. For this purpose, the adjusted issue price of a Residual Certificate as of the beginning of any calendar quarter is equal to the issue price of the Residual Certificate, increased by the amount of daily accruals for all prior quarters and decreased by any distributions made with respect to such Residual Certificate before the beginning of such quarter. The issue price of a Residual Certificate is the initial offering price to the public (excluding bond houses and brokers) at which a substantial amount of the Residual Certificates was sold. The Federal long-term rate is a blend of current yields on Treasury securities having a maturity of more than nine years, computed and published monthly by the IRS. With respect to each Series of Certificates, if the Federal long-term rate based on quarterly compounding that will be in effect on the Settlement Date is available as of the date of the related Prospectus Supplement, 120 percent of such rate will be set forth therein.

The Treasury Department has the authority to issue regulations that would treat all taxable income of a REMIC Trust as excess inclusions if the Residual Certificate does not have “significant value.” Although the Treasury Department has not exercised this authority in the Regulations, future regulations may contain such a rule.

Any excess inclusions cannot be offset by losses from other activities. For Residual Owners that are subject to tax only on unrelated business taxable income (as defined in section 511 of the Code), an excess inclusion of such Residual Owner is treated as unrelated business taxable income. With respect to variable contracts (within the meaning of section 817 of the Code), a life insurance company cannot adjust its reserve to the extent of any excess inclusion, except as provided in regulations. If a Residual Owner is a member of an affiliated group filing a consolidated income tax return, the taxable income of the affiliated group cannot be less than the sum of the excess inclusions attributable to all residual interests in REMICs held by members of the affiliated group. For purposes of the alternative minimum tax, taxable income does not include excess inclusions, the alternative minimum taxable income cannot be less than excess inclusions, and excess inclusions are disregarded in computing the alternative tax net operating loss deduction. For a discussion of the effect of excess inclusions on certain foreign investors that own Residual Certificates, see “Foreign Investors—*Residual Certificates*” below.

In the case of any Residual Certificates that are held by a real estate investment trust, under regulations yet to be prescribed, the aggregate excess inclusions with respect to such Residual Certificates reduced (but not below zero) by the real estate investment trust taxable income (within the meaning of section 857(b)(2) of the Code, excluding any net capital gain) would be allocated among the shareholders of such trust in proportion to the dividends received by such shareholders from such trust, and any amount so allocated would be treated as an excess inclusion with respect to a Residual Certificate as if held directly by such shareholder. Similar rules would apply in the case of regulated investment companies, common trust funds and certain cooperatives that hold a Residual Certificate.

### *Pass-Through of Servicing and Guaranty Fees to Individuals*

A Residual Owner who is an individual will be required to include in income a share of the administrative fees of a REMIC Trust, including the servicing and guaranty fees imposed at the level of the Underlying Securities. See, for example, “Description of Certificates—Servicing Through



Lenders” and “Certain Federal Income Tax Consequences” in the MBS Prospectus. A deduction for such fees generally will be allowed to such Owner only to the extent that such fees, along with certain of such Owner’s other miscellaneous itemized deductions exceed 2 percent of such Owner’s adjusted gross income. In addition, a Residual Owner may not be able to deduct any portion of such fees in computing such Residual Owner’s alternative minimum tax liability. A Residual Owner’s share of such fees generally will be determined by (i) allocating the amount of such expenses for each calendar quarter on a pro rata basis to each day in the calendar quarter, and (ii) allocating the daily amount among the Owners in proportion to their respective holdings on such day. Similar rules apply in the case of (i) estates and trusts, and (ii) individuals owning an interest in a Residual Certificate through an investment in a “pass-through entity.” Pass-through entities include partnerships, S corporations, grantor trusts and non-publicly offered regulated investment companies, but do not include estates, trusts other than grantor trusts, cooperatives, real estate investment trusts and publicly offered regulated investment companies.

#### *Amounts Paid to a Transferee of a Residual Certificate*

The federal income tax consequences of any consideration paid to a transferee on the transfer of a Residual Certificate are unclear. A transferee receiving such consideration should consult its own tax advisor.

