



# FannieMae

## Guaranteed Mortgage Pass-Through Certificates

(Residential Mortgage Loans)

Principal and Interest payable on the 25th day of each month

---

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

---

The Guaranteed Mortgage Pass-Through Certificates ("Certificates") are issued and guaranteed by the Federal National Mortgage Association (the "Corporation" or "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.).

Each Certificate offered hereby and by the Supplement related hereto will represent an undivided interest in a pool of loans (a "Pool") to be formed by the Corporation. Each Pool will consist of either first lien or (if the related Prospectus Supplement so provides) subordinate lien residential mortgage loans or other residential loans or participation interests therein ("Mortgage Loans") either previously owned by the Corporation or purchased by it in connection with the formation of the Pool. As used in other Fannie Mae disclosure documents that incorporate this Prospectus by reference, the term "Mortgage Loan" shall include mortgage loans and other residential loans. Each Pool will consist entirely of one of the following: (i) fixed-rate level installment Mortgage Loans and/or fixed-rate graduated payment Mortgage Loans having deferred interest features that have expired prior to the issuance of the Certificates and/or fixed-rate growing equity Mortgage Loans (as described below) where no further increases to the payment amount will occur after the Issue Date set forth in the related Prospectus Supplement, (ii) fixed-rate growing equity Mortgage Loans that provide for scheduled annual increased payments, with the full amount of the increase applied to principal, (iii) fixed-rate graduated payment Mortgage Loans having deferred interest features that have not expired for some or all of such Mortgage Loans prior to the issuance of the Certificates, (iv) fixed-rate Mortgage Loans that provide for balloon payments at maturity or other unique features, (v) conventional variable-rate California Mortgage Loans, (vi) other adjustable-rate Mortgage Loans, some of which may have deferred interest features, (vii) fixed-rate Mortgage Loans secured by multifamily projects consisting of five or more dwelling units, some of which may have balloon payments or other unique features and (viii) adjustable-rate Mortgage Loans secured by multifamily projects consisting of five or more dwelling units, some of which may have balloon payments, deferred interest or other unique features.

Interests in each Pool will be evidenced by a separate issue of Certificates. Information regarding the aggregate principal amount and characteristics of the related Pool (including the type of Mortgage Loans in the Pool) will be furnished in the related Prospectus Supplement at the time of the identification of the Pool.

Unless the related Prospectus Supplement provides otherwise, Certificates will be available in book-entry form only.

The Corporation will have certain contractual servicing responsibilities with respect to each Pool. In addition, each month the Corporation will be obligated to distribute scheduled installments of principal and to distribute interest (at a rate calculated as described herein) to Certificateholders, whether or not received. The Corporation also will be obligated to distribute to Certificateholders the full principal balance of any foreclosed Mortgage Loan, whether or not such principal balance is actually recovered.

**See "Risk Factors" beginning on page 5 herein for a discussion of certain risks that should be considered in connection with an investment in the Certificates.**

---

**The date of this Prospectus is August 1, 1997**

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

## 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 and by reference to the information with respect to each pool of either first lien or subordinate lien residential mortgage loans or other residential loans or participation interests therein ("Mortgage Loans") contained in the supplement to this Prospectus (a "Prospectus Supplement") to be prepared in connection with the issue of Guaranteed Mortgage Pass-Through Certificates (the "Certificates") evidencing undivided interests in such pool of Mortgage Loans ("Pool").

Title of Security . . . . .	Guaranteed Mortgage Pass-Through Certificates.
Issuer and Guarantor . . . . .	Federal National Mortgage Association (the "Corporation"), a corporation organized and existing under the laws of the United States. The Certificates, together with interest thereon, are not guaranteed by the United States. The obligations of Fannie Mae under its guaranty of the Certificates are obligations solely of the Corporation and do not constitute an obligation of the United States or any agency or instrumentality thereof other than the Corporation.
Description of Security . . . . .	Each Certificate will represent a fractional undivided interest in a Pool of Mortgage Loans to be formed by the Corporation. A Certificate in book-entry form will initially represent at least \$1,000 unpaid principal amount of Mortgage Loans. Unless the related Prospectus Supplement provides otherwise, Certificates will be available in book-entry form only and will not be convertible to definitive form.
Interest . . . . .	Interest on each Mortgage Loan will be passed through monthly to Certificateholders, commencing on the 25th day of the month following the month of initial issuance of the related Certificates (or, if such 25th day is not a business day, on the first business day next succeeding such 25th day). For all Pools containing fixed-rate Mortgage Loans, interest will be passed through at a uniform Pass-Through Rate which will be specified in the Prospectus Supplement and will not be greater than the lowest annual interest rate borne by any Mortgage Loan in the related Pool, less a specified minimum annual percentage representing compensation for servicing and the Corporation's guaranty and less, in the case of Pools containing graduated payment Mortgage Loans with deferred interest features that have not expired, deferred interest, which is added to the principal balances of the underlying Mortgage Loans. For Pools containing variable-rate Mortgage Loans ("VRM Pools"), interest will be passed through on the basis of a Weighted Average Pass-Through Rate, which is equal at any time to the then-current weighted average of the Mortgage Interest Rates of all Mortgage Loans in the related VRM Pool, less a specified fixed annual percentage representing compensation for servicing and the Corporation's guaranty. For Pools containing adjustable-rate Mortgage Loans ("ARM Pools"), interest will be passed through on each Mortgage Loan at the interest rate at the time applicable thereto less (i) the Corporation's servicing fee and guaranty fee applicable to such Mortgage Loan and (ii) any deferred interest

that is added to the principal balance of such Mortgage Loan pursuant to its terms. See “Yield Considerations and “Description of Certificates — Payments on Mortgage Loans; Distributions on Certificates.”

Principal (including prepayments) . . . . .	Required distributions of principal will be passed through monthly, commencing on the 25th day of the month following the month of initial issuance of the related Certificates (or, if such 25th day is not a business day, on the first business day next succeeding such 25th day). See “Maturity and Prepayment Assumptions” and “Description of Certificates — Payments on Mortgage Loans; Distributions on Certificates.”
Guaranty . . . . .	On each Distribution Date, the Corporation is obligated to distribute scheduled installments of principal and to distribute interest at a rate calculated as described herein on the Mortgage Loans in a Pool, whether or not received. The Corporation is also obligated to distribute to Certificateholders the full principal balance of any foreclosed Mortgage Loan, whether or not such principal balance is actually recovered. If the Corporation were unable to perform these guaranty obligations, distributions to Certificateholders would consist solely of payments and other recoveries on Mortgage Loans and, accordingly, delinquencies and defaults would affect monthly distributions to Certificateholders. See “Description of Certificates — The Corporation’s Guaranty.”
Servicing . . . . .	The Corporation will be responsible for servicing the Mortgage Loans and will, in most cases, contract with mortgage lenders to perform certain servicing functions on its behalf. See “Description of Certificates — Servicing Through Lenders.”
The Mortgage Pools . . . . .	Each Pool will consist entirely of Mortgage Loans of only one of the following types: (i) fixed-rate level installment Mortgage Loans and/or fixed-rate graduated payment Mortgage Loans having deferred interest features that have expired prior to the issuance of the Certificates and/or fixed-rate growing equity Mortgage Loans (as described below) where no further increases to the payment amount will occur after the Issue Date set forth in the related Prospectus Supplement, (ii) fixed-rate growing equity Mortgage Loans that provide for scheduled annual increased payments, with the full amount of the increase applied to principal, (iii) fixed-rate graduated payment Mortgage Loans with deferred interest features that have not expired for some or all of the Mortgage Loans prior to the issuance of the Certificates, (iv) fixed-rate Mortgage Loans that provide for balloon payments at maturity or other unique features, (v) conventional variable-rate California Mortgage Loans, (vi) other adjustable-rate Mortgage Loans, some of which may have deferred interest features, (vii) fixed-rate Mortgage Loans secured by multifamily projects consisting of five or more dwelling units, some of which may have balloon payments or other unique features and (viii) adjustable-rate Mortgage Loans secured by multifamily projects consisting of five or more

dwelling units, some of which may have balloon payments, deferred interest or other unique features. Unless the related Prospectus Supplement provides otherwise, Pools containing fixed-rate Mortgage Loans will have unpaid principal balances aggregating not less than \$1,000,000 and Pools containing adjustable-rate Mortgage Loans will have unpaid principal balances aggregating not less than \$500,000. Each Mortgage Loan will meet the applicable standards set forth under "Purchase Program." Unless the related Prospectus Supplement provides otherwise, each Mortgage Loan (other than a cooperative share loan (as described below)) will be secured by a first lien on a residential property. Each Mortgage Loan that is a cooperative share loan will be secured by a first lien on the stock, shares, membership certificate or other contractual agreement evidencing ownership in a cooperative housing corporation and the assignment of the related proprietary lease or occupancy agreement (subject to the cooperative housing corporation's lien against such ownership interest for unpaid assessments that represent that ownership interest's pro rata share of certain payments of the cooperative housing corporation). Pool information as to the type of Mortgage Loans (including whether such Mortgage Loans have payments due every 14 days and including whether such Mortgage Loans are conventional Mortgage Loans or government Mortgage Loans, each as defined herein), the aggregate principal balance of the Mortgage Loans as of the Issue Date, the Pass-Through Rate for Certificates evidencing interests in fixed-rate Mortgage Loans (other than fixed-rate graduated payment Mortgage Loans with deferred interest features that have not expired for some or all of the Mortgage Loans prior to the issuance of the Certificates), the Pool Accrual Rate for Certificates evidencing interests in pools of graduated payment Mortgage Loans with deferred interest features that have not expired for some or all of the Mortgage Loans prior to the issuance of the Certificates, the then-current Weighted Average Pass-Through Rate for Certificates evidencing interests in VRM Pools, the then-current Pool Accrual Rate for Certificates evidencing interests in ARM Pools, and the maturity date of the Pool will be contained in the related Prospectus Supplement. For a VRM Pool or an ARM Pool, the related Prospectus Supplement will also contain information respecting the index upon which adjustments are based, the frequency of interest rate and payment adjustments and any maximum or minimum limitations thereon, the Corporation's fixed or weighted average servicing and guaranty fee, and, in the case of an ARM Pool, whether the underlying Mortgage Loans contain provisions for the deferral of interest.

## **RISK FACTORS**

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

### **Yield Considerations**

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

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

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

See "Yield Considerations."

### **Certain Investment Considerations**

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

financial advisor) possible scenarios for economic, interest rate and other factors that may affect their investment, and their ability to bear the associated risks under a variety of such scenarios. Investors also should consider any legal restrictions that may apply to their investments in Certificates.

### **Reinvestment Risk**

The Mortgage Loans generally may be prepaid at any time, unless otherwise specified in the related Prospectus Supplement. (See “Maturity and Prepayment Assumptions.”) Accordingly, it is not possible to predict the rate at which distributions of principal of the Certificates will be received. Since prevailing interest rates are subject to fluctuation, there can be no assurance that investors in the Certificates will be able to reinvest the distributions thereon at yields equaling or exceeding the yields on the Certificates. It is possible that yields on such reinvestments will be lower, and may be significantly lower, than the yields on the Certificates. Prospective investors in the Certificates should carefully consider the related reinvestment risks in light of other investments that may be available to such investors.

### **Prepayment Considerations and Risks**

The rate of distributions of principal of the Certificates is related directly to the rate of payments of principal of the Mortgage Loans, which may be in the form of scheduled amortization or prepayments. Many factors may affect the rate of prepayment of a Pool of Mortgage Loans. Accordingly, the Corporation cannot estimate what the prepayment experience of the Mortgage Loans in Pools will be.

A significant number of Mortgage Loans may provide by their terms that in the event of the sale of all or some of the underlying property the full unpaid principal balance of the Mortgage Loan is due and payable at the option of the holder. See “Maturity and Prepayment Assumptions.”

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

In general, when the level of prevailing interest rates declines sufficiently relative to the interest rate on fixed-rate mortgage loans, the rate of prepayment is likely to increase, although the prepayment rate is influenced by a number of other factors as well, including general economic conditions and homeowner mobility. Certain Mortgage Loans may have provisions restricting the borrower’s ability to prepay the loan or may require the payment of mortgage prepayment penalties in varying amounts, which may or may not influence prepayment rates. In addition, it is increasingly difficult to generalize as to the degree to which interest rates must decline before significant prepayments are likely to be experienced. Increased borrower sophistication regarding the benefits of refinancing and extensive solicitation by lenders may result in an increase in the rate at which the Mortgage Loans are prepaid due to refinancing. See “Maturity and Prepayment Assumptions.”

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

The seller of the Mortgage Loans 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 such 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). See “Description of Certificates — Collection and Other Servicing Procedures.”

### **Repurchases Due to Delinquency**

Fannie Mae has the option under the trust indenture relating to each Pool to repurchase from Pools those Mortgage Loans that are delinquent in whole or in part with respect to four (eight in the case of Biweekly Mortgage Loans) 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). See “Description of Certificates — Payments on Mortgage Loans; Distributions on Certificates.”

### **Special Considerations for Multifamily Mortgage Loans**

*Certain Risks of Multifamily Lending.* Multifamily lending is generally viewed as exposing the lender to a greater risk of loss than one- to four-family residential lending. Multifamily lending typically involves larger loans to single Mortgagors or groups of related Mortgagors than residential one- to four-family mortgage loans. Furthermore, the repayment of Multifamily Mortgage Loans secured by income producing properties is typically dependent upon the successful operation of the related real estate project. If the cash flow from the project is reduced (for example, if leases are not obtained or renewed), the Mortgagor’s ability to repay the Mortgage Loan may be impaired. Multifamily real estate can be affected significantly by supply and demand in the market for the type of property securing the Mortgage Loan and, therefore, may be affected by adverse economic conditions. Market values may vary as a result of economic events or governmental regulations outside the control of the Mortgagor or lender such as rent control laws, which impact the future cash flow of the property. Due to Fannie Mae’s guaranty, Certificateholders will continue to receive the required installment of principal and interest on each Distribution Date regardless of whether sufficient funds have been collected from the Mortgagors. See “Description of the Certificates — The Corporation’s Guaranty” herein. In addition, principal prepayments resulting from liquidations of such Mortgage Loans due to defaults, casualties or condemnations affecting the Mortgaged Properties may significantly affect the yield to investors. See “— Yield Considerations” herein.

### **Corporate Guaranty Considerations**

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

## **THE MORTGAGE POOLS**

The Federal National Mortgage Association (the “Corporation” or “Fannie Mae”) has implemented a program for (a) the setting aside of residential mortgage loans or other residential loans or participation interests therein (the “Mortgage Loans”) into separate pools (the “Pools”) bearing distinctive identification and (b) the issuance and sale of trust certificates of beneficial interest evidencing pro rata undivided ownership interests in the Mortgage Loans comprising each separate Pool (the “Guaranteed Pass-Through Certificates” or “Certificates”). A Pool may be comprised in whole or in part of participation interests representing a specified undivided percentage interest in residential mortgage loans or other residential loans, rather than whole residential mortgage loans or other residential loans. The Mortgage Loans may be purchased by the Corporation expressly for the Pools or may be Mortgage Loans that have been held by the Corporation in its own portfolio. The Mortgage Loans may be loans secured by mortgages or, in some cases, by other security agreements on residential properties (“Residential Property Loans”) or loans secured by pledges of ownership interests in cooperative housing corporations and assignments of the accompanying occupancy rights (“Cooperative Share Loans”). Each Pool will consist of Mortgage Loans evidenced by promissory notes or other evidence of indebtedness (the “Mortgage Notes”) secured by first (or subordinate, if the related Prospectus Supplement so provides) mortgages, deeds of trust or other security agreements in the case of Residential Property Loans, or pledges creating first liens (subject to the lien of the related cooperative housing corporation for unpaid assessments that represent a specific share of certain payments of the cooperative housing corporation), in the case of Cooperative Share Loans (“Mortgages”), on either one- to four-family (also referred to as “single-family”) residential properties or multifamily projects consisting of five or more dwelling units, in the case of Residential Property Loans, or ownership interests in cooperative housing corporations and the assignment of the accompanying occupancy rights, in the case of Cooperative Share Loans (“Mortgaged Properties”). A Pool

will contain Mortgage Loans of only one of the following types: (i) fixed-rate level payment Mortgage Loans (“Level Payment Mortgage Loans”) and/or GPMs (as defined below) with deferred interest features that have expired prior to the issuance of the Certificates (“Fully Graduated GPMs”) and/or fixed-rate GEMs (as defined below) where no further increases to the payment amount will occur after the Issue Date set forth in the related Prospectus Supplement (“Fully Increased GEMs”), (ii) fixed-rate growing equity Mortgage Loans that provide for scheduled annual increased payments, with the full amount of the increase applied to principal (“GEMs”), some or all of which scheduled increases have not occurred prior to issuance of the Certificates, (iii) fixed-rate graduated payment Mortgage Loans with deferred interest features (“GPMs”) that have not expired for some or all of the Mortgage Loans prior to the issuance of the Certificates (“Graduating GPMs”), (iv) fixed-rate Mortgage Loans that provide for balloon payments at maturity or other unique features (“Balloon Mortgages”), (v) conventional variable-rate California Mortgage Loans (“VRMs”), (vi) other adjustable-rate Mortgage Loans (“ARMs”), some of which may have deferred interest features, (vii) Mortgage Loans secured by multifamily projects consisting of five or more dwelling units (“Multifamily Mortgage Loans”), which bear fixed rates of interest and some of which may have balloon payments or other unique features and (viii) adjustable-rate Multifamily Mortgage Loans, some of which may have balloon payments, deferred interest or other unique features. The Mortgage Loans may be either Mortgage Loans that are insured or guaranteed by a United States government agency (“Government Mortgage Loans”) or conventional Mortgage Loans (*i.e.* generally not insured or guaranteed by a United States government agency) (“Conventional Mortgage Loans”). If so specified in the related Prospectus Supplement, each Mortgage Loan in the Pool is a Level Payment Mortgage Loan that has payments due every 14 days (“Biweekly Mortgage Loans”). The Mortgage Loans purchased expressly for the Pools will be sold to the Corporation by eligible institutions that meet certain requirements set forth under “Purchase Program” and are referred to herein as “Lenders.” Unless the related Prospectus Supplement provides otherwise, no Pool will consist of fixed-rate Mortgage Loans having an aggregate unpaid principal balance of less than \$1,000,000 (or \$500,000, in the case of ARM Pools) on the first day of the month of issuance of the related Certificates. See “Purchase Program — Mortgage Loan Eligibility” for a description of certain criteria applicable to the eligibility of Mortgage Loans for inclusion in Pools.

