

## Multifamily DMBS Prospectus



### **Guaranteed Discount Mortgage-Backed Certificates (Multifamily Residential Mortgage Loans)**

#### **The DMBS Certificates**

We, the Federal National Mortgage Association, or Fannie Mae, will issue the guaranteed discount mortgage-backed certificates, or DMBS certificates. Each issuance of DMBS certificates will have its own identification number and will represent the beneficial ownership in a distinct pool of one or more mortgage loans secured by multifamily properties that contain at least five residential units or in a pool consisting of a participation interest in one or more loans of that type.

#### **Fannie Mae Guaranty**

We guarantee to each trust that we will supplement amounts received by the trust as required to permit payment of the full original stated principal amount of the DMBS certificates on their maturity date. **We alone are responsible for making payments under our guaranty. The certificates and payments of principal on the certificates are not guaranteed by the United States and do not constitute a debt or obligation of the United States or any of its agencies or instrumentalities other than Fannie Mae.**

**Consider carefully the risk factors section beginning on page 9. Unless you understand and are able to tolerate these risks, you should not invest in the DMBS certificates.**

**The DMBS certificates are exempt from registration under the Securities Act of 1933, as amended, and are “exempted securities” under the Securities Exchange Act of 1934, as amended. Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved these DMBS certificates or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.**

**The date of this Prospectus is October 1, 2010.**

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## INFORMATION ABOUT THIS PROSPECTUS AND PROSPECTUS SUPPLEMENTS

We will provide information that supplements this prospectus in connection with each issuance of DMBS certificates. We will post this prospectus and the related prospectus supplement for each issuance of DMBS certificates on our Web site shown below. In addition, we will deliver these documents either electronically to parties who request them in accordance with our procedures or in paper form to parties who so request. The disclosure documents for any particular issuance of DMBS certificates are this prospectus and the prospectus supplement, together with any information incorporated into these documents by reference as discussed below under the heading **“INCORPORATION BY REFERENCE.”** We also provide updated information for certain mortgage loan pools and display corrections of information provided for all mortgage loan pools through our Multifamily Securities Locator Service application and other locations on our Web site. **In determining whether to purchase any issuance of DMBS certificates in any initial offering, you should rely ONLY on the information in this prospectus, the related prospectus supplement and any information that we have otherwise incorporated into these documents by reference. You should not solicit lenders, primary servicers or others for additional and/or more current information about the loans in your pool. We take no responsibility for any unauthorized information or representation.**

Each prospectus supplement will include information about the pooled multifamily mortgage loan or loans backing those DMBS certificates. Unless otherwise stated in this prospectus or the related prospectus supplement, information about the mortgage loans will be the most current information available to us as of the issue date stated in the prospectus supplement, which is the first day of the month in which the DMBS certificates are issued. Because each prospectus supplement will contain specific information about a particular issuance of DMBS certificates, you should rely on the information in the prospectus supplement to the extent it is different from or more complete than the information in this prospectus.

Each prospectus supplement also may include a section under the heading “Recent Developments” that may contain additional summary information with respect to current events, including certain regulatory, accounting and financial issues affecting Fannie Mae.

You should note that the DMBS certificates are not traded on any exchange and that the market price of a particular issuance of DMBS certificates or a benchmark price may not be readily available.

You may obtain copies of this prospectus and the related prospectus supplement by writing to Fannie Mae, Attention: Fixed-Income Securities, 3900 Wisconsin Avenue, NW, Area 2H-3S, Washington, DC 20016 or by calling the Fannie Mae Helpline at 1-800-237-8627 or (202) 752-7115. The prospectus supplement is typically available no later than two business days before the settlement date of the related issuance of DMBS certificates. These documents will also be available on our Web site at [www.fanniemae.com](http://www.fanniemae.com). We are providing our Internet address solely for your information. Information appearing on our Web site is not incorporated into this prospectus or into any prospectus supplement.

## INCORPORATION BY REFERENCE

We are incorporating by reference in this prospectus the documents listed below. This means that we are disclosing information to you by referring you to these documents. These documents are considered part of this prospectus, so you should read this prospectus, and the related prospectus supplement, together with these documents.

You should rely on only the information provided or incorporated by reference in this prospectus and any related prospectus supplement. Moreover, you should rely on only the most current information.

We incorporate by reference the following documents that we have filed, or may file, with the Securities and Exchange Commission (“SEC”):

- our annual report on Form 10-K for the fiscal year ended December 31, 2009 (“2009 Form 10-K”);
- all other reports we have filed pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934 since the end of the fiscal year covered by the 2009 Form 10-K until the date of this prospectus, including our quarterly reports on Form 10-Q and our current reports on Form 8-K but excluding any information that we furnish to the SEC on Form 8-K; and
- all proxy statements that we file with the SEC and all documents that we file with the SEC pursuant to Section 13(a), 13(c), 14 or 15(d) of the Securities Exchange Act of 1934 after the date of this prospectus and before completion of the offering of the related DMBS certificates, but excluding any information that we “furnish” to the SEC on Form 8-K.

We make available free of charge through our Web site our annual reports on Form 10-K, our quarterly reports on Form 10-Q, our current reports on Form 8-K and all other SEC reports and amendments to those reports as soon as reasonably practicable after we electronically file the material with, or furnish it to, the SEC. Our Web site address is [www.fanniemae.com](http://www.fanniemae.com). Materials that we file with the SEC are also available from the SEC’s Web site, [www.sec.gov](http://www.sec.gov). In addition, these materials may be inspected, without charge, and copies may be obtained at prescribed rates, at the SEC’s Public Reference Room at 100 F Street, NE, Room 1580, Washington, DC 20549. You may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330.

You may also request copies of any filing from us, at no cost, by calling the Fannie Mae Helpline at 1-800-237-8627 or (202) 752-7115 or by mail at 3900 Wisconsin Avenue, NW, Area 2H-3S, Washington, DC 20016.

## SUMMARY

This summary highlights information contained elsewhere in this prospectus. As a summary, it speaks in general terms without giving details or discussing any exceptions. Before buying any DMBS certificates, you should have the information necessary to make a fully informed investment decision. For that, you must read this prospectus in its entirety (as well as each document to which we refer you in this prospectus), and the related prospectus supplement.

Security . . . . . Guaranteed Discount Mortgage-Backed Certificates (Multi-family Residential Mortgage Loans).

Issuer and Guarantor . . . . . Fannie Mae is a government-sponsored enterprise that was chartered by the U.S. Congress in 1938 under the name “Federal National Mortgage Association” to support liquidity and stability in the secondary mortgage market, where existing mortgage loans are purchased and sold. Fannie Mae has been under conservatorship since September 6, 2008. As conservator, the Federal Housing Finance Agency succeeded to all rights, titles, powers and privileges of Fannie Mae, and of any shareholder, officer, or director of the company with respect to the company and its assets. For additional information regarding conservatorship, see “**RISK FACTORS—FANNIE MAE GOVERNANCE FACTORS**” below.

Our regulators include the Federal Housing Finance Agency, the U.S. Department of Housing and Urban Development, the SEC, and the U.S. Department of the Treasury. The Office of Federal Housing Enterprise Oversight, the predecessor of the Federal Housing Finance Agency, was our safety and soundness regulator prior to enactment of the Federal Housing Finance Regulatory Reform Act of 2008 on July 30, 2008.

On September 8, 2008, we entered into a senior preferred stock purchase agreement with the U.S. Department of the Treasury pursuant to which we issued to it one million shares of senior preferred stock and a warrant to purchase, for a nominal price, shares of common stock equal to 79.9% of the outstanding common stock of Fannie Mae. Nevertheless, we alone are responsible for making payments under our guaranty. The DMBS certificates and payments of principal on the DMBS certificates are not guaranteed by the United States and do not constitute a debt or obligation of the United States or any of its agencies or instrumentalities other than Fannie Mae.