#### **Special Tax Attributes**

Regular and Residual Certificates will be “regular or residual interests in a REMIC” within the meaning of section 7701(a)(19)(C)(xi) of the Code and “real estate assets” within the meaning of section 856(c)(5)(B) of the Code. If at any time during a calendar year less than 95 percent of the assets of a REMIC Trust consist of qualified mortgages, then the portion of the Regular and Residual Certificates that are qualifying assets under those sections during such calendar year may be limited to the portion of the assets of such REMIC Trust that are qualified mortgages. Similarly, income on the Regular and Residual Certificates 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, subject to the same limitation as set forth in the preceding sentence. For purposes of applying this limitation, a REMIC Trust should be treated as owning the assets represented by the qualified mortgages. The assets of the Series Trust will include, in addition to Underlying Securities representing Mortgage Loans, payments on Underlying Securities held pending distribution on the Regular and Residual Certificates and any reinvestment income thereon. Regular and Residual Certificates held by a financial institution (as referred to in section 582(c)(2) of the Code) will be treated as evidences of indebtedness for purposes of section 582(c)(1) of the Code. Regular Certificates will also be “qualified mortgages” within the meaning of section 860G(a)(3) of the Code with respect to other REMICs and “permitted assets” within the meaning of section 860L(c)(1) of the Code with respect to financial asset securitization investment trusts.

#### **Taxes on a REMIC Trust**

A REMIC Trust will not be subject to federal income tax except with respect to income from prohibited transactions and in certain other instances described below.

#### *Prohibited Transactions*

The Code imposes a tax on a REMIC equal to 100 percent of the net income derived from “prohibited transactions.” In general, a prohibited transaction means the disposition of a qualified mortgage other than pursuant to certain specified exceptions, the receipt of investment income from a source other than a Mortgage Loan or certain other permitted investments, the receipt of compensation for services, or the disposition of an asset purchased with the payments on the qualified mortgages for temporary investment pending distribution on the regular and residual interests.



### *Contributions to a REMIC after the Startup Day*

The Code imposes a tax on a REMIC equal to 100 percent of the value of any property contributed to the REMIC after the “startup day” (generally the same as the Settlement Date). Exceptions are provided for cash contributions to a REMIC (i) during the three month period beginning on the startup day, (ii) to a qualified reserve fund by a Holder of a residual interest, (iii) in the nature of a guarantee, (iv) to facilitate a qualified liquidation or clean-up call, and (v) as otherwise permitted by Treasury regulations.

### *Net Income from Foreclosure Property*

The Code imposes a tax on a REMIC equal to the highest corporate rate on “net income from foreclosure property.” The terms “foreclosure property” (which includes property acquired by deed in lieu of foreclosure) and “net income from foreclosure property” are defined by reference to the rules applicable to real estate investment trusts. Generally, foreclosure property would be treated as such until the close of the third taxable year following the taxable year in which the acquisition occurs, with possible extensions. Net income from foreclosure property generally means gain from the sale of foreclosure property that is inventory property and gross income from foreclosure property other than qualifying rents and other qualifying income for a real estate investment trust, net of deductions directly connected with the production of such income.

### *Application to a REMIC Trust*

It is not anticipated that a REMIC Trust will engage in any transactions that will give rise to a tax on the REMIC Trust. In any event, pursuant to its guaranty obligations, Fannie Mae will make distributions on the Regular Certificates and Residual Certificates without offset or deduction for any tax imposed on the REMIC Trust.

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

### *In General*

Upon the sale, exchange, retirement or other disposition of a Regular Certificate or upon the sale, exchange or other disposition of a Residual Certificate, an owner generally will recognize gain or loss equal to the difference between the amount realized upon the disposition and the owner’s adjusted basis in the Certificate. In addition, the Code requires the recognition of gain upon the “constructive sale of an appreciated financial position.” In general, a constructive sale of an appreciated financial position occurs if a taxpayer enters into certain transactions or series of such transactions with respect to a financial instrument that have the effect of substantially eliminating the taxpayer’s risk of loss and opportunity for gain with respect to the financial instrument. These provisions do not apply to Certificates other than Notional Certificates.

The adjusted basis of a Regular Certificate generally will equal the cost of such Certificate to the owner, increased by any original issue discount or market discount included in the owner’s gross income with respect to such Certificate and reduced by distributions on such Certificate previously received by the owner of amounts included in the stated redemption price at maturity and by any premium that has reduced the owner’s interest income with respect to such Certificate. The adjusted basis of a Residual Certificate is determined as described above under “Taxation of Beneficial Owners of Residual Certificates—*Basis Rules and Distributions*.” Except as provided in the following paragraph or under section 582(c) of the Code, any such gain or loss will be capital gain or loss, provided such Certificate is held as a “capital asset” (generally, property held for investment) within the meaning of section 1221 of the Code.