Interests in each Pool will be evidenced by a separate series of Certificates (an “Issue”). The Corporation will acquire the Mortgage Loans that it has purchased expressly for Pools under purchase contracts. By entering into such contracts, the Corporation will obligate itself to issue Certificates to, or to the order of, the Lenders named in the contracts, upon delivery to the Corporation of the required Mortgage Loans conforming to the Corporation’s standards. **The Corporation will not insure or guarantee the performance by any Lender of its obligation to deliver Mortgage Loans and, correspondingly, does not insure or guarantee the performance by any person of any obligation to deliver Certificates.**

The Mortgage Loans in each Pool of Level Payment Mortgage Loans, Fully Graduated GPMs, GEMs, Balloon Mortgages or fixed-rate Multifamily Mortgage Loans (collectively, the “Fixed-Rate Mortgage Loans”) will be held for the benefit of the holders of Certificates (“Certificateholders” or “Holders”) pursuant to the combined terms of a trust indenture, as amended, executed by the Corporation in its corporate capacity and in its capacity as Trustee (the Trust Indenture dated as of November 1, 1981, as modified and amended by a First Supplemental Indenture dated as of February 15, 1982, a Second Supplemental Indenture dated as of October 1, 1982, a Third Supplemental Indenture dated as of August 1, 1983, a Fourth Supplemental Indenture dated as of May 1, 1984, a Fifth Supplemental Indenture dated as of July 1, 1984, a Sixth Supplemental Indenture dated as of May 1, 1985, a Seventh Supplemental Indenture dated as of August 1, 1986, and an Eighth Supplemental Indenture dated as of January 1, 1987, being herein called the “Fixed-Rate Trust Indenture”), and a supplement thereto for the related Issue (the “Issue Supplement”). The Mortgage Loans in each Pool of VRMs will be held for the benefit of Certificateholders pursuant to the combined terms of an Issue Supplement and a Trust Indenture dated as of July 1, 1982, as modified and amended by a First Supplemental Indenture dated as of December 1, 1983, a Second Supplemental Indenture dated as of

September 1, 1984, a Third Supplemental Indenture dated as of February 1, 1985, a Fourth Supplemental Indenture dated as of August 1, 1985, and a Fifth Supplemental Indenture dated as of January 1, 1987, each executed by the Corporation in its corporate capacity and in its capacity as Trustee (such Trust Indenture, as amended, being hereinafter called the "VRM Trust Indenture"). The Mortgage Loans in each Pool of Graduating GPMs and ARMs will be held for the benefit of the Certificateholders pursuant to the combined terms of an Issue Supplement and a Trust Indenture dated as of July 1, 1984, as modified and amended by a First Supplemental Indenture dated as of January 1, 1987 (the "GPM Trust Indenture") and a Trust Indenture dated as of July 1, 1984, as modified and amended by a First Supplemental Indenture dated as of May 1, 1985, and a Second Supplemental Indenture dated as of January 1, 1987 (the "ARM Trust Indenture"), respectively, each executed by the Corporation in its corporate capacity and in its capacity as Trustee. The Fixed-Rate Trust Indenture, the VRM Trust Indenture, the GPM Trust Indenture, and the ARM Trust Indenture are herein, collectively, referred to as the "Trust Indenture" or "TI" where common terms and provisions are being referred to or described. Certain capitalized words or series of words in this Prospectus refer to and are further defined in the Trust Indenture. The Corporation will be responsible for the administration and servicing of the Mortgage Loans in the Pool, including the supervision of the servicing activities of Lenders, if appropriate, the collection and receipt of payments from Lenders, and the remittance of distributions and certain reports to Certificateholders. The Corporation will be entitled to receive a fee for its guaranty obligations and its services pursuant to the Trust Indenture. The fee to the Corporation for any Mortgage Loan (out of which it will compensate Lenders for servicing the Mortgage Loans) will, as to any Pool containing Fixed-Rate Mortgage Loans other than Biweekly Mortgage Loans (a "Fixed-Rate Pool") or any Pool containing Biweekly Mortgage Loans (a "Biweekly Mortgage Pool"), be equal to the difference between the annual interest rate borne by the Mortgage Loan and the annual rate of interest paid to Certificateholders at the Pass-Through Rate for the related Fixed-Rate Pool or the Accrual Rate for Pools containing Graduating GPMs (a "GPM Pool"). For any Pool containing ARMs or VRMs (an "ARM Pool" or "VRM Pool"), the Corporation will similarly compensate itself from interest payments on the underlying ARMs or VRMs as to each ARM or VRM Pool. The Corporation will reserve the right to remove the servicing responsibility from a Lender at any time if it considers such removal to be in the best interest of Certificateholders. In such event, the Corporation will meet its obligation to provide servicing either by directly servicing the Mortgage Loans itself or by finding a replacement Lender.

The Corporation's obligations with respect to the Mortgage Loans will be limited to the servicing responsibilities under the Trust Indenture, and, in the event of any delinquency in payment or loss on any Mortgage Loan, its obligation to make supplemental payments in amounts described herein under "Description of Certificates — The Corporation's Guaranty."

Because the principal amount of the Mortgage Loans in a Pool will generally decline (with the exception of GPM Pools and certain ARM Pools that contain ARMs providing for deferred interest) monthly as principal payments, including prepayments, are received, each Certificate Principal Balance (defined as to any Certificate to be the principal amount of Mortgage Loans in the related Pool evidenced thereby) will also decline over time. See "Maturity and Prepayment Assumptions."

## **YIELD CONSIDERATIONS**

### **Effect of Delay**

The effective yield to Certificateholders in all Pools will be reduced slightly below the yield otherwise produced by the applicable Pass-Through Rate, Pool Accrual Rate or Weighted Average Pass-Through Rate because the distribution of interest that accrues from the first day of each month will not be made until the 25th day of the month following the month of accrual.

### **Fixed-Rate Pools**

Each Fixed-Rate Pool will consist of Mortgage Loans other than Biweekly Mortgage Loans that provide for monthly payments and bear interest at annual rates ("Mortgage Interest Rates") that are

fixed. Such a Fixed-Rate Pool may include Mortgage Loans that bear different Mortgage Interest Rates. The Pass-Through Rate of interest payable to Certificateholders of each such Issue will be equal to the lowest Mortgage Interest Rate borne by any Mortgage Loan in the related Pool, less a specified minimum annual percentage representing compensation for servicing and the Corporation's guaranty. Because the Pass-Through Rate payable with respect to each Mortgage Loan in a Pool will be the same, any disproportionate principal prepayments among Mortgage Loans bearing different Mortgage Interest Rates will not affect the return to Certificateholders.

When a Mortgage Loan is prepaid or otherwise liquidated, the proceeds of such prepayment or liquidation will be passed through to Certificateholders in the month following the month of such prepayment or other liquidation, except as provided in "Description of Certificates — Payments on Mortgage Loans; Distribution on Certificates." Because the Corporation agrees to distribute on each Distribution Date to each Certificateholder an amount as to interest representing one month's interest at the Pass-Through Rate on the Certificate Principal Balance, any prepayment or other liquidation of a Mortgage Loan and the timing of the distribution of the proceeds thereof will have no effect on the interest return to Certificateholders.

Assuming performance by the Corporation of its obligations under its guaranty, the net effect of each distribution respecting interest will be the pass-through to each Certificateholder of an amount that is equal to one month's interest at the Pass-Through Rate on the Certificate Principal Balance of such Holder's Certificate. See "Description of Certificates — Payments on Mortgage Loans; Distributions on Certificates."

#### **Biweekly Mortgage Pools**

A Biweekly Mortgage Pool will contain fixed-rate, level payment, fully amortizing Mortgage Loans that have payments due every 14 days. The biweekly payment amount is calculated by dividing the monthly payment amount (normally for a mortgage loan with an original term of 30 years) by two. Because payments are due every 14 days there will be 26 payments (some years 27 payments) in a year. The combination of a larger payment amount relative to the payment schedule (*i.e.*, one-half of the monthly payment amount is due 26 or 27 times a year, not twice a month or 24 times a year) and more frequent payments causes a reduction of the term of the loan. For example, a \$100,000 Mortgage Loan with a 9% interest rate would mature in less than 22 years using a biweekly payment schedule. In addition to the reduction of the term of the Mortgage Loan, the biweekly payment schedule also causes more rapid amortization in the early years. The illustration below compares the amortization of a monthly payment schedule (based on a 30-year term) and a biweekly payment schedule for two \$100,000 loans with 9% and 10% interest rates, respectively.

	<u>Monthly—9%</u>	<u>Monthly—10%</u>
Beginning Principal Balance —	\$100,000	\$100,000
Balance at end of: Year 1	99,317	99,444
Year 5	95,880	96,574
Year 10	89,430	90,938
Year 15	79,331	81,665
Year 20	63,520	66,408
	<u>Biweekly—9%</u>	<u>Biweekly—10%</u>
Beginning Principal Balance —	\$100,000	\$100,000
Balance at end of: Year 1	98,449	98,493
Year 5	90,651	90,714
Year 10	76,018	75,440
Year 15	52,896	50,070
Year 20	16,925	8,585

The interest rate of a Biweekly Mortgage Loan affects its term. The actual range of the interest rates of the Biweekly Mortgage Loans in a Pool, as well as the weighted average coupon, will be set

forth in the related Prospectus Supplement. The weighted average term to maturity of the Biweekly Mortgage Loans in a Pool will also be set forth in the related Prospectus Supplement. Updated weighted average coupon and weighted average maturity information will not be published for Biweekly Mortgage Pools.

The amount of interest passed through and guaranteed by the Corporation on any Distribution Date will be equal to one month's interest at the Pass-Through Rate on the Certificate balance and, accordingly, will be identical to the amount for a comparable pool of monthly payment mortgage loans. Each distribution will also include principal prepayments as well as the principal portion of scheduled biweekly payments (See "Description of Certificates — Payments on Mortgage Loans; Distribution on Certificates"). Ten calendar months a year, the Biweekly Mortgage Loans will have two scheduled biweekly payments and two calendar months a year, the Biweekly Mortgage Loans will have three scheduled biweekly payments, except in years that 27 biweekly payments are due, in which case, it will be nine months and three months, respectively. However, the months in which there are three scheduled biweekly payments could vary among the Biweekly Mortgage Loans in a Pool.

### **Cooperative Share Loan Pools**

Each Mortgage Loan in a Cooperative Share Loan Pool will be secured by a pledge of the ownership interest in a cooperative housing corporation (a "Cooperative") and the assignment of the accompanying occupancy rights to a specific unit in such Cooperative's building(s). The Cooperative owns the cooperative housing project, including all dwelling units and common areas and owns (or leases) all the land and, as the owner (or lessee), is responsible for project management and, in most cases, project real property taxes. If the project is financed by a project or blanket mortgage, the Cooperative is responsible for meeting this mortgage obligation. The Cooperative in turn is owned by tenant-shareholders, who, through stock, shares, membership certificates or other contractual agreements evidencing ownership, receive proprietary leases or occupancy agreements granting exclusive rights to occupy specific units in the Cooperative's building(s). The tenant-shareholder generally makes a monthly payment to the Cooperative representing the tenant-shareholder's pro rata share of the Cooperative's obligations for the blanket mortgage, ground rent, if applicable, real property taxes, general upkeep of the premises, special assessments, and other assessments. Purchase of an ownership interest in a Cooperative (and the accompanying occupancy rights to a specific unit in the Cooperative's building(s)) may be financed through a cooperative share loan. A cooperative share loan also may refinance an existing cooperative share loan. The loan is evidenced by a promissory note and is secured by a pledge of the stock, shares, membership certificate or other contractual agreement evidencing ownership in the Cooperative, and by an assignment of the proprietary lease or occupancy agreement (collectively, the "Collateral").

A security agreement (or other appropriate document used in the jurisdiction), together with supporting documentation, constitutes the pledge of the ownership interest in the Cooperative and the assignment of the accompanying proprietary lease or occupancy agreement. The security agreement creates a first and paramount lien on the Collateral, subject to the Cooperative's lien against the tenant-shareholder's ownership interest for unpaid assessments that represent the tenant-shareholder's pro rata share of the Cooperative's payments for the blanket mortgage, ground rent, if applicable, real property taxes, general upkeep of the premises, special assessments, and other assessments. The lender originating the cooperative share loan takes possession of the Cooperative stock, shares or membership certificate (or other contractual agreement evidencing ownership), and the proprietary lease or occupancy agreement and also files a financing statement to perfect its interest in the Collateral under the Uniform Commercial Code of the appropriate jurisdiction. If in addition the jurisdiction requires recordation in the land records, the lender that is the loan originator also files the lien in the land records of the appropriate jurisdiction. Usually, the lender that is the loan originator and the Cooperative enter into a recognition agreement, which recognizes the loan originator's rights, and the Cooperative's responsibilities toward the loan originator, in the event of the tenant-shareholder's default under the proprietary lease or occupancy agreement.

### **GPM Pools**

A GPM Pool will consist of fixed-rate fully amortizing Mortgage Loans providing for monthly payments that increase annually for a period of years (generally between three to seven) and are level thereafter. During all or part of the period in which monthly payments are increasing, those payments will not be sufficient to cover the full amount of interest on the Graduating GPM at the Mortgage Interest Rate borne thereby. The amount of each such interest insufficiency will be added to the principal balance of the Graduating GPM, which will accrue interest thereafter on this new increased amount.

GPM Pools will have characteristics similar to Fixed-Rate Pools described above commencing with the time at which payments are sufficient to cover interest on the principal balances of the underlying Graduating GPMs. Prior to that time, the Certificates evidencing interests in GPM Pools will provide for the monthly distribution of the scheduled interest payment on each Mortgage Loan in the Pool less the Corporation's servicing and guaranty fee attributable thereto, the amount of any such fee being equal to the difference between the fixed Mortgage Interest Rate at which interest accrues on the Graduating GPM and the Pool Accrual Rate borne by the related Certificates.

The Prospectus Supplement relating to a GPM Pool will set forth the period over which payments on the Graduating GPMs increase.

The Corporation's guaranty of Certificates evidencing interests in GPM Pools will cover the principal amount of each underlying Graduating GPM, including any portion thereof representing deferred interest. The Corporation will, following the period (the "Deferred Interest Period") during which such payments are insufficient to cover interest at the Mortgage Interest Rate on their then-outstanding principal balances, including deferred interest that has been added thereto, also be obligated to distribute on each Distribution Date one month's interest at the Pool Accrual Rate on the then-outstanding principal balances of the underlying Graduating GPMs. During the Deferred Interest Period, the Corporation's guaranty will cover, as to each underlying Graduating GPM, the amount of each scheduled payment less the Corporation's servicing and guaranty fee applicable thereto.

### **VRM Pools**

A VRM Pool will be composed of California home Mortgage Loans bearing interest at rates that will vary in response to a cost of funds index published by the Federal Home Loan Bank of San Francisco as described in the Prospectus Supplement. The interest rates will be adjusted periodically at uniform specified intervals. The Prospectus Supplement to be prepared with respect to each Issue will specify the fixed annual percentage servicing fee or "Spread" (out of which the Corporation will compensate Lenders) that the Corporation will retain from interest payments on Mortgage Loans in the related Pool. The resultant interest rate, equal as to each Mortgage Loan to the related Mortgage Interest Rate less this fixed percentage servicing fee, is the "Pass-Through Rate" for that Mortgage Loan. The Corporation has agreed in the VRM Trust Indenture to pass through payments of interest on the Mortgage Loans in a Pool, whether or not received, in an amount equal to one month's interest at the then-current weighted average of the Pass-Through Rates of all Mortgage Loans in that Pool (the "Weighted Average Pass-Through Rate") multiplied by the Certificate Principal Balance as of the preceding Distribution Date (or, respecting the initial distribution, as of the Issue Date). The Weighted Average Pass-Through Rate as of the Issue Date as well as information regarding the original indexes, the initial Mortgage Interest Rates and the then-current Mortgage Interest Rates of all Mortgage Loans in a VRM Pool will be set forth in the Prospectus Supplement. This Weighted Average Pass-Through Rate will change with any changes in the underlying Mortgage Interest Rates and as disproportionate payments of principal are made on Mortgage Loans bearing different Mortgage Interest Rates.

When a Mortgage Loan is prepaid or otherwise liquidated, the proceeds of such prepayment or liquidation will be passed through to Certificateholders in the month following the month of such prepayment or other liquidation, except as provided in "Description of Certificates — Payments on Mortgage Loans; Distribution on Certificates." Since the Corporation will agree in each Certificate to

distribute on each Distribution Date to the Holder thereof an amount as to interest representing one month's interest at the then-current Weighted Average Pass-Through Rate on the related Certificate Principal Balance, any prepayment or other liquidation of a Mortgage Loan and the timing of the distribution of the proceeds thereof will have no effect on the interest return to Certificateholders.

Assuming performance by the Corporation of its obligations under its guaranty, the net effect of each distribution respecting interest will be the pass-through to each Certificateholder of an amount which is equal to one month's interest at the then-current Weighted Average Pass-Through Rate on the Certificate Principal Balance of such Holder's Certificate. See "Description of Certificates — Payments on Mortgage Loans; Distributions on Certificates."