Description of DMBS certificates. . . . . The certificates are issued as discount mortgage-backed securities (“DMBS”), which are short-term mortgage-backed securities that do not bear interest and that have terms of one year or less. Investors purchase DMBS certificates at a discount. Each DMBS certificate will represent a pro rata undivided beneficial ownership interest in a pool consisting of a participation interest in one or more multifamily mortgage loans. We will issue the DMBS certificates in book-entry form on the book-entry system of the U.S. Federal Reserve Banks. The book-entry DMBS certificates will not be convertible into physical DMBS certificates.

Minimum Denomination . . . . .	We will issue the DMBS certificates in minimum denominations of \$1,000 with additional increments of \$1.
Issue Date . . . . .	The first day of the month in which the DMBS certificates of a specific issuance are issued.
Settlement Date . . . . .	No later than the last business day of the month in which the issue date occurs.
Maturity Date . . . . .	The date specified in the prospectus supplement for each issuance of DMBS certificates.
Payments . . . . .	We will pay you the full original stated principal amount of your DMBS certificates on the maturity date. The DMBS certificates will not be prepaid in whole or in part.
Business Day . . . . .	Any day other than a Saturday or Sunday, a day when the fiscal agent or paying agent is closed, a day when the Federal Reserve Bank of New York is closed, or a day when the Federal Reserve Bank in the district where any related certificate account is maintained is closed.
Guaranty . . . . .	We guarantee to the trust that we will supplement amounts received by that trust as required to pay the full original stated principal amount of the related DMBS certificates on their Maturity Date.

Our guaranty runs directly to the trust and not directly to certificateholders. As a result, certificateholders have only limited rights to bring proceedings directly against Fannie Mae to enforce our guaranty. Certificateholders also have certain limited rights to bring proceedings against the U.S. Department of the Treasury (“Treasury”) if we fail to pay under our guaranty. For a description of certificateholders’ rights to proceed against Fannie Mae and Treasury, see **“DESCRIPTION OF THE DMBS CERTIFICATES—Trust Agreement—Certificateholder Rights Upon a Guarantor Event of Default”** below.

Master Servicing/Servicing . . . . .	We are responsible as master servicer for certain duties. We generally contract with mortgage lenders to perform servicing functions for us, subject to our supervision. We refer to these servicers as our primary servicers. For a description of our duties as master servicer and the responsibilities of our primary servicers, see <b>“DESCRIPTION OF THE DMBS CERTIFICATES—Trust Agreement—Collection and Other Servicing Procedures.”</b>
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Trust Agreement . . . . .	Each issuance of DMBS certificates is issued in accordance with the provisions of the 2010 Multifamily Master Trust Agreement effective as of October 1, 2010, as supplemented by an issue supplement. We summarize certain pertinent provisions of the trust agreement in this prospectus. You should refer to the trust agreement and the related issue supplement for a complete description of your rights and obligations as well as those of Fannie Mae in its various
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	capacities. The trust agreement may be found on our Web site.
Trustee . . . . .	We serve as the trustee for each DMBS trust pursuant to the terms of the trust agreement and the related issue supplement.
Paying Agent . . . . .	An entity designated by us to perform the functions of a paying agent. The Federal Reserve Bank of New York currently serves as our paying agent on the DMBS certificates.
Fiscal Agent . . . . .	An entity designated by us to perform certain administrative functions for our trusts. The Federal Reserve Bank of New York currently serves as our fiscal agent for the DMBS certificates.
Mortgage Collateral . . . . .	Each multifamily mortgage loan will be secured by a first lien on a residential property that contains five or more dwelling units and that is one or more of the types listed below. <ul style="list-style-type: none"> <li>• Apartment buildings and communities (which may include small multifamily properties);</li> <li>• Rural housing;</li> <li>• Seniors housing;</li> <li>• Cooperative housing projects;</li> <li>• Manufactured housing communities;</li> <li>• Student housing/dedicated student housing; and</li> <li>• Military housing;</li> </ul> <p>Many multifamily properties are also considered to be affordable housing. We require each multifamily mortgage loan to meet our published standards for loans that we purchase, subject to our right to waive or change those standards from time to time.</p>
Termination . . . . .	The trust will terminate on the maturity date of the related DMBS certificates. We do <b>not</b> have any option to cause an early termination of the trust.
Federal Income Tax Consequences. . . . .	We take the position for U.S. federal income tax purposes that the DMBS certificates are interests in grantor trusts that own a participation interest in the underlying mortgage loans. As a result, it is our position that each beneficial owner of a DMBS certificate will be treated as the owner of a pro rata undivided interest in each of the mortgage loans included in the related mortgage pool. Each such beneficial owner will be required to include in income its pro rata share of the income from the mortgage loans in the pool and generally will be entitled to deduct its pro rata share of the expenses of the grantor trust, subject to the limitations described in “ <b>MATERIAL FEDERAL INCOME TAX CONSEQUENCES—Expenses of the Trust.</b> ” Notwithstanding the foregoing, there can be no assurance that for U.S. federal income tax purposes the standard DUS DMBS certificates or bulk

delivery DMBS certificates will not instead be treated as debt instruments secured by the underlying mortgage loans (or as grantor trust interests in such debt instruments), in which case different and possibly adverse tax consequences would apply to beneficial owners who are domestic building and loan associations or real estate investment trusts. See **“MATERIAL FEDERAL INCOME TAX CONSEQUENCES—Standard DUS DMBS Certificates and Bulk Delivery DMBS Certificates.”**

Legal Investment Considerations . . . Under the Secondary Mortgage Market Enhancement Act of 1984, the DMBS certificates offered by this prospectus and the related prospectus supplement will be considered “securities issued or guaranteed by . . . the Federal National Mortgage Association.” Nevertheless, you should consult your own legal advisor to determine whether and to what extent the DMBS certificates of an issuance constitute legal investments for you.

ERISA Considerations . . . . . For the reasons discussed under **“ERISA CONSIDERATIONS”** in this prospectus, investment by a plan subject to the Employee Retirement Income Security Act (“ERISA”) in the DMBS certificates of an issuance will not cause the assets of the plan to include the multifamily mortgage loans underlying the DMBS certificates or cause the sponsor, trustee and servicers of the mortgage pool to be subject to the fiduciary provisions of the Employee Retirement Income Security Act (“ERISA”) or the prohibited transaction provisions of ERISA or section 4975 of the Internal Revenue Code of 1986.

## **RISK FACTORS**

We have listed below some of the principal risks associated with an investment in the DMBS certificates. We may identify additional risks associated with a specific offering of certificates in the related prospectus supplement. In addition, our annual report on Form 10-K and our quarterly reports on Form 10-Q, which we incorporate by reference into this prospectus, discuss certain risks, including risks relating to Fannie Mae, that may affect your investment in the DMBS certificates and the value of the DMBS certificates.

You should review all of these risk factors before investing in the DMBS certificates. Because each investor has different investment needs and different risk tolerances, you should consult your own financial and legal advisors to determine whether the DMBS certificates are a suitable investment for you.

### ***INVESTMENT FACTORS:***

***The DMBS certificates may not be a suitable investment for you.***

The DMBS certificates are complex financial instruments. They are not a suitable investment for every investor. Before investing, you should:

- have sufficient knowledge and experience to evaluate (either alone or with the help of a financial or legal advisor) the merits and risks of the DMBS certificates and the information contained in this prospectus, the related prospectus supplement, and the documents incorporated by reference;
- understand thoroughly the terms of the DMBS certificates;
- be able to evaluate (either alone or with the help of a financial or legal advisor) the economic, interest rate and other factors that may affect your investment;
- have sufficient financial resources and liquidity to bear all risks associated with the DMBS certificates; and
- investigate any legal investment restrictions that may apply to you.

You should exercise particular caution if your circumstances do not permit you to hold the DMBS certificates until maturity.