Gain from the sale or other disposition of a Regular Certificate that might otherwise be capital gain will be treated as ordinary income to the extent that such gain does not exceed the excess, if any, of (i) the amount that would have been includible in the income of the Regular Owner had income

accrued at a rate equal to 110 percent of the “applicable Federal rate” (generally, an average of current yields on Treasury securities) as of the date of purchase over (ii) the amount actually includible in such Regular Owner’s income. In addition, gain recognized on such a sale or other disposition by a Regular Owner who purchased a Regular Certificate at a market discount would also be taxable as ordinary income in an amount not exceeding the portion of such discount that accrued during the period such Certificate was held by such Regular Owner, reduced by any market discount includible in income under the rules described above under “Taxation of Beneficial Owners of Regular Certificates—*Market Discount*.”

If a Residual Owner sells or otherwise disposes of its Residual Certificate at a loss, the loss will not be recognized if, within six months before or after the sale or other disposition of the Residual Certificate, such Residual Owner purchases another residual interest in any REMIC or any interest in a taxable mortgage pool (as defined in section 7701(i) of the Code) comparable to a residual interest in a REMIC. Such disallowed loss would be allowed upon the sale or other disposition of the other residual interest (or comparable interest) if the rule referred to in the preceding sentence does not apply to that sale or other disposition. While this rule may be modified by Treasury regulations, no such regulations have yet been published.

#### *Residual Certificates Transferred to or Held by Disqualified Organizations*

Section 860E(e) of the Code imposes a substantial tax, payable by the transferor (or, if a transfer is through a broker, nominee, or other middleman as the transferee’s agent, payable by that agent) upon any transfer of a Residual Certificate to a disqualified organization. For purposes of the preceding sentence, a transfer includes any transfer of record or beneficial ownership, whether pursuant to a purchase, a default under a secured lending agreement or otherwise. The term “disqualified organization” is defined above under “Description of the Certificates—Additional Characteristics of Residual Certificates.” A transferor of a Residual Certificate (or an agent of a transferee of a Residual Certificate, as the case may be) will be relieved of such tax liability if (i) the transferee furnishes to the transferor (or the transferee’s agent) an affidavit that the transferee is not a disqualified organization, and (ii) the transferor (or the transferee’s agent) does not have actual knowledge that the affidavit is false at the time of the transfer.

In addition, a tax may be imposed upon a pass-through entity (including regulated investment companies, real estate investment trusts, common trust funds, partnerships, trusts, estates, certain cooperatives, and nominees) that owns a Residual Certificate if such pass-through entity has a disqualified organization as a record holder. For this purpose, all interests in an electing large partnership are treated as held by disqualified organizations. No such tax will be imposed on a pass-through entity for a period with respect to an interest therein owned by a disqualified organization if (i) the record holder of such interest furnishes to the pass-through entity an affidavit that it is not a disqualified organization, (ii) during such period, the pass-through entity has no actual knowledge that the affidavit is false and (iii) the entity is not an electing large partnership.

#### *Other Transfers of Residual Certificates*

A transfer of a Residual Certificate that has tax avoidance potential is disregarded for federal income tax purposes if the transferee is a not a U.S. Person (a “Non-U.S. Person”), unless the transferee’s income from such Certificate is otherwise subject to U.S. income tax. A Residual Certificate has tax avoidance potential unless, at the time of the transfer, the transferor reasonably expects that, for each excess inclusion, the REMIC Trust will pay to the transferee an amount that will equal at least 30 percent of the excess inclusion, and that each such amount will be paid at or after the time at which the excess inclusion accrues and not later than the close of the calendar year following the calendar year of accrual. Certain transfers by a Non-U.S. Person to a U.S. Person or another Non-U.S. Person are also disregarded if the transfer has the effect of allowing the transferor to avoid tax on accrued excess inclusions. See “Additional Characteristics of Residual Certificates” for a discussion of additional provisions applicable to transfers of Residual Certificates.