## **ARM Pools**

### *General Characteristics*

An ARM Pool will contain Mortgage Loans that bear interest at rates that will vary in response to a single specified index (such as, but not limited to, the indexes described below) and will adjust periodically at certain intervals specified in the related Prospectus Supplement. The actual Mortgage Interest Rate at any time borne by an ARM after any initial fixed-rate period of the ARM will, subject to any applicable adjustment caps, be equal to the sum of a specified percentage, or "Mortgage Margin," and the index value then applicable thereto, which sum then may be rounded (as provided in the related Mortgage Note) typically to the nearest, next lowest or next highest one-eighth or one-quarter of 1%. ARMs may or may not contain provisions limiting the amount by which rates may be adjusted upward or downward and may or may not limit the amount by which monthly payments may be increased or decreased to accommodate upward or downward adjustments in the Mortgage Interest Rate. Certain ARMs may provide for periodic adjustments of scheduled payments in order to fully amortize the Mortgage Loan by its stated maturity while other ARMs may permit substantial balloon payments at maturity or permit that maturity to be extended or shortened in accordance with the portion of each payment that is applied to interest in accordance with the periodic interest rate adjustments. Unless a Prospectus Supplement specifies otherwise, each ARM in the related Pool will provide for payment adjustments in the month following any interest rate change, each such adjusted payment being in the amount necessary to pay interest at the Mortgage Interest Rate in effect during the month immediately prior to the month in which the first payment in the new amount is due and to fully amortize the outstanding principal balance of the ARM on a level debt service basis over the remainder of its term.

For ARMs with provisions limiting the amount by which rates may be adjusted, the Mortgage Interest Rate for each ARM, when adjusted on each interest rate change date, typically may not be more than a specified percentage amount greater or less than the initial Mortgage Interest Rate, in the case of the first change date, and, in the case of any subsequent change date, the Mortgage Interest Rate that was in effect immediately preceding such change date. Such periodic adjustment caps will be specified in the related Prospectus Supplement. In addition, the Mortgage Interest Rate for an ARM is generally also subject to lifetime maximum and minimum caps, as specified in the related Mortgage Note or as otherwise established by the Lender. Whenever an ARM is limited by a maximum interest rate cap, the Mortgage Interest Rate shall be less than the sum of the applicable index value and the Mortgage Margin; whenever an ARM is limited by a minimum interest rate cap, the Mortgage Interest Rate shall be greater than the sum of the applicable index value and the Mortgage Margin.

If an ARM provides for limitations on the amount by which monthly payments may be increased or if changes to the Mortgage Interest Rate of the ARM are made more frequently than payment changes, it is possible that interest due on scheduled payment dates at an increased rate of interest will not be covered by the amount of the scheduled payment. In that case, the uncollected portion of interest will be deferred and added to the principal balance of the Mortgage Loan.

Certain ARMs may be converted to fixed-rate mortgage loans at the option of their borrowers at the times and in accordance with the procedures specified in the Mortgage Loan documents. These

“convertible” ARMs will not be included in the same Pool with “non-convertible” ARMs. If a Pool consists of “convertible” ARMs (a “Convertible ARM Pool”), the times at which converted ARMs may begin to accrue interest at a fixed rate will be specified in the related Prospectus Supplement. The method of calculating the new fixed rate of interest borne by the converted ARM will be specified in the Mortgage Note and generally will be based on a spread of at least .375% above either the Corporation’s or the Federal Home Loan Mortgage Corporation’s required net yield for the purchase of 30-year (15-year if the original term of the ARM was 15 years or less) fixed-rate mortgage loans covered by short-term mandatory delivery commitments generally contemporaneous with the conversion date. During the month prior to the month in which a converted ARM begins to accrue interest at the new fixed rate, the Corporation will repurchase the converted ARM from the Pool at a price equal to its unpaid principal amount, together with one month’s interest at its then-current Accrual Rate (as defined below). As a result, the weighted average life of the Certificates evidencing interests in a Convertible ARM Pool may be significantly shorter than for similar Pools where no such option to convert and obligation to repurchase exist.

The Corporation’s guaranty of Certificates evidencing interests in ARM Pools will cover the principal of each underlying Mortgage Loan, including any portion thereof representing deferred interest. Its guaranty of interest will cover all interest due and payable by the mortgagor (net of the Corporation’s servicing and guaranty fee). The Corporation also will add to the amount of interest accompanying the prepayment of an underlying Mortgage Loan any amount by which such interest is less than one month’s interest at the rate that accrues to Certificateholders on the Mortgage Loan on the prepaid principal balance thereof. As a consequence, the timing of the prepayment of a Mortgage Loan will have no effect on the interest return to Certificateholders.

#### *Pool Accrual Rate*

Because the interest rates borne by Mortgage Loans in an ARM Pool will, following an initial fixed-rate period, adjust from time to time, and because a portion of the interest accrued thereon may be deferred and payable at a future time, Certificates evidencing interests in such Pools will not provide for the distribution of interest at a fixed Pass-Through Rate. Rather, interest on each ARM in an ARM Pool will accrue to Certificateholders during any period at a monthly rate (the “Accrual Rate”) that is always equal to the corresponding Mortgage Interest Rate at which interest accrued on such ARM during such period net of the Corporation’s percentage servicing and guaranty fee. This percentage servicing and guaranty fee may either (i) vary among the ARMs in a Pool for which the Mortgage Margins vary in order to produce a uniform margin (the “MBS Margin”) specified in the related Prospectus Supplement that will be used to determine the rate over the applicable index value at which interest accrues to Certificateholders (a “Uniform MBS Margin Pool”) or (ii) be uniform as to all ARMs in a Pool (a “Uniform Fee Pool”), resulting, if the Mortgage Margins vary, in varying MBS Margins among the ARMs in that Pool. For example, if the MBS Margin is fixed at a uniform 1.75% among the ARMs in a Uniform MBS Margin Pool, an ARM in that Pool that has a Mortgage Margin of 275 basis points would be assigned a servicing and guaranty fee of 100 basis points and another ARM in that Pool having a Mortgage Margin of 250 basis points would be assigned a servicing and guaranty fee of 75 basis points. Conversely, if the servicing and guaranty fee is fixed at 1.00% for all ARMs in a Uniform Fee Pool, an ARM in that Pool that has a Mortgage Margin of 275 basis points would be assigned an MBS Margin of 1.75%, and another ARM in that Pool having a Mortgage Margin of 250 basis points would have an MBS Margin of 1.50%. To the extent no interest rate cap is applicable and the Mortgage Interest Rate of an ARM is freely floating, the Accrual Rate of that ARM will always be equal, before giving effect to any rounding, to the sum of the applicable Index value and the ARM’s MBS Margin.

At any time, interest for any month will accrue to Certificateholders at a rate that equals the weighted average of the individual Accrual Rates of the ARMs (the “Pool Accrual Rate”). If the Mortgage Interest Rates for all ARMs in a Pool are freely floating and not affected by an interest rate cap, the Pool Accrual Rate will at any such time be equal, before giving effect to any rounding, to the sum of the then applicable index value (or the weighted average of the applicable index values if the

ARMs in the Pool have different interest rate change dates as described under *Maturity, Interest Rate Change Dates* below) and, in the case of a Uniform MBS Margin Pool, the uniform MBS Margin or, in the case of a Uniform Fee Pool, the weighted average of the individual MBS Margins. The Pool Accrual Rate for a Pool cannot, however, be determined solely on the basis of applicable index values and MBS Margins if the Mortgage Interest Rate of any ARM in that Pool is in its initial fixed-rate period or is restricted by a periodic or lifetime adjustment cap. In any case, the Pool Accrual Rate for a Pool will always be equal to the weighted average of the Mortgage Interest Rates of the ARMs in the Pool net of, in the case of a Uniform Fee Pool, the uniform fixed servicing and guaranty fee or, in the case of a Uniform MBS Margin Pool, net of the weighted average of the individual fixed servicing and guaranty fees.

The range of Mortgage Margins for the ARMs in a Pool will be set forth in the related Prospectus Supplement. The Prospectus Supplement for a Uniform MBS Margin Pool will also set forth the fixed MBS Margin for that Pool. For Uniform Fee Pools, the initial weighted average MBS Margin at the Issue Date will be specified in the Prospectus Supplement. Because differences in the amortization or prepayment of ARMs with differing Mortgage Margins will cause any such initial weighted average MBS Margin to change, Fannie Mae will publish each month for each Uniform Fee Pool an updated weighted average MBS Margin in the Fannie Mae *Monthly ARMs Report* supplement to the Fannie Mae *Monthly Factor Report* published by The Bond Buyer (the “*Monthly ARMs Report*”) or in such other publication as determined by Fannie Mae that will be applicable to the distribution to be made in the month of the publication of such *Monthly ARMs Report* (which distribution reflects the Accrual Rates of the ARMs in the month preceding the month of publication), subject to any deferral of interest. Although changes in the weighted average of the Mortgage Margins of ARMs in a Uniform MBS Margin Pool will affect the weighted average of the fixed servicing and guaranty fees applicable to the ARMs included therein (with a corresponding effect on the Pool Accrual Rate during any initial fixed-rate period or whenever Mortgage Interest Rate caps may be applicable), no such updated information will be published for Pools of this type.

Information as to the approximate maximum and minimum (if applicable) Pool Accrual Rates of a Pool (*i.e.*, the weighted averages of the maximum and minimum Accrual Rates of the ARMs in the Pool) will be included in the Prospectus Supplement. These rates will be computed using the maximum and minimum Accrual Rates of the ARMs in a Pool weighted on the basis of their Issue Date principal balances. Differences in the amortization, prepayment, or maturity dates of ARMs with differing maximum and minimum Mortgage Interest Rates, and, in the case of Uniform MBS Margin Pools, fixed servicing and guaranty fees, are likely to cause the initial maximum and minimum Pool Accrual Rates for a Pool to change over the life of that Pool. In addition, if a Prospectus Supplement discloses that any assumption of an ARM in the related Pool by a new mortgagor may result in a change in the maximum and/or minimum Mortgage Interest Rates applicable thereto, any such assumption may also affect the maximum and minimum Pool Accrual Rates.

#### *Maturity, Interest Rate Change Dates*

The weighted average remaining term to maturity of the ARMs in a Pool will be set forth in the related Prospectus Supplement. The Prospectus Supplement also will specify whether or not the ARMs in a Pool all have the same interest rate change dates on and after the Issue Date. If the interest rate change dates for ARMs in a Pool are uniform, the Accrual Rates for all ARMs in a Pool will, subsequent to the first interest rate change date on or after the Issue Date of the Pool, be based on Mortgage Interest Rates that have been calculated using the same index value. If the Prospectus Supplement indicates that the ARMs in a Pool have varying interest rate change dates, the Pool Accrual Rate for any month will be calculated based on Mortgage Interest Rates that, after the initial fixed-rate period of each of the ARMs, have been determined based on varying index values. For instance, with respect to a Pool that contains ARMs with both March 1 and August 1 annual interest rate change dates and a 45-day “look-back” period, interest will accrue to Certificateholders during the month of August with respect to the March 1 interest rate change date ARMs on the basis of the index value most recently available 45 days prior to March 1, and with respect to the August 1 interest

rate change date ARMs on the basis of the index value most recently available 45 days prior to August 1. This results in the likelihood of a Pool Accrual Rate that, even in the case of a Uniform MBS Margin Pool, represents a weighted average of the different Accrual Rates of the ARMs included therein. The uniform or varying interest rate change dates of the ARMs in a Pool will be specified in the related Prospectus Supplement. In addition, the Prospectus Supplement will specify a “Weighted Average Months to Roll” that represents the weighted average amount of time from the Issue Date of the related Pool to the next interest rate change dates of all ARMs in the Pool.

#### *The Indexes*

The index for each ARM Pool will be identified in the related Prospectus Supplement. Two commonly used indexes are the weekly average yield on United States Treasury Securities adjusted to a constant maturity of one year or three years as published by the Board of Governors of the Federal Reserve System in the Federal Reserve Statistical Release: Selected Interest Rates No. H.15 (519) (the “One Year Treasury Index” and the “Three Year Treasury Index”). Statistical Release No. H.15 (519) is usually 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.

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.

Another frequently used index is currently published by the Federal Home Loan Bank of San Francisco (the “FHLB of San Francisco”) on or about the last working day of each month and 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”) for the month prior to publication (the “COFI Index”). The COFI Index for a particular month reflects the interest costs paid on all types of funds held by such 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 FHLB of San Francisco to neutralize the effect of events such as member institutions leaving the Eleventh District or acquiring institutions outside the Eleventh District. The COFI 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) FHLB of San Francisco 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 COFI Index does not necessarily reflect current market rates.

A number of factors affect the performance of the COFI Index that may cause it to move in a manner different from indexes tied to specific interest rates, such as the One Year Treasury Index and the Three Year Treasury Index. Because the liabilities upon which the COFI Index is based were issued at various times under various market conditions and with various maturities, the COFI Index may not necessarily reflect the average prevailing market interest rates on new liabilities of similar maturities. Moreover, as stated above, the COFI 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 COFI Index may not necessarily move in the same direction as market interest rates at all times, because as longer term deposits or borrowings mature and are renewed at prevailing market interest rates, the COFI Index is influenced by the differential between the prior and the new rates on those deposits or borrowings. In addition, movements of the COFI Index, as

compared with other indexes tied to specific interest rates, may be affected by changes instituted by the FHLB of San Francisco in the method used to calculate the COFI Index. The FHLB of San Francisco publishes the COFI Index in its monthly *Federal Home Loan Bank of San Francisco Information Bulletin* (the “Information Bulletin”) and such bulletins may be obtained from its Office of Public Information.

Listed below are some historical values for the above-mentioned indexes which are provided for selected months beginning in June 1991. The values for the One Year Treasury Index and the Three Year Treasury Index are the first weekly values published in a given month. The values for the COFI Index represent the weighted average cost of funds for the given month, and are usually announced by the FHLB of San Francisco on the last working day of the following month. The FHLB of San Francisco has stated in its Information Bulletin that the COFI 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 the COFI Index on an exact date.

<u>Year-Month</u>	<u>One Year Treasury Index</u>	<u>Three Year Treasury Index</u>	<u>COFI Index</u>
1991-June . . . . .	6.130%	7.070%	7.155%
-December . . . . .	4.740	5.810	6.245
1992-June . . . . .	4.270	5.830	5.258
-December . . . . .	3.820	5.350	4.432
1993-June . . . . .	3.550	4.600	4.050
-December . . . . .	3.620	4.540	3.879
1994-June . . . . .	5.310	6.290	3.804
-December . . . . .	6.890	7.620	4.589
1995-June . . . . .	5.710	5.830	5.179
-December . . . . .	5.390	5.470	5.059
1996-June . . . . .	5.700	6.340	4.809
-December . . . . .	5.41	5.75	4.842
1997-June . . . . .	5.86	6.44	4.853
-July . . . . .	5.63	6.17	—

Unless otherwise specified in the Prospectus Supplement, the index value for each ARM’s interest rate change date is that value that is most recently available 45 days prior to such interest rate change date. For a particular Distribution Date, the applicable index value is the value (which will be a weighted average value if the ARMs in a Pool have varying interest rate change dates) that was used to determine the interest rates of the ARMs in a Pool for the prior month.

**Reinvestment Risk**

The Mortgage Loans underlying the Certificates generally may be prepaid at any time, unless otherwise specified in the related Prospectus Supplement. (See “Maturity and Prepayment Assumptions.”) Accordingly, it is not possible to predict the rate at which distributions of principal of the Certificates will be received. Since prevailing interest rates are subject to fluctuation, there can be no assurance that investors in the Certificates will be able to reinvest the distributions thereon at yields equaling or exceeding the yields on such Certificates. It is possible that yields on 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 related reinvestment risks in light of other investments that may be available to such investors.

## MATURITY AND PREPAYMENT ASSUMPTIONS

The original maturities of substantially all of the Conventional Level Payment Mortgage Loans are expected to be either up to 15 years or 16 to 30 years. The maturities of substantially all of the Government Level Payment Mortgage Loans at origination are expected to be up to 30 years. Each Level Payment Mortgage Loan (other than a Biweekly Mortgage Loan, a Fully Graduated GPM or a Fully Increased GEM) with an original maturity of 30 years will provide for amortization of principal according to a schedule that, in the absence of prepayments, would result in repayment of one-half of the original principal amount of such Mortgage Loan by approximately the 23rd to 27th year, with higher Mortgage Interest Rates resulting in slower amortization of principal. (The amortization of principal of Biweekly Mortgage Loans is described in greater detail under “Yield Considerations — Biweekly Mortgage Pools.”) A 15-year fully amortizing Level Payment Mortgage Loan (other than a Biweekly Mortgage Loan, a Fully Graduated GPM or a Fully Increased GEM) would, in the absence of prepayments, result in repayment of one-half of the original principal amount by approximately the 10th to 12th year, with higher Mortgage Interest Rates resulting in slower amortization of principal. Unless otherwise specified in a Prospectus Supplement, the original maturities of the Mortgage Loans in an ARM Pool may be up to 30 years. The original maturities of Balloon Mortgages may range from 7 to 10 years. Each Balloon Mortgage provides for monthly payments, which generally are based upon a 30-year amortization schedule with a lump sum payment equal to the unpaid principal balance of the Balloon Mortgage on its maturity date.

A significant number of the Conventional Mortgage Loans may provide by their terms that in the event of the sale of all or some of the underlying property the full unpaid principal balance of the Mortgage Loan is due and payable at the option of the holder. Government Mortgage Loans generally contain no such “due-on-sale” provisions. As set forth under “Description of Certificates — Collection and Other Servicing Procedures,” the Trust Indenture or related Issue Supplement requires the Corporation to exercise its right to accelerate the maturity of a Conventional Mortgage Loan other than a VRM or ARM in such an event so long as acceleration is permitted under applicable law unless it elects to repurchase such Mortgage Loan. Further, the Corporation will not enforce “due-on-sale” provisions in the event that a property is transferred from one co-borrower to an unrelated co-borrower under the circumstances specified in the published guidelines of Fannie Mae governing assumability of the related Conventional Mortgage Loan.