### ***FANNIE MAE GOVERNANCE FACTORS:***

***The future of our company following termination of the conservatorship and the timing of the conservatorship's end are uncertain.***

We do not know when or how the conservatorship will be terminated or what changes to our business structure will be made during or following the termination of the conservatorship. We do not know whether we will continue to exist in the same or a similar form after the conservatorship is terminated or whether the conservatorship will end in receivership or in some other manner.

Since June 2009, Congressional committees and subcommittees have held hearings to discuss the current condition and future status of the government sponsored entities (the "GSEs"). On August 17, 2010, the Obama Administration hosted a conference on the future of housing finance, during which various proposals regarding the future of the GSEs were discussed. In addition, under the recently enacted Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Wall Street Reform Act"), by January 31, 2011, the U.S. Department of the Treasury ("Treasury") is required to prepare and submit a report to Congress with recommendations for ending the conservatorship of Fannie Mae and Freddie Mac.

A number of legislative proposals have been introduced that would substantially change our business structure and the operation of our business. We cannot predict the prospects for the

enactment, timing or content of legislative proposals regarding the future status of the GSEs. As a result, there continues to be uncertainty regarding the future of Fannie Mae, including whether we will continue to exist in our current form after the conservatorship is terminated. The options for reform of the GSEs include options that would result in a substantial change to our business structure or in our liquidation or dissolution.

**FANNIE MAE BUSINESS FACTORS:**

***We expect the Federal Housing Finance Agency (“FHFA”) to request additional funds from Treasury on our behalf to ensure we maintain a positive net worth and avoid mandatory receivership. The dividends and commitment fees that we must pay or that accrue on Treasury’s investments are substantial and are expected to increase; we are likely to be unable to fund them through net income.***

FHFA must place us into receivership if the Director of FHFA makes a written determination that our assets are less than our obligations (a “net worth deficit”) or that we have not been paying our debts, in either case, for a period of 60 days. We have had a net worth deficit as of the end of each of the seven previous fiscal quarters through and including June 30, 2010. Treasury provided us with funds under the senior preferred stock purchase agreement to cure the net worth deficits in prior periods before the end of the 60-day period, and in August 2010 the Acting Director of FHFA requested \$2.2 billion in funds to cure our net worth deficit as of June 30, 2010. Once we have received those funds, the aggregate liquidation preference on the senior preferred stock will be \$86.8 billion, which will require an annualized dividend of \$8.7 billion. The prospective \$8.7 billion annual dividend obligation exceeds our reported annual net income for each of the last eight years, in most cases by a significant margin. If we have a negative net worth as of the end of future fiscal quarters, we expect that FHFA will request additional funds from Treasury under the senior preferred stock purchase agreement. The receipt of these additional funds from Treasury will increase the liquidation preference of and the dividends we owe on the senior preferred stock. As a result, we are likely to need additional funds from Treasury to meet our dividend obligation.

In addition, beginning in 2011, the senior preferred stock purchase agreement requires that we pay a quarterly commitment fee to Treasury, unless Treasury waives this fee. The quarterly commitment fee amounts have not yet been determined. Moreover, the aggregate liquidation preference and dividend obligations will increase by the amount of any required dividend we fail to pay in cash and by the amount of any required quarterly commitment fee that we fail to pay. The substantial dividend obligations and potentially substantial quarterly commitment fees, coupled with our effective inability to pay down draws under the senior preferred stock purchase agreement, will continue to strain our financial resources and have an adverse impact on our results of operations, financial condition, liquidity and net worth, both in the short and long term.

***FHFA is authorized or required to place us into receivership under specified conditions, which would result in the liquidation of our assets. Amounts recovered from the liquidation may be insufficient to cover our obligations, including our guaranty obligations to certificateholders.***

FHFA must place us into receivership if the Director of FHFA makes a written determination that our assets are less than our obligations or that we have not been paying our debts, in either case, for a period of 60 days. In view of our current circumstances, we will continue to need funding from Treasury to avoid triggering a mandatory receivership. In addition, we could be put into receivership at the discretion of the Director of FHFA at any time for other reasons, including conditions that FHFA has already asserted existed at the time we were placed into conservatorship. These conditions include a substantial dissipation of assets or earnings due to unsafe or unsound practices; the existence of an unsafe or unsound condition to transact business; an inability to meet our obligations in the ordinary course of business; a weakening of our condition due to unsafe or unsound practices or conditions; critical undercapitalization; the likelihood of losses that will deplete substantially all of

our capital; or by consent. A receivership would terminate the conservatorship. Unlike a conservatorship, the purpose of which is to conserve our assets and return us to a sound and solvent condition, the purpose of a receivership would be to liquidate our assets and resolve claims against us. In addition to the powers FHFA has as conservator, the appointment of FHFA as our receiver would permit FHFA to exercise certain powers that could adversely affect holders of the certificates (“certificateholders”).

*Repudiation of Contracts:* In its capacity as receiver, FHFA could repudiate any contract entered into by Fannie Mae prior to its appointment as receiver if FHFA determines, in its sole discretion, that performance of the contract is burdensome and that repudiation of the contract promotes the orderly administration of Fannie Mae’s affairs. The Regulatory Reform Act requires that any exercise by FHFA of its right to repudiate any contract occur within a reasonable period following its appointment as receiver.

If FHFA, as receiver, were to repudiate our guaranty obligations, the receivership estate would be liable for damages as of the date of receivership under the Regulatory Reform Act. Any such liability could be satisfied only to the extent our assets were available for that purpose.

Moreover, if our guaranty obligations were repudiated, payments of principal and/or interest to certificateholders would be reduced as a result of borrowers’ late payments or failure to pay or a primary servicer’s failure to remit borrower payments to the trust. In that case, trust administration fees would be paid from mortgage loan payments prior to distributions to certificateholders. Any damages paid as the result of the repudiation of our guaranty obligations may not be sufficient to offset any shortfalls experienced by certificateholders.

*Transfer of Guaranty Obligation:* In its capacity as receiver, FHFA would have the right to transfer or sell any asset or liability of Fannie Mae without any approval, assignment or consent from us or any other party. If FHFA, as receiver, were to transfer our guaranty obligations to another party, certificateholders would have to rely on that party for satisfaction of the guaranty obligations and would be exposed to the credit risk of that party.

*Rights of Certificateholders:* During a receivership, certain rights of certificateholders under the trust documents may not be enforceable against FHFA, or enforcement of such rights may be delayed. The trust documents provide that upon the occurrence of a guarantor event of default, which includes the appointment of a receiver, certificateholders have the right to replace Fannie Mae as trustee if the requisite percentage of certificateholders consents. The Federal Housing Finance Regulatory Reform Act of 2008 (the “Regulatory Reform Act”) may prevent certificateholders from enforcing their rights to replace Fannie Mae as trustee if the event of default arises solely because a receiver has been appointed.

The Regulatory Reform Act also provides that no person may exercise any right or power to terminate, accelerate or declare an event of default under certain contracts to which Fannie Mae is a party, or obtain possession of or exercise control over any property of Fannie Mae, or affect any contractual rights of Fannie Mae, without the approval of FHFA as receiver, for a statutorily specified period following the appointment of FHFA as receiver.

If we are placed into receivership and do not or cannot fulfill our guaranty obligations, certificateholders could become unsecured creditors of Fannie Mae with respect to claims made under our guaranty. For a description of certain rights of certificateholders to proceed against Treasury if we fail to pay under our guaranty, see “**DESCRIPTION OF THE DMBS CERTIFICATES—Trust Agreement—Certificateholder Rights Upon a Guarantor Event of Default**” below.

***We have experienced substantial deterioration in the credit performance of mortgage loans that we own or that back our guaranteed Fannie Mae MBS, which we expect to continue and to result in additional credit-related expenses.***

We are exposed to mortgage credit risk relating to both the mortgage loans that we hold in our investment portfolio and the mortgage loans that back all of our certificates. When borrowers fail to make required payments of principal and interest on their mortgage loans, we are exposed to the risk of credit losses and credit-related expenses.