## **Termination**

In general, no special tax consequences will apply to a Regular Owner upon the termination of a REMIC Trust by virtue of the final payment or liquidation of the last Mortgage Loan that backs the Underlying Securities remaining in the Series Trust. If a Residual Owner's adjusted basis in its Residual Certificate at the time such termination occurs exceeds the amount of cash distributed to such Residual Owner in liquidation of its interest, then, although the matter is not entirely free from doubt, it would appear that the Residual Owner is entitled to a loss equal to the amount of such excess.

## **Reporting and Other Administrative Matters**

For purposes of the administrative provisions of the Code, each REMIC Trust will be treated as a partnership and the Residual Owners will be treated as partners. Fannie Mae will prepare, sign and file federal income tax returns for each REMIC Trust, which returns are subject to audit by the IRS. Moreover, within a reasonable time after the end of each calendar year, Fannie Mae will furnish to each Holder that received a distribution during such year a statement setting forth the portions of any such distributions that constitute interest distributions, original issue discount, and such other information as is required by Treasury regulations and, with respect to Holders of Residual Certificates in a REMIC Trust, information necessary to compute the daily portions of the taxable income (or net loss) of such REMIC Trust for each day during such year. Fannie Mae will also act as the tax matters partner for each REMIC Trust, either in its capacity as an Owner of a Residual Certificate or in a fiduciary capacity. Each Residual Owner, by the acceptance of its Residual Certificate, agrees that Fannie Mae will act as its fiduciary in the performance of any duties required of it in the event that it is the tax matters partner.

If, for a taxable year, there is more than one Residual Owner, each Residual Owner is required to treat items on its return consistently with the treatment on the return of the REMIC Trust, unless the Residual Owner either files a statement identifying the inconsistency or establishes that the inconsistency resulted from incorrect information received from the REMIC Trust. The IRS may assert a deficiency resulting from a failure to comply with the consistency requirement without instituting an administrative proceeding at the REMIC Trust level. Unless otherwise specified in the Prospectus Supplement, Fannie Mae does not intend to register any REMIC Trust as a tax shelter pursuant to section 6111 of the Code.

## **Backup Withholding**

Distributions of interest and principal, as well as distributions of proceeds from the sale of Regular and Residual Certificates, may be subject to the "backup withholding tax" under section 3406 of the Code at a rate of 31 percent if recipients of such distributions fail to furnish to the payor certain information, including their taxpayer identification numbers, or otherwise fail to establish an exemption from such tax. Any amounts deducted and withheld from a distribution to a recipient would be allowed as a credit against such recipient's federal income tax. Furthermore, certain penalties may be imposed by the IRS on a recipient of distributions that is required to supply information but that does not do so in the proper manner.

## **Foreign Investors**

### *Regular Certificates*

Distributions made on a Regular Certificate to, or on behalf of, a Regular Owner that is not a U.S. Person (a "Non-U.S. Person") generally will be exempt from U.S. federal income and withholding taxes, provided (a) the Regular Owner is not subject to U.S. tax as a result of a connection to the United States other than ownership of the Certificate, (b) the Regular Owner signs a statement under penalties of perjury that certifies that such Regular Owner is a Non-U.S. Person, and provides the name and address of such Regular Owner, and (c) the last U.S. Person in the chain of payment to the Regular Owner receives such statement from such Regular Owner or a financial institution holding on

its behalf and does not have actual knowledge that such statement is false. Regular Owners should be aware that the IRS might take the position that this exemption does not apply to a Regular Owner that also owns 10 percent or more of the Residual Certificates or of the voting stock of Fannie Mae, or to a Regular Owner that is a “controlled foreign corporation” described in section 881(c)(3)(C) of the Code.

### *Residual Certificates*

Amounts distributed to a Residual Owner that is a Non-U.S. Person generally will be treated as interest for purposes of applying the 30 percent (or lower treaty rate) withholding tax on income that is not effectively connected with a U.S. trade or business. Amounts not constituting excess inclusions that are distributed on a Residual Certificate to a Non-U.S. Person generally will be exempt from U.S. federal income and withholding taxes, subject to the same conditions applicable to distributions on Regular Certificates, as described above, but only to the extent that the obligations directly underlying the REMIC Trust that issued the Residual Certificate (*e.g.*, Mortgage Loans or regular interests in another REMIC) were issued after July 18, 1984. In no case will any portion of REMIC income that constitutes an excess inclusion be entitled to any exemption from the withholding tax or a reduced treaty rate for withholding. See “Taxation of Beneficial Owners of Residual Certificates—*Excess Inclusions.*”