The ability of mortgage lenders and their assignees and transferees to enforce “due-on-sale” clauses was addressed by the “Garn-St Germain Depository Institutions Act of 1982,” which was passed by Congress and signed into law on October 15, 1982. This legislation, subject to certain exceptions, pre-empts state statutory and case law that prohibits the enforcement of “due-on-sale” clauses. Exempted from this pre-emption are mortgage loans (originated other than by federally chartered lenders) that were made or assumed during the period beginning on the date a state, by statute or statewide court decision, prohibited the exercise of “due-on-sale” clauses and ending on October 15, 1982 (the “window period”). Mortgage lenders, however, may require any successor or transferee of the borrower to meet customary credit standards. The exemption for such loans ended on October 15, 1985 unless the state acted to otherwise regulate these loans by that date. Several states passed legislation extending the assumability of the mortgage loans that were made or assumed during the window period. In the case of those states, the enforceability of “due-on-sale” clauses in loans made or assumed during the window period is limited by the provisions of the applicable state legislation. The federal legislation also enumerates nine circumstances under which a lender may not enforce “due-on-sale” clauses, *e.g.*, the creation of a subordinate encumbrance that does not relate to a transfer of rights of occupancy in the property, a transfer by devise, descent, or operation of law on the death of a joint tenant or tenant by the entirety, and the granting of a leasehold interest of three years or less not containing an option to purchase. In addition to the circumstances described above limiting the enforcement of “due-on-sale” clauses, Conventional Level Payment Mortgage Loans originated prior to the mid-1980s may, by their terms, not contain enforceable “due-on-sale” clauses or may contain exceptions to the enforcement of a “due-on-sale” clause.

Conventional Mortgage Loans purchased by the Corporation from November 10, 1980, to October 15, 1982, in jurisdictions where, on the date of origination, the law substantially restricted lenders from enforcing “due-on-sale” provisions may provide that they are due and payable at the holder’s option at the end of seven years. As described in “Description of Certificates — Collection and Other Servicing Procedures,” the Trust Indenture provides that the Corporation will exercise or refrain from exercising any such “call option rider” in a manner that is consistent with then-current policies or practices employed by the Corporation respecting comparable mortgage loans held in its own portfolio.

In an environment of declining interest rates, lenders servicing mortgage loans often are asked by mortgagors to refinance the mortgage loans through issuance of new loans secured by mortgages on the same properties. The resultant prepayments, if they involve Mortgage Loans in Pools, result in the distribution to Certificateholders of the principal balances of the prepaid Mortgage Loans and their removal from the Pools. Under the Corporation’s current policy, Lenders servicing Mortgage Loans are permitted to advertise in a general manner their availability to handle refinancings, although they may not specifically target mortgagors whose Mortgage Loans are in Pools. The Corporation does not, however, permit Lenders to remove Mortgage Loans from Pools for the purpose of Mortgage Loan modifications.

In general, when the level of interest rates declines below the interest rates on mortgage loans, the rate of prepayment is likely to increase, although the prepayment rate is influenced by a number of other factors, including general economic conditions and homeowner mobility. In addition, as described below, certain Mortgage Loans may have provisions restricting the borrower’s ability to prepay such Mortgage Loan or may require the payment of mortgage prepayment penalties in varying amounts, which may or may not influence prepayment rates. 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. For instance, various lenders (in some cases in conjunction with the Corporation) 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 refinance and narrow the interest rate differential that must exist before a refinancing is both economic and practical. In addition, increased borrower sophistication regarding the benefits of refinancing and extensive solicitation of borrowers by lenders (including the Corporation’s mortgage loan servicers) may result in an increase in the rate by which Mortgage Loans in Pools are prepaid due to refinancing. Certain rights of the Corporation described herein under “Description of Certificates,” such as its option to repurchase delinquent Mortgage Loans (*see* “— Payments on Mortgage Loans; Distributions on Certificates”) and to repurchase the remaining Mortgage Loans in a Pool in order to terminate an Issue (*see* “— Termination”), may affect the rate of prepayment of a Pool of Mortgage Loans. Accordingly, the Corporation cannot estimate what the prepayment experience of the Mortgage Loans in Pools will be. See the Information Statement for the Corporation’s most recent Mortgage Loan prepayment experience of its portfolio.

Certain Pools may be comprised entirely of Mortgage Loans which allow the noteholder to collect a mortgage prepayment penalty or which restrict the borrower’s ability to prepay such Mortgage Loan. Any such restrictions or penalties will be described in the related Prospectus Supplement and, unless otherwise specified therein, any such prepayment penalty, if collected, will be retained by the Corporation and will not be passed through to the Certificateholders. In all other cases, Pools generally will not contain Mortgage Loans with such prepayment penalties or restrictions. The Corporation cannot estimate what the prepayment experience of Pools containing Mortgage Loans with prepayment penalties or restrictions will be.

In addition, certain Pools may be comprised entirely of Mortgage Loans originated pursuant to agreements between lenders and employers in connection with relocation programs maintained by employers that commonly relocate their employees (“relocation Mortgage Loans”), but which will not be Mortgage Loans made in connection with the non-recurring relocation of an employee’s place of business. Such Pools will be designated by a unique prefix to the Pool number. In all other cases,

unless otherwise specified in the related Prospectus Supplement, the Corporation anticipates that the aggregate Issue Date principal balance of relocation Mortgage Loans (or other Mortgage Loans similar in certain respects to relocation Mortgage Loans) in a Pool will not exceed 10 percent of the aggregate Issue Date principal balance of such Pool. The Corporation cannot estimate what the prepayment experience of relocation Mortgage Loans or other Mortgage Loans similar in certain respects to relocation Mortgage Loans will be or how it might compare with non-relocation Mortgage Loans, nor is the Corporation aware of any conclusive studies or statistics on the rate of prepayment of mortgage loans such as relocation Mortgage Loans. Such prepayment experience would depend on a number of factors, including those mentioned above, as well as on the circumstances of individual employees and employers and the characteristics of the specific relocation programs involved.

Certain other Pools may be Cooperative Share Loan Pools (as described above). Such Pools will be designated by a unique prefix to the Pool number. In all other cases, unless otherwise specified in the related Prospectus Supplement, the Corporation anticipates that the aggregate Issue Date principal balance of Cooperative Share Loans in a Pool will not exceed 10 percent of the aggregate Issue Date principal balance of such Pool. Due to the factors indicated above, the Corporation cannot estimate what the prepayment experience of the Cooperative Share Loans will be. In addition, certain aspects of the Collateral underlying Cooperative Share Loans may affect the timing of prepayments on such Cooperative Share Loans. Generally, the proprietary leases or occupancy agreements appurtenant to ownership interests in a Cooperative are subordinate to the interest of the holder of such Cooperative's blanket mortgage. If for whatever reason the Cooperative is unable to meet its payment obligation under the blanket mortgage, the holder of the blanket mortgage could foreclose on the blanket mortgage, and terminate all subordinate proprietary leases and occupancy agreements. By its terms, a proprietary lease or occupancy agreement also may be subject to termination by the Cooperative, and the related ownership interest subject to cancellation, in the event the tenant-shareholder defaults in the performance of payment obligations or other covenants required under such proprietary lease or occupancy agreement. The stock, shares, membership certificate or other contractual agreement evidencing an ownership interest in the Cooperative (and pledged as part of the Collateral for a Cooperative Share Loan) may be subject to restrictions on transfer contained in the Cooperative's certificate of incorporation and bylaws, and in the related proprietary lease or occupancy agreement. Generally, the consent or approval of the Cooperative will be required prior to the transfer of the ownership interest in a Cooperative and the assignment of the attendant occupancy rights.

A GEM provides for scheduled annual increases in the mortgagor's monthly payments. Because the additional scheduled portion of the monthly payments is applied to reduce the unpaid principal balance of a GEM, the scheduled maturity of a GEM will be significantly shorter than the 25- or 30-year term used as the basis for calculating the initial level installment of principal and interest applicable until the first adjustment. The maturity date and weighted average remaining term set forth in the Prospectus Supplement for a Fixed-Rate Pool containing GEMs are calculated without regard to the original term used for purposes of calculating the initial monthly payment amount, but are based on the term required to amortize the Issue Date principal balance of each GEM, based on its interest rate and current monthly installment assuming only scheduled increases in monthly payments and no prepayments of principal. No GEM that matures by its terms more than 15 years subsequent to the Issue Date of the related Certificates will be eligible for inclusion in a Pool.

As set forth above under "Yield Considerations," GPMs provide for payments that increase annually for a period of years (generally between three and seven) and then amortize on a level payment basis to their stated maturity. Because the principal amount of a GPM will increase during its Deferred Interest Period, the time at which one-half of the principal amount of a GPM will be paid in accordance with its amortization schedule will be longer than for a Level Payment Mortgage Loan bearing a similar Mortgage Interest Rate. The maturities of substantially all VRMs at origination are expected to be 30 years, but the maturity of each Mortgage Loan may at the option of the mortgagor be

increased to a term not in excess of 40 years in the event of certain increases in the Mortgage Interest Rate. ARMs vary substantially as to their terms and it is impossible to generalize as to the speed at which they will amortize in the absence of prepayments.

#### *Subordinate Lien Mortgage Loans*

The original maturities of subordinate lien Mortgage Loans are expected to be up to 30 years. Subordinate lien Mortgage Loans generally may be prepaid in whole or in part at any time without penalty. The Corporation is not aware of any reliable studies or statistics on the rate of prepayment of subordinate lien Mortgage Loans. Generally, subordinate lien Mortgage Loans are not viewed by mortgagors as permanent financing because in most instances the term is shorter and the interest rate is higher than on first lien Mortgage Loans placed under similar circumstances. Accordingly, they may prepay at a higher rate than traditional fixed-rate first lien Mortgage Loans with substantially similar coupons. In addition, any future limitation on the right of borrowers to deduct interest payments on subordinate lien Mortgage Loans for federal income tax purposes also may contribute to a higher rate of prepayments of such Mortgage Loans. Prepayment experience may also be affected by a wide variety of additional factors, including general economic conditions, interest rates, the availability of alternative financing and homeowner mobility. The Corporation will enforce the “due-on-sale” provisions of such Mortgage Loans (other than an ARM or a Government Mortgage Loan) or, in the alternative, will repurchase such Mortgage Loans subject to the same conditions as its general obligation with respect to fixed-rate first lien Conventional Mortgage Loans described above.

### **PURCHASE PROGRAM**

Set forth below is a description of certain aspects of the Corporation’s purchase program for mortgage loans eligible for inclusion in a Pool (the “Program”). The Prospectus Supplement to be prepared with respect to each Issue will contain information on the Mortgage Loans in the Pool, including information as to the type of Mortgage Loans, the aggregate principal balance of the Mortgage Loans as of the Issue Date, for Fixed-Rate Pools and Biweekly Mortgage Pools the Pass-Through Rate, for GPM Pools the Pool Accrual Rate, for ARM Pools the initial Pool Accrual Rate, for VRM Pools the initial Weighted Average Pass-Through Rate, and the maturity date of the Pool.

#### **Lender Eligibility**

The Corporation will purchase Mortgage Loans from eligible federally and state-chartered savings and loan associations, mutual savings banks, commercial banks, credit unions, and similar financial institutions, the deposits or accounts of which are insured by a fund administered by the Federal Deposit Insurance Corporation (“FDIC”) or the National Credit Union Administration (“NCUA”), from certain other state-insured financial institutions and from certain institutions, principally mortgage bankers, that are mortgage sellers approved by the Corporation. The Corporation, on an individual institution basis, will determine whether such institutions will be approved as Lenders for the Program by applying certain criteria, which may include depth of mortgage origination experience, servicing experience, and financial capacity. Approved Lenders will be party with the Corporation to a Mortgage Selling and Servicing Contract.

#### **Mortgage Loan Eligibility**

##### *General*

The Mortgage Loans to be included in each Pool will be Mortgage Loans on, in the case of Residential Property Loans, residential properties and, in the case of Cooperative Share Loans, ownership interests in Cooperatives and assignments of the accompanying occupancy rights. Each Mortgage Loan purchased for inclusion in a Pool will be subject to and must comply with the terms of the current Selling Guide or any multifamily guide published by Fannie Mae if applicable, unless Fannie Mae grants an exception with respect to certain requirements. These Mortgage Loans are permanent loans (as opposed to loans which finance construction and land development only) secured by Mortgage on, in the case of Residential Property Loans, properties comprised of (i) single-family

dwelling units, including units in condominium projects or planned unit developments, and manufactured homes or (ii) multifamily projects consisting of five or more dwelling units, and, in the case of Cooperative Share Loans, the stock, shares, membership certificates or other contractual agreements evidencing Cooperative ownership and the assignment of the accompanying proprietary leases or occupancy agreements on one-family dwelling units in the Cooperative's building(s). Each Mortgage Loan will be documented by the appropriate Fannie Mae/FHLMC Uniform Instrument in effect at the time of origination, or an FHA or VA mortgage instrument or other instrument acceptable to the Corporation, and will comply with all applicable federal and local laws, including laws relating to usury, equal credit opportunity, and disclosure.

There is no requirement that Mortgage Loans be payable on the first day of the month in order to be eligible for inclusion in a Pool. The Mortgage Loans generally must have had maturities of not more than 30 years from their date of origination, although VRMs can be extended to 40 years at the option of the mortgagor in the event of certain increases in the Mortgage Interest Rates.

#### *Conventional Mortgage Loans*

Pursuant to the requirements of the Selling Guide, first lien Conventional Mortgage Loans that are Residential Property Loans must be loans secured by first Mortgages on residential properties with original principal balances that (when combined with the original principal balance of any subordinate lien Mortgage Loan in which the Corporation has an interest) did not exceed certain federally imposed maximum principal balance limitations applicable to the Corporation, and first lien Conventional Mortgage Loans that are Cooperative Share Loans must be cooperative share loans secured by first liens on the stock, shares, membership certificate or other contractual agreement evidencing a tenant-shareholder's ownership interest in a Cooperative, and by an assignment of the related proprietary lease or occupancy agreement (subject to a Cooperative's lien against a tenant-shareholder's ownership interest for unpaid assessments that represent the tenant-shareholder's pro rata share of the Cooperative's payments for the blanket mortgage, ground rent, if applicable, real property taxes, general upkeep of the premises, special assessments, and other assessments) with original principal balances that did not exceed certain federally imposed maximum principal balance limitations for mortgages secured by one-family residences applicable to the Corporation. However, when the Corporation also owns an interest in a related blanket cooperative project mortgage, the usual maximum principal balance limitation applicable to a Cooperative Share Loan must be reduced by the portion of the unpaid principal balance of the blanket mortgage that is attributable to the Cooperative Share Loan. The maximum dollar purchase limitations for both Residential Property Loans and Cooperative Share Loans are subject to adjustment annually effective January 1st and are set forth in the Selling Guide or an Announcement thereto (current maximum dollar purchase limitations also may be obtained by calling Fannie Mae at 1-800-BEST-MBS). The maximum dollar purchase limitations for mortgages secured by one-to four-family residences in Alaska, Hawaii and the Virgin Islands are 50 percent higher than the limits for the rest of the country, as set forth in the Selling Guide or an Announcement thereto. The maximum mortgage amount for a subordinate lien Mortgage Loan is 50 percent of the Corporation's conventional first mortgage limit for a single-family dwelling. Additionally, if the Corporation has purchased, serviced, sold or otherwise dealt with the first lien Mortgage Loan on a single-family dwelling, the Corporation will acquire the subordinate lien Mortgage Loan on such dwelling only if the combined original balance of both the first lien Mortgage Loan and the subordinate lien Mortgage Loan does not exceed the maximum dollar purchase limitation for mortgages secured by one-family residences.

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

First lien Conventional Mortgage Loans (other than Multifamily Mortgage Loans or any Conventional Mortgage Loans insured or guaranteed by a United States government agency) with loan-to-value ratios exceeding 80 percent must be insured or guaranteed by a qualified insurer at the coverage percentage provided in the Selling Guide, except as provided below. Subordinate lien Conventional Mortgage Loans (other than Multifamily Mortgage Loans or any Conventional Mortgage Loans insured or guaranteed by a United States government agency) where the combined loan-to-value ratio of the first lien and the subordinate lien exceeds 70 percent must, at a minimum, have the principal amount of the indebtedness of the subordinate lien insured or guaranteed by a qualified insurer at the coverage percentage provided in the Selling Guide, except as provided below. Any mortgage insurer must be acceptable to the Corporation. As an alternative, Lenders may (i) contract with the Corporation to repurchase such Conventional Mortgage Loans for such period and under such circumstances as the Corporation may require in the event the Conventional Mortgage Loans are in default or (ii) retain a participation interest of not less than 10% in such Conventional Mortgage Loans.

The maximum loan-to-value ratio at the time of purchase for a Conventional Mortgage Loan secured by a first Mortgage on an owner-occupied one-family property (other than second homes) that does not secure any subordinate financing is generally 97 percent (90 percent in the case of ARMs or Balloon Mortgages). Where such a property also secures subordinate financing, the maximum loan-to-value ratio of the sum of the Conventional Mortgage Loan and the subordinate financing is generally 90 percent. In the case of a Conventional Mortgage Loan secured by a first Mortgage on an owner-occupied one-family second home that does not secure any subordinate financing, the maximum loan-to-value ratio is generally 80 percent. In addition, if such a property also secures subordinate financing, the maximum loan-to-value ratio of the sum of the Conventional Mortgage Loan and the subordinate financing is generally 90 percent.

The maximum loan-to-value ratio (including the unpaid principal balance of all subordinate financing) at the time of purchase for a Conventional Mortgage Loan secured by an owner-occupied two-family property is generally 90 percent. The maximum loan-to-value ratio (including the unpaid principal balance of all subordinate financing) at the time of purchase for a Conventional Mortgage Loan secured by an owner-occupied three- to four-family property is generally 80 percent. In the case of a first lien Conventional Mortgage Loan secured by an investment property, the maximum loan-to-value ratio (including the unpaid principal balance of all subordinate financing) at the time of purchase is generally 70 percent. The maximum combined loan-to-value ratio of a subordinate lien Conventional Mortgage Loan and the first lien financing is generally 80 percent.