Conditions in the housing and financial markets worsened dramatically during 2008 and remained stressed in 2009 and 2010, contributing to a deterioration in the credit performance of our book of business, negatively affecting the serious delinquency rates, default rates and average loan loss severity on the mortgage loans that we hold or that back our certificates, as well as increasing our inventory of foreclosed properties. Increases in delinquencies, default rates and loss severity cause us to experience higher credit-related expenses. The credit performance of our book of business has also been negatively affected by the extent and duration of the decline in residential property values and high unemployment. These deteriorating credit performance trends have been notable in certain of our higher risk loan categories, states and vintages. In addition, declines in residential property values, adverse market conditions, and continuing high levels of unemployment have also increasingly affected the credit performance of our broader book of business. Moreover, as the social acceptability of defaulting on a single-family mortgage loan increases, more borrowers may default on their mortgage loans because they owe more than the related properties are worth.

Adverse credit performance trends may continue, particularly if we experience further national and regional declines in residential property values, weak economic conditions and high unemployment.

***The credit losses we experience in future periods are likely to be larger, and perhaps substantially larger, than our current combined loss reserves. As a result, we likely will experience credit losses for which we have not yet made provision.***

In accordance with generally accepted accounting principles (“GAAP”), our combined loss reserves, as reflected in our financial statements, do not reflect our estimate of the future credit losses inherent in our existing guaranty book of business. Instead, they reflect only the probable losses that we believe we have already incurred as of the date of the financial statements. Although we believe that our credit losses will increase in the future due to the weak housing and mortgage markets and may increase, in the near term, due to the costs of our activities under various programs designed to keep borrowers under single-family loans in their homes, high unemployment and other negative trends, we are not permitted under GAAP to reflect these future trends in our loss reserve calculations. Because of these negative trends, there is significant uncertainty regarding the full extent of our future credit losses, and we expect to continue to add to our loss reserves. The credit losses we experience in future periods will adversely affect our business, results of operations, financial condition, liquidity and net worth.

***We expect to experience further losses and write-downs relating to our investment securities.***

We experienced significant losses and write-downs relating to our investment securities in 2008 and recorded significant write-downs of some of our available-for-sale securities in 2009. A substantial portion of these losses and write-downs related to our investments in private-label mortgage-backed securities backed by Alt-A and subprime single-family mortgage loans and our investments in commercial mortgage-backed securities due to the decline in property values and the weak economy. We continue to expect to experience additional write-downs of our investments in private-label mortgage-related securities, including those that continue to be AAA-rated.

We also have incurred significant losses relating to the non-mortgage investment securities in our cash and other investments portfolio, primarily as a result of a substantial decline in the market

value of these assets due to the financial market crisis. The fair value of the investment securities we hold may be further adversely affected by deterioration in the housing market and economy, including continued high unemployment, additional ratings downgrades or other events.

To the extent that the market for our securities remains illiquid, we are required to use a greater amount of management judgment to value the securities we own in our investment portfolio. Moreover, if we were to sell any of these securities, the price we ultimately would realize could be materially lower than the estimated fair value at which we carry these securities on our balance sheet.

Any of the above factors could require us to record additional write-downs in the value of our investment portfolio, which could have a material adverse effect on our business, results of operations, financial condition, liquidity and net worth.

***Our business activities are significantly restricted by the conservatorship and the senior preferred stock purchase agreement.***

We are currently under the control of our conservator and do not know when or how the conservatorship will be terminated. Under the Regulatory Reform Act, FHFA, as conservator, can direct us to enter into contracts or enter into contracts on our behalf. In addition, FHFA, as conservator, generally has the power to transfer or sell any of our assets or liabilities and may do so without the approval, assignment or consent of any party. Furthermore, our directors do not have any duties to any person or entity except to the conservator. As a result, our directors are not obligated to consider the interests of the company, the holders of our equity or debt securities or the holders of our certificates in making or approving a decision, unless specifically directed to do so by the conservator.

In February 2010 the conservator said that while we are in conservatorship, we will be limited to continuing our existing core business activities and taking actions necessary to advance the goals of the conservatorship.

The senior preferred stock purchase agreement with Treasury includes a number of covenants that significantly restrict our business activities. We cannot, without the prior written consent of Treasury, pay dividends (except on the senior preferred stock); sell, issue, purchase or redeem Fannie Mae equity securities (with certain limited exceptions); sell, transfer, lease or otherwise dispose of assets in specified situations; engage in transactions with affiliates other than on arm's-length terms or in the ordinary course of business; issue subordinated debt; or incur indebtedness that would result in our aggregate indebtedness exceeding 120% of the amount of mortgage assets we are allowed to own. In deciding whether or not to consent to any request for approval it receives from us under the agreement, Treasury has the right to withhold its consent for any reason and is not required by the agreement to consider any particular factors, including whether or not management believes that the transaction would benefit the company. Pursuant to the senior preferred stock purchase agreement, the maximum allowable amount of mortgage assets we may own on December 31, 2010 is \$810 billion. On December 31, 2011, and on each December 31 thereafter, our mortgage assets may not exceed 90% of the maximum allowable amount that we were permitted to own as of December 31 of the immediately preceding calendar year. The maximum allowable amount is reduced annually until it reaches \$250 billion. This limit on the amount of mortgage assets we are permitted to hold could constrain the amount of delinquent loans we purchase from multifamily MBS trusts. These factors may adversely affect our business, results of operations, financial condition, liquidity and net worth.

***We may not be able to meet our housing goals and duty to serve requirements, and actions we take to meet these requirements may adversely affect our business, results of operations, financial condition, liquidity and net worth.***

In September 2010, FHFA published a final rule implementing the new housing goals structure for 2010 and 2011 as required by the 2008 Reform Act. We may not be able to meet all of our 2010

housing goals due to current mortgage market conditions. In addition, in June 2010, FHFA published a proposed rule to implement our new duty to serve requirements relating to very low-, low- and moderate-income families in three underserved markets: manufactured housing, affordable housing preservation and rural areas.

If we do not meet our housing goals or duty to serve requirements, and FHFA finds that the goals or requirements were feasible, we may become subject to a housing plan that could require us to take additional steps that could have an adverse effect on our financial condition. With respect to our housing goals in particular, the potential penalties for a failure to comply with housing plan requirements include a cease-and-desist order and civil monetary penalties. In addition, to the extent that we purchase higher-risk loans to meet our housing goals or our duty to serve requirements, these purchases may contribute to further increases in our credit losses and credit-related expenses.

***Limitations on our ability to access the debt capital markets could have a material adverse effect on our ability to fund our operations and generate net interest income.***

Our ability to fund our business depends primarily on our ongoing access to the debt capital markets. Our level of net interest income depends on how much lower our cost of funds is compared to what we earn on our mortgage assets. Market concerns about matters such as the extent of government support for our business and the future of our business (including future profitability, future structure, regulatory actions and GSE status) could have a severe negative effect on our access to the unsecured debt markets, particularly for long-term debt. We believe that our ability in 2009 to issue debt of varying maturities at attractive pricing resulted from federal government support of us and the financial markets, including the prior availability of a credit facility provided by Treasury and the purchase by the Board of Governors of the Federal Reserve System (“Federal Reserve”) of our debt and MBS. As a result, we believe that our status as a GSE and continued federal government support of our business and the financial markets are essential to maintaining our access to debt funding. Changes or perceived changes in the government’s support of us or the markets could lead to an increase in our roll-over risk in future periods and have a material adverse effect on our ability to fund our operations. Although demand for our debt securities has continued to be strong as of the date of this prospectus, demand for our debt securities could decline, perhaps significantly. There can be no assurance that the government will continue to support us or that our current level of access to debt funding will continue.

In addition, future changes or disruptions in the financial markets could significantly change the amount, mix and cost of funds we obtain, as well as our liquidity position. If we are unable to issue both short- and long-term debt securities at attractive rates and in amounts sufficient to operate our business and meet our obligations, it likely would interfere with the operation of our business and have a material adverse effect on our liquidity, results of operations, financial condition and net worth.