## **LEGAL INVESTMENT CONSIDERATIONS**

Institutions whose investment activities are subject to legal investment laws and regulations or to review by certain regulatory authorities may be subject to restrictions on investment in certain Classes of the Certificates of a Series. Any financial institution that is subject to the jurisdiction of the Comptroller of the Currency, the Board of Governors of the Federal Reserve System, the Federal Deposit Insurance Corporation, the Office of Thrift Supervision, the National Credit Union Administration, the Department of the Treasury or other federal or state agencies with similar authority should review any applicable rules, guidelines and regulations prior to purchasing or pledging the Certificates of a Series. Financial institutions should review and consider the applicability of the Federal Financial Institutions Examination Council Supervisory Policy Statement on Securities Activities (to the extent adopted by their respective federal regulators), which, among other things, sets forth guidelines for investing in certain types of mortgage related securities, including securities such as the Certificates. In addition, financial institutions should consult their regulators concerning the risk-based capital treatment of any Certificate. Investors should consult their own legal advisors in determining whether and to what extent the Certificates of a Series constitute legal investments or are subject to restrictions on investment and whether and to what extent the Certificates of a Series can be used as collateral for various types of borrowings.

## **LEGAL OPINION**

Any purchaser of Certificates will be furnished upon request an opinion by the General Counsel or Deputy General Counsel of Fannie Mae 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 (including, but not limited to, individual retirement accounts and annuities), as well as on collective investment funds and separate and general 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 that proposes to cause a Plan to acquire any Certificates of a Series is 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 of a Series 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 providing that in the event 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 prohibited either by ERISA or related provisions of the Code.

## **PLAN OF DISTRIBUTION**

Except as otherwise specified in the Prospectus Supplement relating to a particular Series Trust, Fannie Mae will deliver to one or more securities dealers (each, a “Dealer”) the related Certificates in exchange for the assets specified in the related Prospectus Supplement pursuant to a Fannie Mae commitment. Each Dealer will offer the Certificates as specified in the related Prospectus Supplement. Each Dealer may effect such transactions to or through dealers. Such Dealers engage in transactions with and perform services for Fannie Mae in the ordinary course of business. Fannie Mae, such Dealers or other parties may receive compensation, trading gain or other benefits in connection with such transactions. Fannie Mae typically receives a fee from the Dealer or Dealers for each offering. Fannie Mae may acquire for its own account Certificates either upon their original issuance or in the secondary market and may retain or dispose of any securities so acquired.



## GLOSSARY

**Accretion Directed Class:** As defined herein under “Description of the Certificates—Class Definitions and Abbreviations” on page 12.

**Accrual Class:** As defined herein under “Description of the Certificates—Class Definitions and Abbreviations” on page 15.

**Adjusted WAM and Adjusted WARM:** With respect to any Pool, the WAM or WARM, as applicable, as of the most recently published date, less the number of months elapsed from such date through the Issue Date for the related Series of Certificates. An Adjusted WAM or Adjusted WARM, as applicable, is calculated in cases where a current WAM or WARM for each related Pool as of the Issue Date for the related Series of Certificates is unavailable.

**Available Funds Class:** As defined herein under “Description of the Certificates—Class Definitions and Abbreviations” on pages 12 and 13.

**CAGE:** The weighted average calculated loan age of the Mortgage Loans in each related Pool. The CAGE of such Mortgage Loans will be determined by subtracting the original WAM for such Pool from the original term to maturity (in months) of such Mortgage Loans, and adding thereto the number of months elapsed since the issue date of the related MBS.

**Fixed Rate Class:** As defined herein under “Description of the Certificates—Class Definitions and Abbreviations” on page 14.

**Floating Rate Class:** As defined herein under “Description of the Certificates—Class Definitions and Abbreviations” on page 14.

**Index Allocation Class:** As defined herein under “Description of the Certificates—Class Definitions and Abbreviations” on page 13.

**Index Determination Date:** Unless otherwise specified in the related Prospectus Supplement, the second business day preceding the first day of each Interest Accrual Period (other than the initial Interest Accrual Period) for the related Class or Classes of Certificates. Unless otherwise specified in the related Prospectus Supplement, “business day” means any day other than a Saturday or Sunday and other than any day on which either of the Federal Reserve Bank of New York or Boston authorizes banking institutions in the Second or First Federal Reserve District, respectively, to be closed; provided that for purposes of calculating LIBOR, “business day” means a day on which banks are open for dealing in foreign currency and exchange in London, Boston and New York City.