With respect to the eligibility criteria for Multifamily Mortgage Loans, the original principal balance of each Mortgage Loan is restricted by the Corporation's Charter Act to no greater than 125 percent of the dollar amounts set forth in Section 207(c)(3) of the National Housing Act, except that in high cost areas designated by the U.S. Department of Housing and Urban Development, the per unit limitations are 240 percent of the Section 207(c)(3) dollar amounts. The limits in any high cost area are:

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

For example, if a multifamily project contains 100 two-bedroom units in an elevator structure within a high cost area, the maximum original mortgage amount would be \$11,569,000. If the multifamily project is not in a high cost area, the maximum original mortgage amount would equal the

Section 207(c)(3) loan limitation times 125 percent times the number of units. However, to a limited extent, amounts attributable to nonresidential components of the Mortgaged Properties may be deducted from the per unit mortgage amount.

Pursuant to the requirements of the Selling Guide, each Lender that sells a Conventional Mortgage Loan to the Corporation for the purposes of the Program must assume responsibility for underwriting such Conventional Mortgage Loan using the same underwriting criteria, as from time to time in effect, that must be met by mortgage loans eligible for Fannie Mae portfolio purchases. As provided above, exceptions to these underwriting criteria (including the maximum loan-to-value ratio limitations) may be granted by the Corporation from time-to-time. After delivery of the Conventional Mortgage Loans, the Corporation will conduct reviews of the quality of credit and property underwriting used in the origination of certain randomly selected Conventional Mortgage Loans.

#### *Government Mortgage Loans*

Pursuant to the requirements of the Selling Guide, Government Mortgage Loans must generally be real estate loans with stated constant annual rates of interest, secured by first (or subordinate) mortgages on residential properties. Each Government Mortgage Loan must be insured or guaranteed by a valid and subsisting insurance policy or guaranty in full force and effect.

Substantially all Government Mortgage Loans are either insured by the Federal Housing Administration (“FHA”) or guaranteed by the Department of Veterans Affairs (“VA”), the Department of Housing and Urban Development (“HUD”) or the Rural Housing Service (“RHS”). The principal balance and loan-to-value ratio of each Government Mortgage Loan must comply with the standards established by the applicable government agency. In the case of VA Mortgage Loans, the Corporation generally imposes a maximum principal balance limitation of \$203,000. In addition, the unguaranteed portion of the VA Mortgage Loan amount cannot be greater than 75 percent of the lesser of (i) the purchase price of the property or (ii) the VA’s estimate of reasonable value.

### **DESCRIPTION OF CERTIFICATES**

Each Issue of Certificates will be issued pursuant to the applicable Trust Indenture described above. The applicable Trust Indenture will, as to each Issue, be supplemented by an Issue Supplement, which will be prepared at the time of the creation of such Issue. The Issue Supplement will set forth the specific terms of the Issue, such as the Pass-Through Rate applicable thereto in the case of Fixed-Rate Pools and the Issue Date. The Issue Supplement will also contain any variation from the basic Trust Indenture applicable to a particular Issue, any such variation also being described in the Prospectus Supplement relating to such Issue. As set forth under “Legal Opinion,” the validity of each Issue of Certificates, the applicable Trust Indenture, and the related Issue Supplement will be passed upon by the General Counsel or any Deputy General Counsel of the Corporation upon the request of any Holder of Certificates of such Issue.

Mortgage Loans not previously held in the Corporation’s portfolio will be purchased pursuant to a Pool Purchase Contract in exchange for Certificates in the related Pool. Such Mortgage Loans will be serviced by one of the Corporation-approved Lenders, often the same entity as the loan originator, pursuant to the terms of the Pool Purchase Contract, generally as supplemented by the Selling Guide, the Servicing Guide and any Fannie Mae published multifamily guide, if applicable (collectively, the “Guides”), which are incorporated therein by reference. Copies of the applicable Trust Indenture may be obtained from the Corporation’s Washington, D.C. office, or from any of the Corporation’s regional offices in Philadelphia, Atlanta, Chicago, Dallas, and Pasadena.

The following summaries describe certain provisions of the Trust Indenture. 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 applicable Trust Indenture.

#### **General**

The Certificates will represent Fractional Undivided Interests in the Trust Fund created pursuant to the Trust Indenture and Issue Supplement for each Issue. The Fractional Undivided Interest

represented by a particular Certificate will be equal to the initial principal denomination of such Certificate entered on the books of a Federal Reserve Bank divided by the aggregate Stated Principal Balance<sup>(1)</sup> of the Mortgage Loans in the Pool (the “Pool Principal Balance”) as of the Issue Date. The Trust Fund for an Issue consists of (i) such Mortgage Loans as from time to time are subject to the Trust Indenture and Issue Supplement, (ii) such payments or other recoveries on Mortgage Loans as from time to time may be considered to be held by the Corporation for Certificateholders, (iii) property acquired by foreclosure of Mortgage Loans or by deed in lieu of foreclosure, and (iv) the interest of Certificateholders in the obligation of the Corporation to supplement payments and other recoveries on Mortgage Loans to the extent necessary to make required distributions to Certificateholders.

Unless the related Prospectus Supplement provides otherwise, Certificates will be available in book-entry form only and will not be convertible to definitive form. A Fiscal Agency Agreement between the Corporation and the Federal Reserve Bank of New York makes generally applicable to Certificates in book-entry form (i) regulations governing the Corporation’s use of the book-entry system (and the pledging and transfer of interests in such Certificates) contained in 24 C.F.R. Part 81, Subpart H, as amended from time to time and (ii) the Federal Reserve Bank’s operating circulars and letters. Certificates can be accommodated on the Federal Reserve Bank’s book-entry system in a minimum denomination of \$1,000 and in additional increments of one dollar and will be freely transferable on the records of a Federal Reserve Bank.

Certificates will be maintained on the book-entry system of a Federal Reserve Bank in a manner that permits separate trading and ownership. The Federal Reserve Bank of New York will make payments on the Certificates on behalf of Fannie Mae on the applicable Distribution Dates by crediting accounts on its records or on the records of other Federal Reserve Banks. Certificates may be held of record only by entities eligible to maintain book-entry accounts with a Federal Reserve Bank. Such entities are not necessarily the beneficial owners of the Certificates. Beneficial owners will ordinarily hold Certificates through one or more financial intermediaries, such as banks, brokerage firms and securities clearing organizations. A Certificateholder that is not the beneficial owner of a Certificate, and each other financial intermediary in the chain to the beneficial owner, will have the responsibility of establishing and maintaining accounts for its respective customers. The rights of the beneficial owner of a Certificate with respect to Fannie Mae and the Federal Reserve Bank may be exercised only through the financial intermediaries thereof. Fannie Mae and the Federal Reserve Bank will have no direct obligation to a beneficial owner of a Certificate that is not also the owner of record according to the account maintained by the Federal Reserve Bank. The Federal Reserve Bank will act only upon the instructions of the record owner in recording transfers of a Certificate.

Distributions of principal and interest on each Issue of Certificates will be made by the Corporation on the 25th day of each month (or, if such 25th day is not a business day, on the first business day next succeeding such 25th day) (the “Distribution Date”) to the persons in whose names the Certificates are entered on the books of a Federal Reserve Bank as of the close of business on the last day of the preceding month (the “Record Date”). The first distribution for each Issue of Certificates will be in the month following the month in which the Issue Date occurs. Distributions for each Issue will be made by wire to Certificateholders of record not later than the 25th day of each month.

As described under “Rights Upon Event of Default,” Holders of Certificates will have the right under certain circumstances to appoint a successor Trustee.

---

(1) All references herein to the Stated Principal Balance of a Mortgage Loan or to the aggregate Stated Principal Balance of all Mortgage Loans in a Pool are to the principal balance or aggregate principal balance, as the case may be, utilized by the Corporation in calculating the then-outstanding principal balances of Certificates. Such Stated Principal Balances may differ from actual principal balances for a number of reasons, including supplemental payments by the Corporation on delinquent Mortgage Loans pursuant to its guaranty obligations and delays in the distribution of certain Mortgage Loan receipts.

### **Transfer of Mortgage Loans to Pools**

Each Mortgage Loan transferred to a Pool will be identified in a Mortgage Loan Schedule appearing as an exhibit to the Issue Supplement for the related Issue of Certificates. In addition, in the case of whole Mortgage Loans that are Residential Property Loans, the Corporation, as Trustee of the Mortgage Loans, will hold on behalf of Certificateholders the original Mortgage Note, endorsed in blank (if applicable) and an assignment to the Corporation of a Mortgage that is in a form suitable for recording or filing but not recorded or filed. Usually assignments of Mortgages are in a form suitable for recording or filing but they are not recorded or filed. However, a blanket assignment of Mortgages may be used for the transfer of a large number of Mortgage Loans, even if the properties are not located in the same recording or filing jurisdiction, depending on the Lender's servicing experience and its financial condition. In the case of whole Mortgage Loans that are Cooperative Share Loans, the Corporation, as Trustee of the Mortgage Loans, will retain on behalf of Certificateholders the original Mortgage Note, endorsed in blank, together with an assignment of the financing statement to the Corporation in form suitable for filing but not filed, and, unless the Corporation grants an exception with respect to certain or all of the following requirements, an original executed copy of the financing statement, bearing the file stamp of the relevant filing office(s); the original recognition agreement (and, if applicable, the original assignment of recognition agreement to the Lender), together with a blanket assignment of the recognition agreement to the Corporation; the stock, shares, membership certificate or other contractual agreement evidencing ownership; an executed blank stock power; and the original proprietary lease or occupancy agreement, together with all other applicable instruments of assignment and transfer. In addition, in a jurisdiction requiring filing in the land records, the Corporation also will retain the original security agreement, bearing the recording data of the relevant recording office(s), together with an assignment of the security agreement to the Corporation in recordable form, but not recorded; copies of all required recorded intervening assignments of the security agreement; and an assignment in blank of the borrower's ownership interest in the Cooperative (and the accompanying occupancy rights to a specific unit in the Cooperative's building(s)), in recordable form, but not recorded, unless the Corporation grants an exception with respect to certain or all of the preceding requirements.

At its option, the Corporation may choose to maintain the documents described above with a custodian institution (the Lender or another institution) supervised and regulated by the Comptroller of the Currency, the Board of Governors of the Federal Reserve System, the Office of Thrift Supervision, the FDIC or the NCUA. The Corporation will review the Mortgage Loan Schedule prior to the issuance of the Certificates and will conduct random spot checks to confirm the sufficiency of the documents after issuance of the Certificates.

The Corporation's document delivery and custody requirements described above are subject to change at any time; provided that any such change will not, in the Corporation's determination, materially or adversely affect the interests of Certificateholders. Although the above procedures are intended to protect the interests of the Holders of Certificates in the Mortgage Loans in the related Pool, the law applicable to a liquidation, reorganization, or similar proceeding involving the assets of a Lender or of the Corporation is unclear and as a result no opinion can be rendered as to the status of Certificateholders' interests in the event of any such proceeding. The Corporation's guaranty would, however, by its terms be available in the event of any such proceeding involving the assets of a Lender.

### **Servicing Through Lenders**

Pursuant to the Trust Indenture, the Corporation is responsible for servicing and administering the Mortgage Loans but, in its discretion, is permitted to contract with the originator of each Mortgage Loan, or another eligible servicing institution, to perform such functions under the supervision of the Corporation as more fully described herein. Any servicing contract or arrangement by the Corporation with a Lender for the direct servicing of Mortgage Loans is a contract solely between the Corporation and that Lender, and the Certificateholders are not deemed to be parties thereto and have no claims, rights, obligations, duties, or liabilities with respect to such Lender. (TI Section 5.01)

Lenders will be obligated pursuant to the applicable Guide to perform diligently all services and duties customary to the servicing of mortgages, as well as those specifically prescribed by the applicable Guide. The Corporation will monitor the Lender's performance and has the right to remove any Lender for cause at any time it considers such removal to be in the best interest of Certificateholders. The duties performed by Lenders include general loan servicing responsibilities, collection and remittance of principal and interest payments, administration of mortgage escrow accounts, collection of insurance claims, and, if necessary, foreclosure.

The Corporation retains as to each Fixed-Rate Mortgage Loan (other than Biweekly Mortgage Loans) the difference in interest between the annual Mortgage Interest Rate borne by the Mortgage Loan and the Pass-Through Rate on the Certificates. For example, if a Mortgage Loan with an 8.00 percent Mortgage Interest Rate is included in a Pool against which a Certificate with a 7.00 percent Pass-Through Rate is issued, the Corporation would be entitled to receive total compensation of one percent per annum on the Mortgage Loan. For Biweekly Mortgage Loans, the Corporation will retain the difference in interest between the scheduled interest borne by the Mortgage Loan and the interest paid on account of such Mortgage Loan at the Pass-Through Rate. For VRMs, the Corporation will retain from interest payments a fixed annual servicing fee, or "Spread," as described under "VRM Pools" above. For ARMs and Graduating GPMs, the Corporation will retain an amount equal to the percentage spread applicable thereto applied to the outstanding principal balance as increased by any deferred interest that has been included therein. See "Yield Considerations." The Corporation is also entitled to retain prepayment fees, late charges, assumption fees, and similar charges to the extent they are collected from borrowers. The Corporation will compensate Lenders in an amount up to, but never exceeding, the amount of interest retention described above, less a prescribed minimum amount to be retained by the Corporation for itself in consideration of its guaranty obligations and servicing responsibilities.

#### **Payments on Mortgage Loans; Distributions on Certificates**

On each Distribution Date, the Corporation will, respecting each Issue, distribute to Certificateholders the principal due on the Mortgage Loans in the related Pool during the period beginning on the second day of the month prior to the month of such distribution and ending on the first day of such month of distribution (the "Due Period"). In the event a Pool is comprised of one or more Mortgage Loans that will not experience their first scheduled monthly principal and interest due date until the second Due Period after the Issue Date of the Pool, the first distribution to Certificateholders after the Issue Date of the Pool will, as to any such Mortgage Loans, consist only of an amount as to interest due on such Mortgage Loans, as described below. The aggregate Issue Date principal balance of such Mortgage Loans may equal up to 100 percent of the aggregate Issue Date principal balance of the related Pool. The applicable percentage will be published by the Corporation in the Pool Statistics set forth in the related Prospectus Supplement for such a Pool.

The Corporation will also, respecting each Issue, distribute to Certificateholders, on each Distribution Date, (i) the Stated Principal Balance of any Mortgage Loan that was prepaid in full during the month preceding the month of such distribution (including as prepaid for this purpose any Mortgage Loan repurchased by the Corporation as described herein because of the Corporation's election to repurchase the Mortgage Loan after it is delinquent, in whole or in part, with respect to four consecutive installments of principal and interest (eight consecutive installments of principal and interest with respect to Biweekly Mortgage Loans)), (ii) the Stated Principal Balance of any Mortgage Loan that the Corporation has elected to repurchase under the circumstances described in "Collection and Other Servicing Procedures" below, (iii) as provided in the related Issue Supplement, the Stated Principal Balance of any converted ARM that the Corporation has repurchased under the circumstances described in "ARM Pools — General Characteristics" above and (iv) the amount of any partial prepayment of any Mortgage Loan received during the month preceding the month of such distribution. The timing for the distributions of prepayments is subject to the receipt of information about such prepayment from the servicer of such Mortgage Loan in sufficient time to allow the monthly factors published in the Fannie Mae *Monthly Factor Report* in The Bond Buyer or elsewhere to reflect

such prepayment. In the event that timely information is not available, the Corporation will distribute such prepayment on the Distribution Date in the next month. The Corporation does not currently receive information concerning partial prepayments of Mortgage Loans in Pools backed by Mortgage Loans from the Corporation's portfolio in sufficient time for their inclusion in next month's distribution. For purposes of distributions, a Mortgage Loan will be considered to have been prepaid in full if, in the Corporation's reasonable judgment, the full amount finally recoverable on account of such Mortgage Loan has been received, whether or not such full amount is equal to the Stated Principal Balance of the Mortgage Loan.

On each Distribution Date, the Corporation will also, respecting each Fixed-Rate Mortgage Loan, distribute to Certificateholders one month's interest at the Pass-Through Rate on the Certificate Principal Balance as reported to Certificateholders in connection with the previous distribution (or, respecting the first distribution, the Certificate Principal Balance on the Issue Date). For each Graduating GPM during its Deferred Interest Period and each ARM, the Corporation will, on each Distribution Date, distribute an amount as to interest equal to the amount of interest payable on such Mortgage Loan during the applicable Due Period (which will, in the case of Graduating GPMs during their Deferred Interest Period, and may, in the case of ARMs having deferred interest features, be less than one month's interest at the Mortgage Interest rate) less the amount retained by the Corporation as described under "Servicing Through Lenders" above. For each VRM Pool, the Corporation will, on each Distribution Date, distribute an amount as to interest equal to one month's interest at the then-current Weighted Average Pass-Through Rate on the Certificate Principal Balance of each Certificate.

All interest accrued on the Certificates will be calculated on a monthly basis (with each month assumed to consist of 30 days). Thus, one month's interest on the Certificates will be equal to one-twelfth of the Pass-Through Rate or the Accrual Rate (as applicable) multiplied by the unpaid principal balance of the Certificates immediately prior to the related Distribution Date. Although the Mortgage Loans acquired by the Corporation generally provide for a similar method of interest calculation, it is possible that one or more Mortgage Loans in a particular Pool will provide for accrual of interest on a daily basis (rather than on a monthly basis). Notwithstanding the inclusion of any such Mortgage Loans in a Pool, for purposes of calculating the monthly interest and principal payable on the Mortgage Loans, the Corporation will treat all such interest as having accrued on a monthly basis, and, in the case of Mortgage Loans that accrue interest on a daily basis, the Corporation will calculate principal on the basis of amortization schedules used for monthly accrual Mortgage Loans.

Distributions on any Distribution Date will be made to Certificateholders of record on the prior Record Date (the close of business on the last day of the immediately preceding month). Each Certificateholder will be entitled to receive an amount equal to the total amount distributed multiplied by the Fractional Undivided Interest evidenced by such Holder's Certificate.