***Our liquidity contingency planning may not provide sufficient liquidity to operate our business and meet our obligations if we cannot access the unsecured debt markets.***

We believe that market conditions over the last several years have had an adverse impact on our ability to plan effectively for a liquidity crisis. During periods of adverse market conditions, our ability to repay maturing indebtedness and fund our operations could be significantly impaired. Our liquidity contingency planning during 2010 relies on our ability to pledge mortgage assets as collateral for secured borrowings and sell other assets. However, when adverse market conditions exist, our ability to pledge or sell mortgage assets may be impaired, or the assets may be reduced in value if other market participants are seeking to pledge or sell similar assets at the same time. Moreover, we may be unable to find sufficient alternative sources of liquidity if our access to the unsecured debt markets is impaired.

***Operational control weaknesses could materially adversely affect our business, cause financial losses and harm our reputation.***

Shortcomings or failures in our internal processes, people or systems could have a material adverse effect on our risk management, liquidity, financial statement reliability, financial condition and results of operations; disrupt our business; and result in legislative or regulatory intervention, liability to customers, and financial losses or damage to our reputation, including as a result of our inadvertent dissemination of confidential or inaccurate information. For example, our business is dependent on our ability to manage and process, on a daily basis, an extremely large number of transactions across numerous and diverse markets and in an environment in which we must make frequent changes to our core processes in response to changing external conditions. These transactions are subject to various legal and regulatory standards. We rely upon business processes that are highly dependent on people, technology and the use of numerous complex systems and models to manage our business and produce books and records upon which our financial statements are prepared. We experienced a number of operational incidents in 2009 and 2010 related to inadequately designed or failed execution of internal processes or systems.

We are implementing our operational risk management framework, which consists of a set of integrated processes, tools, and strategies designed to support the identification, assessment, mitigation and control, and reporting and monitoring of operational risk. We also have made a number of changes in our structure, business focus and operations, as well as changes to our risk management processes, to keep pace with changing external conditions. These changes, in turn, have necessitated modifications to or development of new business models, processes, systems, policies, standards and controls. While we believe that the steps we have taken and are taking to enhance our technology and operational controls and organizational structure will help to identify, assess, mitigate, control, and monitor operational risk, our implementation of our operational risk management framework may not be effective to manage or prevent these risks and may create additional operational risk as we execute these enhancements.

In addition, we have experienced substantial changes in management, employees and our business structure and practices since the conservatorship began. These changes could increase our operational risk and result in business interruptions and financial losses. In addition, due to events that are wholly or partially beyond our control, employees or third parties could engage in improper or unauthorized actions, or these systems could fail to operate properly, which could lead to financial losses, business disruptions, legal and regulatory sanctions, and reputational damage.

***HOUSING INDUSTRY FACTORS:***

***Mortgage fraud could result in significant financial losses and harm to our reputation.***

We use a process of delegated underwriting in which lenders make specific representations and warranties about the characteristics of the mortgage loans we purchase and securitize. As a result, we do not independently verify most borrower information that is provided to us. This exposes us to the risk that one or more of the parties involved in a transaction (the borrower, seller, broker, appraiser, title agent, lender or servicer) will engage in fraud by misrepresenting facts about a mortgage loan. We have experienced financial losses resulting from mortgage fraud, including institutional fraud perpetrated by counterparties. In the future, we may experience additional financial losses and reputational damage as a result of mortgage fraud.

***The Wall Street Reform Act and other regulatory changes in the financial services industry may negatively affect our business.***

The Wall Street Reform Act will significantly change the regulation of the financial services industry, including the creation of new standards related to regulatory oversight of systemically important financial companies, derivatives, asset-backed securitization, mortgage underwriting and consumer financial protection. The Wall Street Reform Act will directly and indirectly affect many

aspects of our business and could have a material adverse effect on our business, results of operations, financial condition, liquidity and net worth. The Wall Street Reform Act and related future regulatory changes could require us to change certain of our business practices, impose significant additional costs on us, limit the products we offer, require us to increase our regulatory capital or otherwise adversely affect our business. In addition, implementation of this legislation will result in increased supervision and more comprehensive regulation of our customers and counterparties in the financial services industry, which may have a significant impact on the business practices of our customers and counterparties, as well as on our counterparty credit risk.

Examples of aspects of the Wall Street Reform Act and related future regulatory changes that may significantly affect us include mandatory clearing of certain derivatives transactions, which could impose significant additional costs on us, and minimum standards for residential mortgage loans, which could subject us to increased legal risk for loans we purchase or guarantee. We could also be designated as a “systemically important” non-bank financial company subject to supervision and regulation by the Federal Reserve. If this were to occur, the Federal Reserve would have the authority to examine us and could impose stricter prudential standards on us, including risk-based capital requirements, leverage limits, liquidity requirements, stress tests, credit concentration limits, resolution plan and credit exposure reporting requirements, and other risk management measures.

We are unable to predict how the Wall Street Reform Act will be implemented, or whether any additional or similar changes to statutes or regulations (and their interpretation or implementation) will occur in the future. As a result, it is difficult to assess fully the impact of this legislation on our business and industry at this time.

In addition, the actions of Treasury, the U.S. Commodity Futures Trading Commission, the Federal Deposit Insurance Corporation (“FDIC”), the Federal Reserve and international central banking authorities directly impact financial institutions’ cost of funds for lending, capital raising and investment activities, which could increase our borrowing costs or make borrowing more difficult for us. Changes in monetary policy are beyond our control and difficult to anticipate.

***Structural changes in the financial services industry may negatively affect our business.***

The financial market crisis has resulted in mergers of some of our most significant counterparties. Consolidation of the financial services industry has increased and may continue to increase our concentration risk to counterparties in this industry. Moreover, we are and may become more reliant on a smaller number of institutional counterparties, which both increases our risk exposure to any individual counterparty and decreases our negotiating leverage with these counterparties.

The structural changes in the financial services industry and legislative or regulatory changes could affect us in substantial and unforeseeable ways and could have a material adverse effect on our business, results of operations, financial condition, liquidity and net worth.

***The occurrence of a major natural or other disaster in the United States could increase our delinquency and default rates, credit losses, credit-related expenses and average loan loss severity for the loans in the affected geographic area.***

We conduct our business in the residential mortgage market and own or guarantee the performance of mortgage loans throughout the United States. A major natural or environmental disaster, terrorist attack, health epidemic or similar event (a “major disruptive event”) could occur in one or more regions of the United States. Such a major disruptive event could either damage or destroy residential real estate securing mortgage loans that we own or that back our certificates or negatively affect the ability of borrowers to continue to make principal and interest payment on mortgage loans, that we own or that back the certificates. Any such result could, in turn, increase the delinquency and default rates, credit losses, credit-related expenses and average loan loss severity of our mortgage loans in the affected region. While we attempt to acquire mortgage loans from all regions of the country, there can be no assurance that a major disruptive event, depending on its magnitude, scope,

and nature, will not lead to any of these adverse results. Any or all of these adverse results could have a material adverse effect on our business, results of operations, financial condition, liquidity and net worth.

***The occurrence of a major disruptive event in the United States could disrupt our business operations.***

If a major disruptive event occurs, the contingency plans and facilities that we have in place may be insufficient to prevent an adverse effect on our ability to conduct business, which could lead to financial losses. Substantially all of our senior management and investment personnel work out of our offices in the Washington, DC metropolitan area. If a disruption occurs and our senior management or other employees are unable to occupy our offices, communicate with other personnel or travel to other locations, our ability to interact with each other and with our customers may suffer, and we may not be successful in implementing contingency plans that depend on communication or travel. If our contingency plans are not successfully implemented, there could be a material adverse effect on our business, results of operations, financial condition, liquidity and net worth.