**Index Differential Class:** As defined herein under “Description of the Certificates—Class Definitions and Abbreviations” on page 14.

**Interest Only Class:** As defined herein under “Description of the Certificates—Class Definitions and Abbreviations” on page 14.

**Inverse Floating Rate Class:** As defined herein under “Description of the Certificates—Class Definitions and Abbreviations” on page 14.

**Liquid Asset Class:** As defined herein under “Description of the Certificates—Class Definitions and Abbreviations” on page 15.

**Non-Sticky Jump Class:** As defined herein under “Description of the Certificates—Class Definitions and Abbreviations” on page 12.

**Notional Class:** As defined herein under “Description of the Certificates—Class Definitions and Abbreviations” on page 12.

**PAC Class:** As defined herein under “Description of the Certificates—Class Definitions and Abbreviations” on page 12.

**Partial Accrual Class:** As defined herein under “Description of the Certificates—Class Definitions and Abbreviations” on page 14.

**Pass-Through Class:** As defined herein under “Description of the Certificates—Class Definitions and Abbreviations” on page 12.

**Principal Only Class:** As defined herein under “Description of the Certificates—Class Definitions and Abbreviations” on page 14.

**Redeemable:** As defined herein under “Description of the Certificates—Class Definitions and Abbreviations” on page 12.

**Retail Class:** As defined herein under “Description of the Certificates—Class Definitions and Abbreviations” on page 15.

**Scheduled Class:** As defined herein under “Description of the Certificates—Class Definitions and Abbreviations” on page 13.

**Sequential Pay Class:** As defined herein under “Description of the Certificates—Class Definitions and Abbreviations” on page 13.

**Sticky Jump Class:** As defined herein under “Description of the Certificates—Class Definitions and Abbreviations” on page 13.

**Strip Class:** As defined herein under “Description of the Certificates—Class Definitions and Abbreviations” on page 13.

**Structured Collateral:** As defined herein under “Description of the Certificates—Class Definitions and Abbreviations” on page 12.

**Support Class:** As defined herein under “Description of the Certificates—Class Definitions and Abbreviations” on page 13.

**TAC Class:** As defined herein under “Description of the Certificates—Class Definitions and Abbreviations” on page 13.

**WAC:** The weighted average coupon of the Mortgage Loans in each Pool underlying a Series of Certificates.

**WALA:** The weighted average loan age (in months) of the Mortgage Loans in each Pool underlying a Ginnie Mae Certificate.

**WAM:** The weighted average remaining term to maturity (in months) of the Mortgage Loans in each Pool underlying a Series of Certificates.

**WARM:** The weighted average remaining maturity (in months) of the Mortgage Loans in each Pool underlying a Ginnie Mae Certificate.

**Weighted Average Coupon Class:** As defined herein under “Description of the Certificates—Class Definitions and Abbreviations” on page 14.

[THIS PAGE INTENTIONALLY LEFT BLANK]

[THIS PAGE INTENTIONALLY LEFT BLANK]

[THIS PAGE INTENTIONALLY LEFT BLANK]



No salesman, dealer, bank or other person has been authorized to give any information or to make any representation other than those contained in this Prospectus, any Underlying Prospectus or any Prospectus Supplement and, if given or made, such information or representation must not be relied upon as having been authorized by Fannie Mae. This Prospectus, any Underlying Prospectus and any Prospectus Supplement do not constitute an offer to sell or a solicitation of an offer to buy any securities other than the Certificates offered hereby and by the related Prospectus Supplement nor an offer of the Certificates to any person in any state or other jurisdiction in which such offer would be unlawful.



**Guaranteed REMIC  
Pass-Through  
Certificates**

---

**TABLE OF CONTENTS**

	<u>Page</u>
Prospectus Supplement.....	2
Documents Incorporated by Reference ...	3
Available Information .....	3
Summary of Prospectus .....	4
Certain Risk Factors .....	10
Description of the Certificates .....	13
The Trust Agreement .....	27
Ginnie Mae and the Ginnie Mae Programs .....	30
Certain Federal Income Tax Consequences .....	31
Legal Investment Considerations .....	42
Legal Opinion .....	42
ERISA Considerations .....	42
Plan of Distribution .....	43
Glossary.....	44

**Prospectus  
Dated November 12, 1997**