### **The Corporation's Guaranty**

The Corporation's obligation described above to distribute amounts representing scheduled principal and interest, whether or not received, and its obligation to distribute the full principal amount of any foreclosed or otherwise finally liquidated Mortgage Loan, whether or not such principal amount is actually recovered, constitute the Corporation's guaranty obligations in respect of the Certificates. If the Corporation were unable to perform such obligations, distributions to Certificateholders would consist solely of payments and other recoveries on Mortgage Loans and, accordingly, delinquencies and defaults would affect monthly distributions to Certificateholders.

### **Reports to Certificateholders**

With respect to each distribution, the Corporation will cause to be forwarded to each Certificateholder with respect to all Certificates held by such Certificateholder in each Pool, a statement setting forth, to the extent applicable, the following information:

- (i) the amount, if any, due on such Certificates on the related Distribution Date on account of total scheduled and unscheduled principal (including any Deferred Interest);

- (ii) the amount due on such Certificates on the related Distribution Date on account of interest;
- (iii) the total of the cash distribution on such Certificates on the related Distribution Date;
- (iv) the Certificate Principal Balances of such Certificates on the related Distribution Date after giving effect to any distribution of principal made on such date and to any Deferred Interest added to the principal balances of the underlying Mortgage Loans during the preceding Due Period;
- (v) the total amount of any Deferred Interest that was added to the principal balances of the underlying Mortgage Loans during the preceding Due Period;
- (vi) the amount, if any, of (i) above that is allocable to Deferred Interest;
- (vii) the amount, if any, of (iv) above that is allocable to Deferred Interest;
- (viii) for VRM Pools, the Weighted Average Pass-Through Rate applicable to such Distribution Date; and
- (ix) for ARM Pools, the Pool Accrual Rate applicable to such Distribution Date.

Within a reasonable period of time after the end of each calendar year, the Corporation will furnish to each Person who at any time during the calendar year was a Certificateholder a statement containing the information set forth in items (i), (ii), (v), and (vi) above, in summary form for such calendar year, or for any portion thereof during which such Person was a Certificateholder.

#### **Servicing Compensation and Payment of Certain Expenses by the Corporation**

As compensation for its activities and obligations under the Trust Indenture, the Corporation will be entitled to retain the amounts applicable to interest that are not required to be distributed to Certificateholders as described above. In addition, the Corporation is entitled to retain any amounts by which the proceeds of the liquidation of a Mortgage Loan exceed (i) the Stated Principal Balance of that Mortgage Loan and (ii) interest thereon at the Pass-Through Rate in the case of a Fixed-Rate Mortgage Loan or a VRM or interest thereon at the Accrual Rate in the case of a Graduating GPM or an ARM. The Corporation will pay all expenses incurred by it in connection with its servicing activities, including, without limitation, the fees to Lenders, and is not entitled to reimbursement therefor out of the Trust Fund.

Additional servicing compensation in the form of prepayment charges, assumption fees, late payment charges, or otherwise will be retained by the Corporation.

#### **Collection and Other Servicing Procedures**

The Corporation is responsible for servicing the Mortgage Loans in each Pool and may, as set forth above, conduct such servicing through Lenders or through other Corporation-approved mortgage servicers. In connection with its servicing activities, the Corporation has full power and authority to do or cause to be done any and all things as it may deem necessary or appropriate in its sole discretion, including the foreclosure or comparable conversion of a defaulted Mortgage Loan. In lieu of undertaking any such foreclosure, the Corporation may, in its discretion and without obligation, repurchase from the Trust Fund any Mortgage Loan that is delinquent, in whole or in part, as to four consecutive installments of principal and interest (eight consecutive installments of principal and interest with respect to Biweekly Mortgage Loans). The purchase price will be equal to the Stated Principal Balance of the delinquent Mortgage Loan together with accrued interest at the Pass-Through Rate (or the Accrual Rate in the case of a Graduating GPM or an ARM) and will be distributed to Certificateholders in the same manner as full prepayments of Mortgage Loans. See “Description of Certificates — Payments on Mortgage Loans; Distributions on Certificates.” (TI Sections 5.01 and 5.03)

With respect to each Mortgage Loan in a Pool that is a Residential Property Loan, the Lender makes certain warranties to the Corporation concerning such matters as the recordation or filing of the original Mortgage, the validity of the Mortgage Loan as a first or subordinate lien (as the case may be) on the Mortgaged Property, and compliance by such Mortgage Loans with applicable state and federal laws. With respect to each Mortgage Loan in a Pool that is a Cooperative Share Loan, the Lender makes certain warranties concerning such matters as the filing of a financing statement perfecting a security interest in the Collateral under the Uniform Commercial Code of the appropriate jurisdiction, the filing, if applicable, of such a lien in the land records of the appropriate jurisdiction, the validity of the Mortgage Loan as a first lien on the Mortgaged Property (subject to the Cooperative's lien against the tenant-shareholder's ownership interest in the Cooperative for unpaid assessments that represent the tenant-shareholder's pro rata share of the Cooperative's payments for the blanket mortgage, ground rent, if applicable, real property taxes, general upkeep of the premises, special assessments, and other assessments), and compliance by such Mortgage Loan with applicable state and federal laws. In the event of a material breach of any such warranty or a material defect in the Mortgage Loan documentation, the Corporation may withdraw such Mortgage Loan from the Trust Fund at a price equal to its Stated Principal Balance together with interest thereon at the Pass-Through Rate (or the Accrual Rate in the case of a Graduating GPM or an ARM). Alternatively, the Corporation may, at its option, for all Pools other than Pools containing Multifamily Mortgage Loans, substitute a new Mortgage Loan for a defective Mortgage Loan; provided, however, that no such substitution may take place more than two years subsequent to the date of the original issue of the related Certificates, and any such substitute Mortgage Loan must satisfy certain eligibility criteria designed to assure that the nature of the Pool will not be altered by any such substitution. Any amount by which the Stated Principal Balance of the defective Mortgage Loan exceeds the principal balance of the substitute Mortgage Loan (the substitute Mortgage Loan may not be larger than the Mortgage Loan it is replacing) will be passed through to Certificateholders.

Subject to the following paragraphs and to the extent consistent with then-current policies of the Corporation respecting mortgage loans held in its own portfolio, the Corporation in its discretion may enforce or waive enforcement of any of the terms of any Mortgage Loan or enter into an agreement for the modification of any of the terms of any Mortgage Loan, or take any action or refrain from taking any action in servicing any Mortgage Loan. (However, certain modifications are prohibited by the Trust Indenture, *e.g.*, reducing the Mortgage Interest Rate, except as may be required by the terms of the Mortgage Note.) In such connection, the Corporation may waive any prepayment charge, assumption fee, or late payment charge or may exercise or refrain from exercising any "call option rider"; provided, however, that any decision to exercise or refrain from exercising any "call option rider" must be consistent with then-current policies or practices employed by the Corporation respecting comparable mortgage loans held in its own portfolio and must be without consideration of the ownership status of the related Mortgage Loan.

In the VRM Trust Indenture, the Corporation agrees that any decision as to whether or not (i) to increase a Mortgage Interest Rate (where any such increase is permitted by the terms of such Mortgage Loan and by applicable law) or (ii) to shorten the maturity of any Mortgage Note, will be made in accordance with the then-current practice of the related Lender respecting similar Mortgage Notes and without consideration of the ownership status of the related Mortgage Note. If the Corporation is then directly servicing a VRM, it will increase the related Mortgage Interest Rate and shorten the maturity whenever any such change is permitted by the terms of such Mortgage Loan and by applicable law. Any adjustment downward by reason of a decrease in the applicable index is mandatory. See the Prospectus Supplement for criteria and procedures governing changes in Mortgage Interest Rates.

In connection with the transfer or prospective transfer of title to a Mortgaged Property (other than a Mortgaged Property securing a VRM), the Corporation is obligated to accelerate the maturity of the related Mortgage Loan where that Mortgage Loan contains a "due-on-sale" clause permitting acceleration under those conditions unless the Corporation is restricted by law from enforcing the

“due-on-sale” clause, the transfer is from one co-borrower to another co-borrower under the circumstances specified in the Corporation’s published guidelines or the Corporation elects to withdraw such Mortgage Loan from the Pool. In the case of a VRM, the Corporation will enforce or refrain from enforcing any “due-on-sale” clause in the related Mortgage Note in accordance with the then-current practice of the related Lender without consideration of the ownership status of the Mortgage Note. If the Corporation is then directly servicing the Mortgage Loan, it will enforce the “due-on-sale” clause unless such enforcement is prohibited by law or the Corporation elects to withdraw such Mortgage Loan from the Pool. See “Maturity and Prepayment Assumptions.” In the case of an ARM, the related Issue Supplement will provide that the Corporation will not enforce the “due-on-sale” clause, but will permit creditworthy transferees of the Mortgaged Property securing the ARM to assume the ARM.

In the event that, for any reason, the Corporation is not obligated to accelerate the maturity of a Conventional Mortgage Loan upon the transfer, or prospective transfer, of title to the underlying Mortgaged Property, the Corporation may enter into a transaction by which the obligor is released from liability on the related Mortgage Loan and the transferee assumes such liability; provided, however, that no such transaction shall (i) be entered into which would not have been entered into had the Mortgage Loan been held in the Corporation’s own portfolio, (ii) provide for reduction of the Mortgage Interest Rate or, in the case of any ARM, provide for any change in any interest rate adjustment provision or provision governing the calculation of scheduled payments if any such change would be adverse to the interests of Certificateholders, or (iii) in the case of any VRM, provide for any change in the original index applicable thereto.

The Trust Indenture provides that the Corporation may repurchase from the related Pool, at a price equal to the Stated Principal Balance thereof plus accrued interest thereon at the applicable Pass-Through Rate (or the applicable Accrual Rate in the case of a Graduating GPM or an ARM), any Mortgage Loan respecting which the underlying Mortgaged Property is transferred, or proposed to be transferred, under circumstances permitting the Corporation to accelerate the maturity of such Mortgage Loan pursuant to the terms of any “due-on-sale” clause contained therein.

#### **Certain Matters Regarding the Corporation**

The Trust Indenture provides that the Corporation 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 the Corporation’s obligations and duties under the Trust Indenture; provided, however, that no successor will succeed to the Corporation’s guaranty obligations described above, the Corporation continuing to be responsible thereunder notwithstanding any termination of its other duties and responsibilities under the Trust Indenture. In the event that the Corporation is unable to fulfill its continuing guaranty obligations, the Trust Indenture may be modified to provide for monthly distributions to be made from then-available Mortgage Loan payments and other recoveries in a manner similar to practices and procedures followed in the servicing of whole loans for institutional investors. (TI Section 9.01)

The Trust Indenture also provides that neither the Corporation nor any director, officer, employee, or agent of the Corporation will be under any liability to the Trust Fund or to Certificateholders for any action taken, or for refraining from the taking of any action, in good faith pursuant to such Trust Indenture or for errors in judgment; provided, however, that neither the Corporation 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 Indenture provides that the Corporation is not under any obligation to appear in, prosecute, or defend any legal action that is not incidental to its responsibilities under the Trust Indenture and that in its opinion may involve it in any expense or liability. The Corporation 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 and any liability resulting therefrom will be expenses, costs, and liabilities of the Corporation that will not be reimbursable to the Corporation out of the Trust Fund. (TI Section 8.02)

Any corporation into which the Corporation may be merged or consolidated, or any corporation resulting from any merger, conversion, or consolidation to which the Corporation is a party, or any corporation succeeding to the business of the Corporation, will be the successor to the Corporation under the terms of the Trust Indenture. (TI Section 9.02)

#### **Events of Default**

Events of Default under the Trust Indenture will consist of (i) any failure by the Corporation to distribute to Certificateholders any required payment that continues unremedied for 15 days after the giving of written notice of such failure to the Corporation by the Holders of Certificates evidencing Fractional Undivided Interests aggregating not less than five percent of the related Trust Fund; (ii) any failure by the Corporation duly to observe or perform in any material respect any other of its covenants or agreements in the Trust Indenture which failure continues unremedied for 60 days after the giving of written notice of such failure to the Corporation by the Holders of Certificates evidencing Fractional Undivided Interests aggregating not less than 25 percent of the related Trust Fund; and (iii) certain events of insolvency, readjustment of debt, marshalling of assets and liabilities, or similar proceedings and certain actions by or against the Corporation indicating its insolvency, reorganization, or inability to pay its obligations. (TI Section 9.03)

#### **Rights Upon Event of Default**

As long as an Event of Default under the Trust Indenture for any Issue remains unremedied, the Holders of Certificates evidencing Fractional Undivided Interests aggregating not less than 25 percent of the related Trust Fund may, in writing, terminate all of the obligations and duties of the Corporation as Trustee and in its corporate capacity under the Trust Indenture in respect of such Issue (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 the Corporation thereunder (other than the Corporation's guaranty obligations) and to the legal title to the Mortgage Loans held in such Trust Fund. (TI Section 9.03)

#### **Amendment**

The Corporation may amend the Trust Indenture as it relates to any Issue 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 the Corporation; (ii) to evidence the succession of another party or parties to the Corporation and the assumption by such successor or successors of the obligations of the Corporation 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 the Corporation in its corporate capacity; (iv) to make provisions for the purpose of curing any ambiguity or correcting or supplementing any provision in the Trust Indenture or any Issue Supplement, provided such provisions do not adversely affect the interests of any Certificateholder; or (v) to modify the Trust Indenture under the circumstances and for the purposes set forth in the final sentence of the first paragraph under "Certain Matters Regarding the Corporation" above. (TI Section 11.01)

The Corporation may amend the Trust Indenture as it relates to any Issue with the consent of the Holders of Certificates evidencing Fractional Undivided Interests aggregating not less than 66 percent of the related Trust Fund so as to waive compliance by the Corporation with any terms of the Trust Indenture or related Issue Supplement, or to allow the Corporation to eliminate, change, add to, or modify the terms of the Trust Indenture or Issue Supplement. However, no such waiver or amendment may, without the consent of all Certificateholders, terminate or modify the guaranty obligations of the Corporation or reduce the percentages of 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 Mortgage Loans that are required to be distributed on any Certificate. (TI Section 11.02)

### **Termination**

The Trust Indenture as it relates to each Issue terminates upon the final payment or liquidation of the last Mortgage Loan remaining in the related Pool and distribution of all proceeds thereof. The Trust Indenture as it relates to each Issue will terminate also upon repurchase by the Corporation, at its option, of all remaining Mortgage Loans in the related Pool at a price equal to 100 percent of the Stated Principal Balance of each such Mortgage Loan together with one month's interest thereon at the Pass-Through Rate (or, in the case of a VRM Pool, one month's interest on the Stated Principal Balance at the Weighted Average Pass-Through Rate, or, in the case of a GPM Pool or an ARM Pool, one month's interest on the Stated Principal Balance of each Graduating GPM or ARM, as the case may be, at the applicable Pool Accrual Rate). (TI Section 10.01) The exercise of such option will effect retirement of the Certificates of that Issue, but the Corporation has elected to waive its right to exercise such option unless the Pool Principal Balance at the time of repurchase is less than one percent of the Pool Principal Balance on the Issue Date.<sup>(1)</sup> In addition, it is the policy of the Corporation not to exercise such option in respect of any Pool if (i) it has knowledge that any related Certificate has been pledged to secure an issue of cash flow obligations or is included in a pool underlying an issue of cash flow obligations and (ii) the exercise of such option would take place prior to the earliest date upon which the issuer of such cash flow obligations or the sponsor of such Pool can exercise an option to redeem such obligations or purchase such Certificates without premium. In no event, however, will the trust relating to each Pool as created by the Trust Indenture continue beyond the expiration of 21 years from the death of the last survivor of the persons named in the Trust Indenture. For each Issue, the Corporation will give written notice of termination of the Trust Indenture as it relates to such Issue to each affected Certificateholder, and the final distribution will be made to the person entitled thereto. (TI Section 10.01)

## **CERTAIN FEDERAL INCOME TAX CONSEQUENCES**

### **General**

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

The discussion does not purport to deal with all aspects of federal taxation that may be relevant to particular investors. Prospective investors are advised to consult their own tax advisors regarding the federal income tax consequences of holding and disposing of Certificates as well as any tax consequences arising under the laws of any state or other taxing jurisdiction.

Revenue Ruling 84-10, 1984-1 C.B.155, sets forth certain federal income tax consequences relating to investments in the Certificates issued with respect to a Pool. Pursuant to Revenue Ruling 84-10, a Pool will not be classified as an association taxable as a corporation, but will be classified as a trust of which the beneficial owners of the Certificates (the "Owners") are the owners under Subpart E of Part I of Subchapter J of the Internal Revenue Code of 1986, as amended (the "Code"). Each Owner will be treated as the owner of a pro rata undivided interest in the ordinary income and corpus of the trust attributable to that particular Pool and will be considered to be the equitable owner of a pro rata undivided interest in each of the Mortgage Loans included therein, subject to the discussion under

---

(1) The Corporation has undertaken such waiver notwithstanding the right of the Corporation pursuant to the Trust Indenture to repurchase such Mortgage Loans if the Pool Principal Balance at the time of repurchase is less than ten percent of the Pool Principal Balance on the Issue Date.

“—Mortgage Loan Servicing” concerning a possible recharacterization of a portion of the servicing compensation. Although Revenue Ruling 84-10 does not specifically address participation interests in mortgage notes, other Internal Revenue Service (“IRS”) pronouncements clearly indicate that the holdings of Revenue Ruling 84-10 are equally applicable to a Certificate backed by a Pool consisting (in whole or in part) of participation interests.

Revenue Ruling 84-10 also does not contemplate (i) the mandatory repurchase of ARMs from Pools pursuant to a borrower’s exercise of an option to convert an ARM to a fixed-rate mortgage loan, (ii) the difference between the biweekly payments of interest received under Biweekly Mortgage Loans from mortgagors and the monthly payments of interest made to Owners, or (iii) the differences between the principal and interest amounts received from mortgagors under Mortgage Loans that provide for the daily accrual of interest and the monthly payments of principal and interest made to Owners. However, Dewey Ballantine, special tax counsel to the Corporation, has rendered its opinion to the Corporation that the conclusions of Revenue Ruling 84-10 will be applicable to ARM Pools, Biweekly Mortgage Pools and Pools that include Mortgage Loans that provide for the daily accrual of interest.