## FANNIE MAE

### General

Fannie Mae is a federally chartered and stockholder-owned corporation organized and existing under the Federal National Mortgage Association Charter Act, as amended (“Charter Act”). We were established in 1938 as a United States government agency to provide supplemental liquidity to the mortgage market. We became a stockholder-owned and privately managed corporation by legislation enacted in 1968. As discussed below, we are currently in conservatorship.

Under our Charter Act, we were created to:

- provide stability in the secondary market for residential mortgages;
- respond appropriately to the private capital markets;
- provide ongoing assistance to the secondary market for residential mortgages (including activities relating to mortgages on housing, including multifamily housing, for low-and moderate-income families involving a reasonable economic return that may be less than the return earned on other activities) by increasing the liquidity of mortgage investments and improving the distribution of investment capital available for residential mortgage financing; and
- promote access to mortgage credit throughout the nation (including central cities, rural areas and underserved areas) by increasing the liquidity of mortgage investments and improving the distribution of investment capital available for residential mortgage financing.

In accordance with our statutory purpose, we provide funds to the mortgage market by purchasing mortgage loans from lenders. In this way, we replenish their funds so they can make additional loans. We acquire funds to purchase these loans by issuing debt securities to capital market investors, many of whom ordinarily would not invest in mortgages. Thus, we are able to expand the total amount of funds available for housing.

We also issue mortgage-backed certificates, receiving guaranty fees for our guaranty to the related trust that we will supplement amounts received by the related trust as required to permit timely payments of principal and interest on the certificates. We issue mortgage-backed certificates primarily in exchange for pools of mortgage loans from lenders. By issuing mortgage-backed certificates, we further fulfill our statutory mandate to increase the liquidity of residential mortgage loans.

In addition, we offer various services to lenders and others for a fee. These services include issuing certain types of structured mortgage-backed certificates and providing technology services for originating and underwriting mortgage loans.

Our principal office is located at 3900 Wisconsin Avenue, NW, Washington, DC 20016 (telephone: (202) 752-7000).

### Regulatory Actions and Conservatorship

The Regulatory Reform Act established FHFA as an independent agency with general supervisory and regulatory authority over Fannie Mae, Freddie Mac and the 12 Federal Home Loan Banks. FHFA assumed the duties of our former regulators, the Office of Federal Housing Enterprise Oversight and the U.S. Department of Housing and Urban Development, or HUD, with respect to safety, soundness and mission oversight of Fannie Mae and Freddie Mac. HUD remains our regulator with respect to fair lending matters.

On September 6, 2008, the Director of FHFA placed Fannie Mae into conservatorship and appointed FHFA as the conservator. Upon its appointment, FHFA immediately succeeded to all of our rights, titles, powers and privileges and those of any stockholder, officer, or director of Fannie Mae

with respect to us and our assets. The conservator has the authority to take over our assets and operate our business with all the powers of our stockholders, directors and officers, and to conduct all business of the company. Under the Regulatory Reform Act, FHFA, as conservator, may take “such action as may be necessary to put the regulated entity in a sound and solvent condition.” We have no control over FHFA’s actions or the actions it may direct us to take. The conservatorship has no specified termination date; we do not know when or how it will be terminated

In September 2008, Fannie Mae, through FHFA as our conservator, Treasury entered into two agreements with Treasury. The first agreement is the senior preferred stock purchase agreement (as amended, the “stock purchase agreement”), which provided us with Treasury’s commitment to provide us with funding under specified conditions (the “commitment”). Under the stock purchase agreement, Treasury’s commitment is currently the greater of (i) \$200 billion plus the cumulative amount of the company’s net worth deficit (the amount by which the company’s total liabilities exceed the company’s total assets) as of the end of any calendar quarter in 2010, 2011 and 2012, less any positive net worth as of December 31, 2012. We issued 1,000,000 shares of senior preferred stock to Treasury pursuant to the stock purchase agreement. The other agreement is a warrant to purchase, for a nominal price, shares of common stock equal to 79.9% of the outstanding common stock of Fannie Mae (the “warrant”) on a fully diluted basis. The senior preferred stock and the warrant contain covenants that significantly restrict our operations and that are described in the 2009 Form 10-K.

We generally may draw funds under the commitment on a quarterly basis when our total liabilities exceed our total assets on our consolidated balance sheet prepared in accordance with GAAP as of the end of the preceding quarter. All funds drawn on the commitment are added to the liquidation preference on the senior preferred stock, which currently has a 10% annual dividend rate. If we do not pay the dividend quarterly and in cash, the dividend rate would increase to 12% annually, and the unpaid dividend would accrue and be added to the liquidation preference of the senior preferred stock.

We are continuing to operate as a going concern while in conservatorship and remain liable for all of our obligations, including our guaranty obligations, associated with the DMBS certificates and other mortgage-backed securities issued by us. The stock purchase agreement is intended to enhance our ability to meet our obligations. Certificateholders have certain limited rights to bring proceedings against Treasury if we fail to pay under our guaranty. For a description of certificateholders’ rights to proceed against Fannie Mae and Treasury, see “**DESCRIPTION OF THE DMBS CERTIFICATES—Trust Agreement—Certificateholder Rights Upon a Guarantor Event of Default**” below.

## USE OF PROCEEDS

We usually issue DMBS certificates in swap transactions in which the certificates are issued in exchange for the participation interests in the multifamily mortgage loan or loans in the pool that backs the DMBS certificates.

## DESCRIPTION OF THE DMBS CERTIFICATES

We will issue the DMBS certificates pursuant to trust documents. For each issuance of DMBS certificates, there will be an issue supplement to the trust agreement related to those certificates. This prospectus relates to DMBS certificates issued on and after October 1, 2010, which are issued under our 2010 Multifamily Master Trust Agreement, effective October 1, 2010 (as amended or replaced from time to time, the “trust agreement”). For information about DMBS certificates issued before October 1, 2010, see the related Multifamily DMBS prospectus that was in effect at the time those DMBS certificates were issued.

## **DMBS Certificates**

DMBS certificates represent the beneficial ownership in a distinct pool of one or more mortgage loans secured by multifamily properties that contain at least five residential units or in a pool consisting of a participation interest in one or more loans of that type. The mortgage loans are generally made under our Delegated Underwriting and Servicing (“DUS”) business line. See **“MULTIFAMILY MORTGAGE LOANS—DUS Loans.”** DMBS certificates are short-term securities that do not bear interest and typically have a three-month maturity, though the terms can range from one month to one year. Investors purchase DMBS certificates at a discount. On the maturity date, the holder of the DMBS certificate receives the full original stated principal amount of the DMBS certificate. See **“MATERIAL FEDERAL INCOME TAX CONSEQUENCES”** for a discussion of tax issues involved in purchasing a DMBS certificate.

In a DMBS transaction, we purchase from a DUS lender a participation interest representing a 100% undivided ownership interest in a short-term advance, typically from three to nine months, under one or more DUS loans. We then issue a DMBS certificate with the same maturity date as the advance. We hold the participation certificate representing each participation interest in trust for the benefit of the holders of the related DMBS certificates. Ownership of a DMBS certificate provides a holder of that certificate with an undivided beneficial interest in a pool containing a single participation interest.

When the DMBS certificate matures, the borrower may pay off the advance or roll it over into a new advance. In the latter case, the DUS lender will issue a new participation interest in the new advance in exchange for a new DMBS certificate, using the proceeds from the sale of the new DMBS certificate and the discount collected from the borrower to pay the maturing DMBS certificate in full. If the discount on the new DMBS certificate is greater than the discount on the maturing DMBS certificate, then the borrower must pay the difference prior to issuance of the new DMBS certificate. The effective interest rate on the underlying DUS loan adjusts each time a new DMBS certificate is issued, based upon the discount at that time. This process of issuing new DMBS certificates at the maturity of the previous DMBS certificates related to advances under the same underlying DUS loan continues until (i) the underlying DUS loan reaches maturity or is accelerated (or, for a credit facility, until the lender’s commitment to make short-term advances terminates), (ii) the borrower elects to convert the loan to an interest-bearing fixed-rate loan, or (iii) the borrower prepays the DUS loan.

If any voluntary or involuntary prepayments on the multifamily mortgage loans are received during the term of the DMBS certificates, those prepayments will not be passed through to the DMBS certificateholders before the maturity date. Instead, the full original stated principal amount of the DMBS certificates will be paid to the certificateholders on the maturity date.

## **Issuance in Book-Entry Form**

We will issue the DMBS certificates in book-entry form using the book-entry system of the U.S. Federal Reserve Banks. Physical certificates are not available. Book-entry certificates must be issued in a minimum denomination of \$1,000 with additional increments of \$1. They are freely transferable on the records of any Federal Reserve Bank but are not convertible to physical certificates. Any transfers are subject to the minimum denomination requirements.

A certificateholder is an entity whose name appears in the records of a Federal Reserve Bank as the owner of the DMBS certificate. Only entities that are eligible to maintain book-entry accounts with a Federal Reserve Bank may be certificateholders. These entities are not necessarily the beneficial owners of the DMBS certificates. If a certificateholder is not also the beneficial owner of a DMBS certificate, the certificateholder and all the other financial intermediaries in the chain between the certificateholder and the beneficial owner are responsible for establishing and maintaining accounts for their customers.

The Federal Reserve Bank of New York currently serves as our fiscal agent pursuant to a fiscal agency agreement. In that capacity, it performs certain administrative functions for us with respect to certificateholders. Neither we nor the Federal Reserve Bank will have any direct obligation to the beneficial owner of a DMBS certificate who is not also a certificateholder. We and the Federal Reserve Bank may treat the certificateholder as the absolute owner of the certificate for all purposes, regardless of any contrary notice you may provide.

The Federal Reserve Bank of New York also currently serves as our paying agent. In that capacity it credits the account of the certificateholder when we make a distribution on the DMBS certificates. Each certificateholder and any financial intermediaries are responsible for remitting distributions to the beneficial owners of the DMBS certificates.

### **Distributions on DMBS Certificates**

We will make no payments on the DMBS certificates until the maturity date. On the maturity date, we will pay the full original stated principal amount of the DMBS certificates to the DMBS certificateholder that is listed as the holder in the records of any Federal Reserve Bank as of the close of business on the record date. The record date is the last business day before the maturity date. A business day is any day other than a Saturday or Sunday, a day when the fiscal agent or paying agent is closed, a day when the Federal Reserve Bank of New York is closed, or with respect to any required withdrawal for remittance to a paying agent, a day when the Federal Reserve Bank is closed in a district where a certificate account is located if the related withdrawal is being made from that certificate account.

### **Tax Information for Certificateholders**

Within a reasonable time after the end of each calendar year, we will post on our Web site, or otherwise make available, information required by the federal income tax laws. See “**MATERIAL FEDERAL INCOME TAX CONSEQUENCES—Information Reporting and Backup Withholding**” below.

### **Trust Agreement**

We have summarized below various provisions of the trust agreement. This summary is not complete and may be altered by specific provisions described in the related prospectus supplement for a specific issuance of certificates. If there is any conflict between the information in this prospectus and the actual provisions of the trust agreement and the related issue supplement, (together, the “trust documents”), the terms of the trust documents will govern. You may obtain a copy of the trust agreement from our Washington, DC office or our Web site at [www.fanniemae.com](http://www.fanniemae.com). You may obtain a copy of the issue supplement that applies to your issuance of DMBS certificates from our Washington, DC office.

#### ***Fannie Mae Guaranty***

We are the guarantor under the trust agreement. We guarantee to each trust that we will supplement amounts received by the trust as required to permit payment of the full original stated principal amount of the DMBS certificates on their maturity date.

If we were unable to perform our guaranty obligations, certificateholders would receive from the related trust only the principal payments that borrowers actually made, any servicing advances made by the primary servicer and any other recoveries on the mortgage loans in the pool from sources such as insurance, condemnation and foreclosure proceeds. If that were to happen, delinquencies and defaults on the mortgage loans would directly affect the amount of principal that certificateholders would receive on the maturity date. In that case, distributions of principal on the loans would be

made in the sequence specified below (to the extent the following amounts are due and have not been already paid):

- *first*, to payment of the trust administration fee and other amounts due to the trustee;
- *second*, to reimbursement of any delinquency advances previously made by the primary servicer or master servicer, to the extent the advances are deemed non-recoverable by the advancing party; and
- *last*, all remaining funds to payment of principal on the DMBS certificates.

Our guaranty runs directly to each trust and not directly to certificateholders. As a result, certificateholders have only limited rights to bring proceedings directly against Fannie Mae to enforce our guaranty. Certificateholders also have certain limited rights to bring proceedings against Treasury if we fail to pay under our guaranty. For a description of certificateholders' rights to proceed against Fannie Mae and Treasury, see "***—Certificateholder Rights Upon a Guarantor Event of Default***" below.

**We alone are responsible for making payments on our guaranty. The DMBS certificates and payments of principal on the DMBS certificates are not guaranteed by the United States and do not constitute a debt or obligation of the United States or any of its agencies or instrumentalities other than Fannie Mae.**

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

We are responsible as the master servicer under the trust agreement for certain duties. Our duties include entering into contracts with primary servicers to service the mortgage loans, supervising and monitoring the primary servicers, ensuring the performance of certain servicing functions if the primary servicer fails to do so, establishing certain procedures and records for each trust, and taking additional actions as set forth in the trust agreement. Any of the duties of the primary servicer may also be performed by the master servicer. The primary servicers collect payments from borrowers and may make servicing advances, foreclose upon defaulted mortgage loans, and take other actions as set forth in the trust agreement. See "**FANNIE MAE PURCHASE PROGRAM—Seller and Servicer Eligibility**" below for information on our primary servicer requirements. Our primary servicers may contract with subservicers to perform some or all of the servicing activities.

#### ***Custodial Accounts***

Until collections are remitted to us for distribution to certificateholders, each primary servicer is required to deposit collections from borrowers into a demand deposit account or an account through which funds are invested in specified eligible investments. These accounts are called custodial accounts and must be established with eligible depositories and held in our name as master servicer or in the name of the primary servicer as our agent, trustee or bailee unless otherwise specified in the related servicing contract. Funds in custodial accounts may be commingled with funds from other Fannie Mae trusts. An eligible depository may be a Federal Reserve Bank, a Federal Home Loan Bank or a financial institution that (i) has its accounts insured by the Federal Deposit Insurance Corporation (FDIC), the National Credit Union Share Insurance Fund (NCUSIF) or another governmental insurer or guarantor acceptable to us, (ii) satisfies the capital requirements of its regulator and (iii) meets specified minimum financial ratings provided by established rating agencies. Insured custodial account funds may be entitled to limited benefits under governmental insurance, subject to the rules and regulations of the FDIC or NCUSIF, in the case of a receivership or similar proceeding of an eligible depository. Governmental entities may, from time to time, take measures to alleviate the risk of insurance not being adequate. However, there can be no assurance (i) that any governmental actions will be sufficient to alleviate this risk completely, or (ii) as to how long any measures taken by the governmental entities will remain in effect. If the insurance were inadequate to cover amounts due to certificateholders, we would make payments to cover any amounts required to be paid to

certificateholders under the terms of the DMBS certificates. Our primary servicers are entitled to investment earnings on funds on deposit in the custodial accounts if the related servicing contract so permits. Except as provided above, neither certificateholders nor primary servicers are entitled to any earnings generated from funds in the custodial accounts, nor are they liable for any losses in the custodial accounts.