### **Taxation of the Certificates**

Pursuant to the holdings of Revenue Ruling 84-10, Owners of a particular series will be required to report on their federal income tax returns, consistent with their methods of accounting, their pro rata share of the entire income from the Mortgage Loans in that particular Pool, including interest, prepayment penalties, assumption fees and late payment charges attributable to the Mortgage Loans in the Pool, plus any amount paid by the Corporation as interest under its guaranty. Owners will be entitled to deduct their pro rata share of the servicing compensation paid to the Corporation, as provided in section 162 or section 212 of the Code, consistent with their methods of accounting and subject to the discussions below.

The deduction for an Owner’s share of the Corporation’s servicing compensation is limited under section 67 of the Code in the case of (i) estates and trusts, and (ii) individuals owning an interest in a Certificate directly or through an investment in a “pass-through entity” (other than in connection with such individual’s trade or business). Pass-through entities include partnerships, S corporations, grantor trusts, and non-publicly offered regulated investment companies but do not include estates, nongrantor trusts, cooperatives, real estate investment trusts and publicly offered regulated investment companies. Generally, such deduction, when aggregated with certain of the Owner’s other miscellaneous itemized deductions, is allowable only to the extent that such aggregate amount exceeds 2 percent of the Owner’s adjusted gross income. Adjusted gross income for an estate or nongrantor trust is to be computed in the same manner as in the case of an individual except that deductions for administrative expenses of the estate or trust that would not have been incurred if the property were not held in such trust or estate are treated as allowable in arriving at adjusted gross income.

#### *Discount*

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

With respect to ARMs that provide for an incentive interest rate, an Owner may be required to reallocate a portion of the interest from the periods when such rate is not in effect to the period during

which such rate is in effect. An Owner also may be required to treat any interest, the payment of which is deferred because of a “negative amortization” feature of an ARM, as includible in income at the time such interest would have been payable in the absence of such deferral. Owners are advised to consult their own tax advisors concerning these matters.

### *Premium*

With respect to any undivided interest in a Mortgage Loan purchased at a premium, an Owner may elect to allocate the premium among the interest payments received on the Mortgage Loan on a yield to maturity basis under the rules of section 171 of the Code if the Mortgage Loan was originated after September 27, 1985. Under proposed regulations relating to the treatment of bond premium under section 171 of the Code and issued by the IRS on June 26, 1996, the amount of premium to be allocated among the interest payments on an ARM is determined by reference to an equivalent fixed rate debt instrument constructed as of the date the Owner purchases its Certificate. The regulations are proposed to be effective after the date of their adoption in final form and are subject to change.

Allocated premium shall be applied against (and operate to reduce) the amount of any interest includible in income. Correspondingly, an Owner’s basis in its undivided interest shall be decreased by the amount of premium applied to reduce any interest income. For Mortgage Loans originated before September 28, 1985, an Owner will be entitled to premium amortization under section 171 only if the mortgagor is not an individual and the other conditions for the application of that section are met. If section 171 is inapplicable or if an Owner does not make an election thereunder, (i) such an Owner must include the full amount of each interest payment in income, and (ii) the premium must be allocated to the principal distributions on the Mortgage Loan and, when each such distribution is received, a loss equal to the premium allocated to such distribution will be recognized. Any tax benefit from the premium not previously recognized will be taken into account in computing gain or loss upon the sale or disposition of the Certificate.

### **Special Tax Attributes**

The IRS also ruled in Revenue Ruling 84-10 as follows:

1. A Certificate owned by a domestic building and loan association is considered as representing “loans secured by an interest in real property” within the meaning of section 7701(a)(19)(C)(v) of the Code, provided the real property underlying each Mortgage Loan is (or, from the proceeds of the Mortgage Loans, will become) the type of real property described in that section of the Code.

2. A Certificate is considered as representing “qualifying real property loans” within the meaning of section 593(d) of the Code, provided the real property underlying each Mortgage Loan is (or, from the proceeds of the Mortgage Loans, will become) the type of real property described in that section of the Code. Thus, a Certificate owned by a domestic building and loan association or any other thrift institution described in section 593(a) of the Code will represent “qualifying real property loans” within the meaning of section 593(d) of the Code, provided the real property underlying each Mortgage Loan is (or, from the proceeds of the Mortgage Loans, will become) the type of real property described in that section of the Code.

3. A Certificate owned by a real estate investment trust is considered as representing “real estate assets” within the meaning of section 856(c)(5)(A) of the Code, and the interest income is considered “interest on obligations secured by mortgages on real property” within the meaning of section 856(c)(3)(B) of the Code.

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

### *Cooperative Share Loans*

In addition, the IRS has ruled that a Cooperative Share Loan will be treated as (1) “a loan secured by an interest in real property” within the meaning of section 7701(a)(19)(C)(v) of the Code, provided that the dwelling unit that the Cooperative’s stock entitles the tenant-shareholder to occupy is to be used as a residence, and (2) a “qualifying real property loan” within the meaning of section 593(d) of the Code. The IRS also has ruled that stock in a Cooperative qualifies as an interest in real property within the meaning of section 856(c)(6) of the Code. Accordingly, interest on Cooperative Share Loans qualifies as “interest on obligations secured by mortgages on real property” for purposes of section 856(c)(3) of the Code. Dewey Ballantine has opined that such treatment is applicable to all Cooperative Share Loans, including those made to refinance existing Cooperative Share Loans.

### *Escrow Mortgage Loans*

In certain cases, a Mortgage Loan may be secured by additional collateral consisting of an escrow account held with a financial institution (an “Escrow Mortgage Loan”). The escrow account consists of an interest rate buydown account that meets the requirements of the Corporation’s Selling Guide, an achievement escrow that meets the requirements of the Corporation’s Multifamily Guide, or any other escrow account described in the related Prospectus Supplement. Although the rulings described in the preceding paragraphs do not specifically refer to Escrow Mortgage Loans, the conclusions reflected in paragraphs 1 and 2 should be generally applicable to an Owner’s investment in an Escrow Mortgage Loan if the escrow account does not represent an account with the Owner. Owners and their tax advisors are advised to review section 1.593-11(d) of the Treasury Regulations and to compare Revenue Ruling 81-203, 1981-2 C.B. 137. In the case of the rulings referred to in paragraph 3, an investment in an Escrow Mortgage Loan by a real estate investment trust should also be treated in its entirety as a “real estate asset” within the meaning of section 856(c)(5)(A) of the Code if the fair market value of the real property securing the Escrow Mortgage Loan equals or exceeds the principal amount of such Escrow Mortgage Loan at the time the real estate investment trust makes a commitment to acquire a Certificate. This conclusion is supported by Treasury Regulation section 1.856-5(c)(1)(i), which specifies that if a mortgage loan is secured by both real property and by other property and the value of the real property alone equals or exceeds the amount of the loan, then all interest income will be treated as “interest on obligations secured by mortgages on real property” within the meaning of section 856(c)(3)(B) of the Code. Since there are no directly applicable precedents with respect to the federal income tax treatment of investments in Escrow Mortgage Loans, Owners should consult with their tax advisors concerning such tax treatment.

### *Lender Buydown Loans*

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

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

### *Loans Secured by Manufactured Homes*

For certain purposes of the Code, a Mortgage Loan secured by a manufactured home is treated as secured by an interest in real property if the manufactured home satisfies the conditions set forth in section 25(e)(10) of the Code. That section requires a manufactured home to have a minimum of 400 square feet of living space and a minimum width in excess of 102 inches and to be of a kind customarily used at a fixed location. Although the rulings described in the preceding paragraphs do not specifically refer to Mortgage Loans secured by manufactured homes, the conclusions reflected in paragraphs 1 and 3 should be applicable to an Owner's investment in such a Mortgage Loan that is secured by property described in section 25(e)(10) of the Code. With respect to Mortgage Loans secured by manufactured homes, the conditions of section 25(e)(10) will be satisfied.

### *Government Mortgage Loans*

Because no information is available with respect to the loan-to-value ratios of Government Mortgage Loans contained in Pools denoted by prefix TJ, TK, TQ or TT, no representation can be made regarding the qualification of such loans under sections 7701(a)(19)(C)(v), 593(d) and 856(c)(5)(A) of the Code, as described in “—Special Tax Attributes.”

### **Mortgage Loan Servicing**

In August 1991, the IRS issued guidance on the tax treatment of Mortgage Loans in cases in which the fee retained by the servicer of the Mortgage Loans exceeds what is established under tax law to be reasonable compensation for the services to be performed. This guidance is directed primarily to servicers and, in most cases, should not have a significant effect on Owners of Mortgage Loans. Investors are advised, however, to consult their tax advisors about the IRS guidance and its application to investments in Mortgage Loans.

Under the IRS guidance, if a servicing fee on a Mortgage Loan is determined to exceed reasonable compensation, the payments of the excess servicing fee are treated as a series of “stripped coupons” and the Mortgage Loan is treated as a “stripped bond” within the meaning of section 1286 of the Code. A Mortgage Loan is effectively not treated as a stripped bond, however, if the Mortgage Loan meets either the “100 basis point” test or the “*de minimis*” test. A Mortgage Loan meets the 100 basis point test if the total amount of servicing compensation on the Mortgage Loan does not exceed reasonable compensation for servicing by more than 100 basis points. A Mortgage Loan meets the *de minimis* test if (i) the discount at which the Mortgage Loan is acquired is less than 0.25 percent of the remaining principal balance of the Mortgage Loan multiplied by its weighted average remaining life; or (ii) in the case of wholly self-amortizing Mortgage Loans, the acquisition discount is less than  $\frac{1}{6}$  of one percent times the number of whole years to final stated maturity.

One consequence for Owners of Mortgage Loans that are treated as stripped bonds is that such Mortgage Loans will be treated as if originally issued on the date the Owner purchased the Certificate representing such Mortgage Loans. As a result, any premium on such a Mortgage Loan may be amortized over its remaining life. Another consequence is that the excess portion of servicing compensation will be excluded from the income of Owners and thus will not be subject to the limitations on the deductibility of miscellaneous itemized deductions. See the discussion of discount, premium and miscellaneous itemized deductions under “—Taxation of the Certificates.”

Servicers are given the opportunity to elect to treat mortgage servicing fees up to a specified number of basis points (which depends on the type of Mortgage Loans) as “reasonable” servicing. No guidance has been provided as to the effect, if any, of such safe harbors and any elections thereunder on Owners of Mortgage Loans.

The IRS guidance also contains a number of ambiguities. For example, it is not clear whether the rules described above are to be applied on an individual loan or an aggregate basis. These problems may result in further guidance from the IRS.

## **Information Reporting and Backup Withholding**

The Corporation will furnish to each holder of record with each distribution a statement setting forth the amount of such distribution allocable to principal and to interest. In addition, the Corporation will furnish or make available, within a reasonable time after the end of each calendar year, to each holder who at any time during such year received a distribution from the Corporation, a statement setting forth such holder's pro rata share of interest received and administrative expense for such calendar year.

Payments of interest and principal, as well as payments of proceeds from the sale of Certificates, may be subject to the "backup withholding" tax under section 3406 of the Code at a rate of 31 percent if the recipient of such a payment is not an "exempt recipient" and fails to furnish certain information, including its taxpayer identification number, to the Corporation or its agent, or otherwise fails to establish an exemption from such tax. Any amounts deducted and withheld from such a payment would be allowed as a credit against the Owner's federal income tax. Furthermore, certain penalties may be imposed by the IRS on a holder or Owner who is required to supply information but who does not do so in the proper manner.

### **Foreign Investors**

Payments made to, or on behalf of, an Owner who is not a U.S. Person (a "Non-U.S. Person") on a Certificate that represents an undivided interest in a Pool of Mortgage Loans all of which were originated after July 18, 1984 generally will be exempt from U.S. federal income and withholding taxes, provided the following conditions are satisfied: (a) such Owner does not hold the Certificate in connection with the conduct by such person of a trade or business in the United States, (b) the Owner is not, with respect to the United States, a personal holding company or a corporation that accumulates earnings in order to avoid U.S. federal income tax, (c) the Owner is not a U.S. expatriate or former U.S. resident who is taxable in the manner provided in section 877(b) of the Code, (d) the Owner is not an "excluded person" (*i.e.*, a 10 percent shareholder of the Corporation within the meaning of section 871(h)(3)(B) of the Code or a "controlled foreign corporation" related to the Corporation within the meaning of section 881(c)(3)(C) of the Code), (e) the Owner signs a statement under penalties of perjury that certifies that it is a Non-U.S. Person or, in the case of an individual, that the Owner is neither a citizen nor resident of the United States, and provides the name, address and taxpayer identification number, if any, of the Owner and (f) the last U.S. Person in the chain of payment to the Owner (the "Withholding Agent") receives such non-U.S. beneficial ownership statement from the Owner or a financial institution holding on behalf of the Owner and does not have actual knowledge that such statement is false. That portion of interest income of an Owner who is a Non-U.S. Person on a Certificate that represents an interest in one or more Mortgage Loans originated before July 19, 1984 will be subject to a U.S. withholding tax at the rate of 30 percent or lower treaty rate, if applicable. Regardless of the date of origination of the Mortgage Loans, backup withholding will not apply to payments made to an Owner that is such a Non-U.S. Person if the Owner or a financial institution holding on behalf of the Owner provides the non-U.S. beneficial ownership statement to the Withholding Agent.

The non-U.S. beneficial ownership statement referred to in the preceding paragraph may be made on an IRS Form W-8 or substantially similar substitute form. The Owner or financial institution holding on behalf of the Owner must inform the Withholding Agent of any change in the information on the statement within 30 days of such change. In all cases, the Form W-8 or substitute form must be filed by the Withholding Agent with the IRS. "U.S. Person" means a citizen or resident of the United States, a corporation, partnership or other entity created or organized in or under the laws of the United States or any political subdivision thereof, an estate the income of which is subject to U.S. federal income tax regardless of the source of its income, or a trust if a court within the United States can exercise primary supervision over its administration and at least one United States fiduciary has the authority to control all substantial decisions of the trust.

## **LEGAL OPINION**

Any purchaser of Certificates will be furnished upon request an opinion by the General Counsel or any Deputy General Counsel of the Corporation as to the validity of the Certificates, the applicable Trust Indenture, and the relevant Issue Supplement.

## **ERISA CONSIDERATIONS**

The Employee Retirement Income Security Act of 1974, as amended (“ERISA”), and the Code impose certain requirements on employee benefit plans subject to ERISA and upon plans and other arrangements subject to section 4975 of the Code, as well as upon certain entities in which such plans or arrangements are invested (collectively, “Plans”) and upon any person who is a fiduciary with respect to such Plans. Any Plan fiduciary that proposes to cause a Plan to acquire a Certificate would be required to determine whether such an investment is permitted by the Plan’s governing instruments, is prudent and appropriate for the Plan in light of the Plan’s investment policy, and whether such 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, which provides that in the case where a Plan acquires a “guaranteed governmental mortgage pool certificate” then, for purposes of the fiduciary responsibility provisions of ERISA and the prohibited transaction provisions of the Code, the Plan’s assets include such 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 the Corporation. The effect of such regulation is to make clear that the sponsor (that is, the entity that organizes and services the pool, in this case the Corporation), the trustee, and other persons, in providing services with respect to the mortgages in the pool, would not be subject to the fiduciary responsibility provisions of Title I of ERISA, nor be subject to the prohibited transaction provisions of ERISA or section 4975 of the Code, merely by reason of the Plan’s investment in a certificate. The Corporation has been advised by its counsel, Brown & Wood LLP, that the Certificates would qualify as “guaranteed governmental mortgage pool certificates,” and, accordingly, the acquisition and holding of the Certificates by Plans will not subject the assets of the related Pool or Pools or of the Corporation to the fiduciary requirements of ERISA or to the prohibited transaction provisions of ERISA and the Code.



# FannieMae

## **Guaranteed MBS Pass-Through Securities**

**(“Mega Certificates”)**

**(Backed by Residential Mortgage-Backed Securities)**

### **Principal and Interest Payable on the 25th Day of Each Month**

---

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

The Guaranteed MBS Pass-Through Securities (the “Certificates”) are issued and guaranteed as to timely distribution of principal and interest by the Federal National Mortgage Association, a corporation organized and existing under the laws of the United States (the “Corporation” or “Fannie Mae”). The Certificates represent beneficial ownership interests in the principal and interest distributions on certain Fannie Mae Guaranteed Mortgage Pass-Through Certificates (the “MBS Certificates”) held, either directly or through one or more guaranteed MBS pass-through securities (“Pooled Mega Certificates”), for the Holders (as hereinafter defined) of Certificates by Fannie Mae in its capacity as Trustee of the related Trust (the “Trust”). All Certificates relating to a particular Trust are hereinafter referred to as an “Issue.”

The MBS Certificates represent beneficial interests in pools (“Pools”) of first lien, residential mortgage loans (the “Mortgage Loans”). The general characteristics of the MBS Certificates are described in the accompanying Prospectus for Fannie Mae Guaranteed Mortgage Pass-Through Certificates (the “MBS Prospectus”).

Each Issue of Certificates will be issued pursuant to a Trust Agreement dated as of April 1, 1988, executed by Fannie Mae in its corporate capacity and its capacity as Trustee, as supplemented by an Issue Supplement to the Trust Agreement, dated as of the Issue Date specified in the Final Data Statement for Certificates that back Fannie Mae Stripped Mortgage-Backed Certificates (collectively, the “Trust Agreement”). The Certificates will evidence the entire beneficial interest in the distributions of principal and interest required to be distributed by Fannie Mae on the underlying MBS Certificates, either held directly or through one or more Pooled Mega Certificates. Principal and interest will be distributed monthly on the 25th day of each month (or if such 25th day is not a business day, on the first business day next succeeding such 25th day, commencing in the month following the Issue Date) (each a “Distribution Date”). The aggregate distributions of principal and interest required to be made by Fannie Mae on each Distribution Date to Holders of Certificates will be equal to the distributions of principal and interest required to be made by Fannie Mae on the underlying MBS Certificates, either held directly or through one or more Pooled Mega Certificates. See “Description of Certificates — Payments on Mortgage Loans; Distributions on Certificates” in the MBS Prospectus. The portion of principal and interest to which the Holder of each Certificate is entitled will be equal to the percentage obtained by dividing the original principal amount or “denomination” of such Certificate by the aggregate original principal amount of all Certificates of the related Issue.

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

---

**The Date of this Prospectus is October 1, 1996**

**This Prospectus does not contain complete information regarding this offering and should be read only in conjunction with the accompanying MBS Prospectus and the Prospectus for Fannie Mae Stripped Mortgage-Backed Certificates.**

## **RISK FACTORS**

### **Yield Considerations**

The effective yield to Holders of the Certificates in the Pool will depend upon the purchase price of the related Certificates, the rate of principal payments (including prepayments resulting from liquidations of Mortgage Loans underlying the MBS Certificates due to defaults, casualties or condemnations affecting the Mortgaged Properties or purchases out of the Pool) on the Mortgage Loans, and the actual characteristics of the Mortgage Loans. Generally, if the actual rate of payments on the Mortgage Loans underlying the MBS Certificates 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 underlying Mortgage Loans is faster than the rate anticipated by an investor who purchased a Certificate at a premium, the actual yield to such investor will also be lower than such investor's anticipated yield. An investor should purchase Certificates only after performing an analysis of such Certificates based upon the investor's own assumptions as to future rates of prepayment.

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

The effective yield on the Certificates will be reduced below the yield otherwise produced because the distribution of interest that accrues from the first day of each month will not be made until the 25th day of the month following the month of accrual. No interest at all will be paid on any Certificate after its principal balance has been reduced to zero. As a result of the foregoing, the market value of the Certificates will be lower than would have been the case if there were no such delay.

See "Yield Considerations" in the MBS Prospectus.

### **Reinvestment Risk**

The underlying Mortgage Loans generally may be prepaid at any time, unless otherwise specified in the Prospectus Supplement for the MBS Certificates. (See "Maturity and Prepayment Assumptions" in the MBS Prospectus.) Accordingly, it is not possible to predict the rate at which distributions of principal of the Certificates will be received. Since prevailing interest rates are subject to fluctuation, there can be no assurance that investors in the Certificates will be able to reinvest the distributions thereon at yields equaling or exceeding the yields on the Certificates. It is possible that yields on such reinvestments will be lower, and may be significantly lower, than the yields on the Certificates. Prospective investors in the Certificates should carefully consider the related reinvestment risks in light of other investments that may be available to such investors.

### **Prepayment Considerations and Risks**

The rate of distributions of principal on the underlying MBS Certificates and therefore on the Certificates, is related directly to the rate of payments of principal of the underlying Mortgage Loans, which may be in the form of scheduled amortization or prepayments. Many factors may affect the rate of prepayment of a Pool of Mortgage Loans. Accordingly, the Corporation cannot estimate what the prepayment experience of the Mortgage Loans in Pools will be.

A significant number of the underlying Mortgage Loans may provide by their terms that in the event of the sale of all or some of the underlying property the full unpaid principal balance of the Mortgage Loan is due and payable at the option of the holder. See "Maturity and Prepayment Assumptions" in the MBS Prospectus.

In an environment of declining interest rates, lenders servicing mortgage loans often are asked by borrowers to refinance the mortgage loans through issuance of new loans secured by mortgages on the same properties. The resulting prepayments, if they involve the underlying Mortgage Loans, will result in the distribution to Holders of the Certificates of the principal balances of the prepaid Mortgage Loans. See “Maturity and Prepayment Assumptions” in the MBS Prospectus.

In general, when the level of prevailing interest rates declines sufficiently relative to the interest rate on fixed-rate mortgage loans, the rate of prepayment is likely to increase, although the prepayment rate is influenced by a number of other factors as well, including general economic conditions and homeowner mobility. Certain of the underlying Mortgage Loans may have provisions restricting the borrower’s ability to prepay the loan or may require the payment of mortgage prepayment penalties in varying amounts, which may or may not influence prepayment rates. In addition, it is increasingly difficult to generalize as to the degree to which interest rates must decline before significant prepayments are likely to be experienced. Increased borrower sophistication regarding the benefits of refinancing and extensive solicitation by lenders may result in an increase in the rate at which the underlying Mortgage Loans are prepaid due to refinancing. See “Maturity and Prepayment Assumptions” in the MBS Prospectus.

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

The seller of the underlying Mortgage Loans 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 such 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). See “Description of Certificates — Collection and Other Servicing Procedures” in the MBS Prospectus.

#### **Repurchases Due to Delinquency**

Fannie Mae has the option under the trust indenture relating to each Pool of underlying Mortgage Loans to repurchase from Pools those Mortgage Loans that are delinquent in whole or in part with respect to four (eight in the case of Biweekly Mortgage Loans) 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). See “Description of Certificates — Payments on Mortgage Loans; Distributions on Certificates.”

#### **Special Considerations for Multifamily Mortgage Loans**

*Certain Risks of Multifamily Lending.* Multifamily lending is generally viewed as exposing the lender to a greater risk of loss than one- to four-family residential lending. Multifamily lending typically involves larger loans to single Mortgagors or groups of related Mortgagors than residential one- to four-family mortgage loans. Furthermore, the repayment of Multifamily Mortgage Loans secured by income producing properties is typically dependent upon the successful operation of the related real estate project. If the cash flow from the project is reduced (for example, if leases are not obtained or renewed), the Mortgagor’s ability to repay the Mortgage Loan may be impaired. Multifamily real estate can be affected significantly by supply and demand in the market for the type of property securing the Mortgage Loan and, therefore, may be affected by adverse economic conditions. Market values may vary as a result of economic events or governmental regulations outside the control of the Mortgagor or lender such as rent control laws, which impact the future cash flow of the property. Due to Fannie Mae’s guaranty, Holders of the Certificates will continue to receive the required installment of principal and interest on each Distribution Date regardless of whether sufficient funds have been collected from the Mortgagors. See “The Certificates—The Corporation’s Guaranty” herein and “Description of the Certificates — The Corporation’s Guaranty” in the MBS Prospectus. In addition, principal prepayments resulting from liquidations of such Mortgage Loans due to defaults, casualties or condemnations affecting the Mortgaged Properties may significantly affect the yield to investors. See “Yield Considerations” in the MBS Prospectus.

### **Corporate Guaranty Considerations**

If the Corporation were unable to perform its guaranty obligations described herein under “The Certificates—The Corporation’s Guaranty” and in the MBS Prospectus under “Description of Certificates — The Corporation’s Guaranty,” distributions to Holders of the Certificates would consist solely of payments and other recoveries on the underlying Mortgage Loans and, accordingly, delinquencies and defaults would affect monthly distributions to Holders of the Certificates.

### **THE MBS CERTIFICATES**

The MBS Certificates directly or indirectly underlying an Issue of Certificates are Fannie Mae Guaranteed Mortgage Pass-Through Certificates that satisfy the general characteristics described in the MBS Prospectus. All of the Mortgage Loans will be either Conventional Mortgage Loans or Mortgage Loans that are either insured or guaranteed by a United States government agency (“Government Mortgage Loans”). Substantially all of the Mortgage Loans will have original maturities of either up to 15 years or 16 to 30 years. Each of the Mortgage Loans (other than cooperative share loans (as described below)) will be secured by a mortgage or deed of trust on a one-to-four family (“single-family”) residential property or by a mortgage or deed of trust on a multifamily residential property. Each Mortgage Loan that is a cooperative share loan will be secured by a lien on the stock, shares, membership certificate or other contractual agreement evidencing ownership in a cooperative housing corporation and the assignment of the related proprietary lease or occupancy agreement (subject to the cooperative housing corporation’s lien against such ownership interest for unpaid assessments that represent that ownership interest’s pro rata share of certain payments of the cooperative housing corporation). If single-family fixed-rate Mortgage Loans back the MBS Certificates, all of the MBS Certificates will have the same Pass-Through Rate. If adjustable-rate Mortgage Loans or Multifamily Mortgage Loans back the MBS Certificates, the characteristics of the MBS Certificates will be described in the Prospectus Supplement to this Prospectus.

### **THE CERTIFICATES**

The following summaries describe certain provisions of the Trust Agreement. Certain capitalized terms in these summaries are used as defined in the Trust Agreement or the applicable Trust Indenture relating to the underlying MBS Certificates. 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 MBS Certificates to Trust**

The MBS Certificates or Pooled Mega Certificates transferred to a Trust will be identified in a Fannie Mae Security Schedule appearing as an exhibit to the Issue Supplement for such Trust. The MBS Certificates or Pooled Mega Certificates will be registered in Fannie Mae’s name on the books of a Federal Reserve Bank and held for the Holders of Certificates by Fannie Mae in its capacity as Trustee of the Trust.

#### **Book-Entry Form**

The Certificates will be issued, maintained and may be transferred by Holders (as defined below) only on the book-entry system of the Federal Reserve Banks. Certificates will be issuable and transferable in minimum denominations of \$1,000 and integral multiples of \$1 in excess thereof.

Certificates may be held of record only by entities eligible to maintain book-entry accounts with a Federal Reserve Bank. Such entities whose names appear on the book-entry records of a Federal Reserve Bank as the entities for whose accounts Certificates have been deposited are herein referred to as “Holders.” A Holder is not necessarily the beneficial owner of a Certificate. Beneficial owners will ordinarily hold Certificates through one or more financial intermediaries, such as banks, brokerage firms and securities clearing organizations. A Holder is not the beneficial owner of a Certificate, and each other financial intermediary in the chain to the beneficial owner, will have the responsibility of establishing and maintaining accounts for its respective customers. The rights of the beneficial

owner of a Certificate with respect to Fannie Mae and the Federal Reserve Banks may be exercised only through the Holder thereof. Fannie Mae and the Federal Reserve Banks will have no direct obligation to a beneficial owner of a Certificate that is not also the Holder of the Certificate. A Federal Reserve Bank will act only upon the instructions of the Holder in recording transfers of a Certificate.

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

### **Distributions on Certificates**

On each Distribution Date, Fannie Mae will, respecting each Trust, distribute to Holders of Certificates their respective Percentage Interests (as defined below) in the principal distributions and interest distributions on the underlying MBS Certificates. Distributions on any Distribution Date will be made to Holders of record on the prior Record Date (the close of business on the last day of the immediately preceding month). The Percentage Interest evidenced by a Certificate in principal and interest distributions on the underlying MBS Certificates is equal to the percentage equivalent of a fraction the numerator of which is the principal denomination of such Certificate and the denominator of which is the aggregate of the principal denominations of all Certificates of the related Issue.

### **The Corporation's Guaranty**

In the Trust Agreement, the Corporation guarantees to the Holders of Certificates that (i) the amount distributed by the Corporation in respect thereof on each Distribution Date will include an amount as to interest which is equal to one month's interest on the unpaid principal balance of the Certificates: (a) at the Pass-Through Rate borne by the underlying MBS Certificates (in the case of single-family fixed-rate MBS Certificates), (b) at the weighted average Pass-Through Rate borne by the underlying MBS Certificates (in the case of Multifamily fixed-rate MBS Certificates), or (c) at the weighted average of the then current Pool Accrual Rates of the underlying MBS Certificates (in the case of adjustable-rate MBS Certificates), and (ii) principal will be distributed on each Distribution Date in an amount equal to the aggregate of the concurrent distributions of principal in respect of the underlying MBS Certificates, the aggregate of such principal distributions over the life of the Certificates being equal to the original principal amount of the Certificates.

### **Information to Holders**

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

### **Certain Matters Regarding Fannie Mae**

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

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

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

Any corporation 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 to Fannie Mae under the terms of the Trust Agreement.

### **Voting**

As set forth under “Description of Certificates — Rights Upon Events of Default” in the MBS Prospectus, the Holders of MBS Certificates evidencing Fractional Undivided Interests aggregating not less than 25% of the related Trust Fund may terminate certain obligations and duties of Fannie Mae with respect thereto if an Event of Default under the 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 an MBS Certificate in the related Trust, take, or join in, any such action to the extent of the product of the Fractional Undivided Interest represented by such MBS Certificate and the aggregate Percentage Interest evidenced by Certificates voting in favor thereof. The Trust Agreement permits similar action by Holders of Certificates with respect to waivers under, or amendments of, the Trust Indenture pursuant to which any MBS Certificate in the related Trust was issued and is outstanding, except that, in the case of any such action, the vote of the Holders of Certificates evidencing Percentage Interests aggregating 66% is required in order for Fannie Mae to vote the entire Fractional Undivided Interest evidenced by such MBS Certificate.

### **Events of Default**

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

### **Rights Upon Event of Default**

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

## **Amendment**

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

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

## **Termination**

The Trust Agreement as it relates to each Trust terminates upon the distribution to Holders of all amounts required to be distributed. In no event, however, will any Trust continue beyond the expiration of 21 years from the death of the last survivor of the person named in the Trust Agreement. Fannie Mae will not at any time have an option to repurchase any or all MBS Certificates in any Trust and thereby retire the Certificates. Reference is made to “Description of Certificates — Termination” in the MBS Prospectus for a description of Fannie Mae’s right to purchase all remaining Mortgage Loans in a Pool underlying an MBS Certificate in the related Trust so long as the Pool Principal Balance at the time of repurchase is less than one percent of the Pool Principal Balance on the Issue Date of the MBS Certificate. The Trust Agreement contains no restriction against Fannie Mae’s exercise of such right. Accordingly, distributions on the Certificates on any Distribution Date may include the proceeds of the repurchase by Fannie Mae of the Mortgage Loans underlying one or more MBS Certificates in the related Trust. If no MBS Certificate remains in the related Trust after any such repurchase, the Trust will be terminated and the proceeds of such repurchase will constitute the final distribution in retirement of the Certificates.

## **MARGINABILITY; REPURCHASE AGREEMENTS**

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

## **CERTAIN FEDERAL INCOME TAX CONSEQUENCES**

Dewey Ballantine, special tax counsel to Fannie Mae, have delivered an opinion to Fannie Mae that each Trust will not be classified as an association taxable as a corporation, but will be classified as a trust of which the beneficial owners of the Certificates (the “Owners”) are the owners under Subpart E of Part I of Subchapter J of the Code. Accordingly, each Owner will be treated as the owner of a pro rata undivided interest in each of the MBS Certificates that underlie, directly or indirectly, the Certificates. For the tax consequences of ownership of the MBS Certificates, see “Certain Federal Income Tax Consequences” in the MBS Prospectus.

## **LEGAL OPINION**

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

## **ERISA CONSIDERATIONS**

The Employee Retirement Income Security Act of 1974, as amended (“ERISA”), and the Code impose certain requirements on employee benefit plans subject to ERISA and upon plans and other arrangements subject to section 4975 of the Code, as well as upon certain entities in which such plans or arrangements are invested (collectively, “Plans”) and upon any person who is a fiduciary with respect to such Plans. Any Plan fiduciary that proposes to cause a Plan to acquire a Certificate would be required to determine whether such an investment is permitted by the Plan’s governing instruments, is prudent and appropriate for the Plan in light of the Plan’s investment policy, and whether such 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, which provides that in the case where a Plan acquires a “guaranteed governmental mortgage pool certificate” then, for purposes of the fiduciary responsibility provisions of ERISA and the prohibited transaction provisions of the Code, the Plan’s assets include such certificate and all of its rights with respect to such certificate under applicable law, but do not, solely by reason of the Plan’s holding of such certificate, include any of the mortgages underlying such certificate. Under the regulation, the term “guaranteed governmental mortgage pool certificate” is specifically defined to include a certificate “backed by, or evidencing an interest in specified mortgages or participation interests therein” and with respect to which interest and principal payable pursuant to the certificate are guaranteed by Fannie Mae. The effect of such regulation is to make clear that the sponsor (that is, the entity that organizes and services the pool, in this case Fannie Mae), the trustee, and other persons, in providing services with respect to the mortgages in the pool, would not be subject to the fiduciary responsibility provisions of Title I of ERISA, nor be subject to the prohibited transaction provisions of ERISA or section 4975 of the Code, merely by reason of the Plan’s investment in a certificate. Fannie Mae has been advised by its counsel, Brown & Wood LLP, that the Certificates would qualify as “guaranteed governmental mortgage pool certificates,” and, accordingly, the acquisition and holding of the Certificates by Plans will not subject the assets of the related Pool or Pools or of Fannie Mae to the fiduciary requirements of ERISA or to the prohibited transaction provisions of ERISA and the Code.

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

No salesman, dealer, bank or other person has been authorized to give any information or to make any representation other than those contained in this Prospectus and the Mega Prospectus, and, if given or made, such information or representation must not be relied upon as having been authorized by the Corporation. This Prospectus and the Mega Prospectus 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 Supplement nor an offer of the Certificates to any person in any state or other jurisdiction in which such offer would be unlawful. The delivery of this Prospectus and the Mega Prospectus at any time does not imply that the information contained herein or therein is correct as of any time subsequent to the date hereof or thereof.

The Certificates have not been approved or disapproved by the Securities and Exchange Commission or any state securities commission nor has the Commission or any state securities commission passed upon the accuracy or adequacy of this Prospectus and the Mega Prospectus. Any representation to the contrary is a criminal offense.

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

#### TABLE OF CONTENTS

	<u>Page</u>
MBS Prospectus	
Summary of Prospectus . . . . .	2
Risk Factors . . . . .	5
The Mortgage Pools . . . . .	7
Yield Considerations . . . . .	9
Maturity and Prepayment Assumptions . . . . .	18
Purchase Program . . . . .	21
Description of Certificates . . . . .	24
Certain Federal Income Tax Consequences . . . . .	33
Legal Opinion . . . . .	39
ERISA Considerations . . . . .	39
Mega Prospectus	
Risk Factors . . . . .	2
The MBS Certificates . . . . .	4
The Certificates . . . . .	4
Marginability; Repurchase Agreements . . . . .	7
Certain Federal Income Tax Consequences . . . . .	7
Legal Opinion . . . . .	7
ERISA Considerations . . . . .	8

## Guaranteed Mortgage Pass-Through Certificates

### PROSPECTUS



**FannieMae**