### ***Certificate Accounts***

Our primary servicers remit borrower collections to us for distribution to certificateholders. These funds are deposited into a certificate account at an eligible depository. Funds held in the certificate account are held by us as trustee in trust for the benefit of certificateholders pending distribution to certificateholders. Amounts in any certificate account are held separately from our general corporate funds but are commingled with funds for other Fannie Mae trusts and are not separated on a trust by trust basis. We may invest funds in any certificate account in specified eligible investments, including our own debt instruments. We are entitled to all earnings on funds on deposit in each certificate account as a trust administration fee. Neither primary servicers nor certificateholders are entitled to any earnings from any certificate account, nor are they liable for any losses in the certificate accounts.

### ***Master Servicer***

We may resign as master servicer at any time by giving 120 days' written notice of the resignation to the trustee and the guarantor. We may not be removed as master servicer unless a guarantor event of default has occurred and is continuing.

If a guarantor event of default has occurred and is continuing while we are the master servicer, the trustee may, or at the direction of holders representing at least 51% of the voting rights of the related trust, the trustee will, terminate all of the rights and obligations of the master servicer with respect to only that trust and the related mortgage loans and their proceeds, by notifying the master servicer of the removal in writing.

### ***Removal of Successor Master Servicer***

If Fannie Mae is no longer serving as the master servicer and a successor master servicer has been appointed, the successor master servicer may be removed under the trust agreement for an issuance of DMBS certificates upon any of the following "servicing events of default":

- the successor master servicer fails to deliver, or cause a primary servicer to deliver, funds for deposit to a certificate account on the applicable remittance date, and the failure continues uncorrected for one business day after written notice of the failure has been given by either the trustee or the holders of DMBS certificates representing at least 25% of the voting rights of the related trust;
- the successor master servicer fails to perform in any material respect any of its other covenants and agreements, and the failure continues uncorrected for 60 days after written notice of the failure has been given by either the trustee or the holders of DMBS certificates representing at least 25% of the voting rights of the related trust;
- the successor master servicer ceases to be eligible to serve as master servicer under the terms of the trust agreement; or
- the successor master servicer becomes insolvent, a conservator, receiver or liquidator is appointed (either voluntarily or involuntarily and in the case of an involuntary appointment, the order appointing the conservator, receiver or liquidator has been undischarged or unstayed for 60 days) or the successor master servicer admits in writing that it is unable to pay its debts.

If any of the servicing events of default occurs with respect to a trust and continues uncorrected, the trustee may or, at the direction of holders of DMBS certificates representing at least 51% of the voting rights of that trust, the trustee will, terminate the rights and obligations of the successor master servicer with respect to only that trust and the related mortgage loans and their proceeds, by notifying the master servicer of the removal in writing.

A successor master servicer may be removed by the guarantor or, if a guarantor event of default has occurred and has not been cured, by the trustee upon not less than 60 days' written notice to the successor master servicer.

### ***Certain Matters Regarding Our Duties as Trustee***

We serve as trustee under the trust agreement. Under the trust agreement, the trustee may consult with and rely on the advice of counsel, accountants and other advisors. The trustee will not be responsible for errors in judgment or for anything it does or does not do in good faith if it so relies. This standard of care also applies to our directors, officers, employees and agents. We are not required, in our capacity as trustee, to risk our funds or incur any liability if we do not believe those funds are recoverable or if we do not believe adequate indemnity exists against a particular risk. This does not affect our obligations to each trust as guarantor under the Fannie Mae guaranty.

We are indemnified by each trust for actions we take in our capacity as trustee in connection with the administration of that trust. Officers, directors, employees, and agents of the trustee are also indemnified by each trust with respect to that trust. Nevertheless, neither we nor they will be protected against any liability if it results from willful misfeasance, bad faith or gross negligence or as a result of willful disregard of our duties.

The trust agreement provides that the trustee may, but is not obligated to, undertake any legal action that it deems necessary or desirable in the interests of certificateholders. We may be reimbursed for the legal expenses and costs of the action from the assets of the related trust.

We may resign from our duties as trustee under the trust agreement upon providing 90 days' advance notice to the guarantor. Our resignation would not become effective until a successor has assumed our duties. We may be removed as trustee only if a "guarantor event of default" has occurred with respect to the related trust. See "***—Guarantor Events of Default***" below. In that case, we can be removed and replaced by a successor trustee as to the related trust by holders of DMBS certificates representing at least 51% of the voting rights of that trust. Even if our duties as trustee under the trust agreement terminate, we continue to be obligated under our guaranty.

### ***Removal of Successor Trustee***

If Fannie Mae is no longer serving as the trustee and a successor trustee has been appointed, the successor trustee may be removed under the trust agreement for an issuance of DMBS certificates upon any of the following "trustee events of default":

- the successor trustee fails to deliver to the paying agent all required funds for distribution (to the extent the trustee has received the related funds), and the failure continues uncorrected for 15 days after written notice of nonpayment has been given by either the guarantor or, if a guarantor event of default has occurred and is continuing, the holders of DMBS certificates representing at least 5% of the voting rights of the related trust;
- the successor trustee fails to fulfill any of its other obligations under the trust agreement or the related issue supplement, and the failure continues uncorrected for 60 days after written notice of the failure has been given by either the guarantor or, if a guarantor event of default has occurred and is continuing, holders of DMBS certificates representing at least 25% of the voting rights of the related trust;

- the successor trustee ceases to be eligible to serve as trustee under the terms of the trust agreement;
- the successor trustee becomes substantially incapable of acting as trustee, or a court or the regulatory entity that has primary supervisory authority over the successor trustee determines, under applicable law and regulation, that the successor trustee is unable to remain as trustee; or
- the successor trustee becomes insolvent, a conservator or receiver is appointed (either voluntarily or involuntarily, and in the case of an involuntary appointment, the order appointing the conservator or receiver has been undischarged or unstayed for 60 days) or the successor trustee admits in writing that it is unable to pay its debts.

If any of the trustee events of default occurs with respect to a trust and continues uncorrected, the guarantor (or if a guarantor event of default has occurred and is continuing, the master servicer) may, and if directed by holders of DMBS certificates representing at least 51% of the voting rights of the related trust will, remove the trustee and appoint a new successor trustee.

A successor trustee may also be removed without cause by the guarantor at any time (unless a guarantor event of default has occurred and is continuing) and, upon such removal, the guarantor may appoint another successor trustee within 90 days after the date that notice is given to the former successor trustee.

### ***Guarantor Events of Default***

Any of the following events will be considered a “guarantor event of default” under the trust agreement for an issuance of DMBS certificates:

- we fail to make a required payment under our guaranty, and our failure continues uncorrected for 15 days after written notice of the failure has been given by the holders of DMBS certificates representing at least 5% of the voting rights of the related trust; or
- we fail in any material way to fulfill any of our other obligations under the trust documents, and our failure continues uncorrected for 60 days after written notice of the failure has been given by the holders of DMBS certificates representing at least 25% of the voting rights of the related trust; or
- we become insolvent, a receiver or a new conservator is appointed (either voluntarily or involuntarily, and in the case of an involuntary appointment, the order appointing the receiver or new conservator has been undischarged or unstayed for 60 days) or we admit in writing that we are unable to pay our debts.

### ***Certificateholder Rights Upon a Guarantor Event of Default***

A certificateholder generally does not have any right under the trust agreement to institute any proceeding against us with respect to the trust agreement. A certificateholder may institute such a proceeding only if a guarantor event of default has occurred and is continuing and

- the holders of DMBS certificates representing at least 25% of the voting rights of the related trust have requested in writing that the trustee institute the proceeding in its own name as trustee; and
- the trustee for 120 days has neglected or refused to institute any proceeding.

The trustee will be under no obligation to take any action or to institute, conduct or defend any litigation under the trust agreement at the request, order or direction of any certificateholder unless the certificateholders have offered to the trustee reasonable security or indemnity against the costs, expenses and liabilities that the trustee may incur.

Certificateholders' rights may be limited during a receivership or future conservatorship. See **“RISK FACTORS—FANNIE MAE GOVERNANCE FACTORS.”**

Under the senior preferred stock purchase agreement between Treasury and us, certificateholders are given certain limited rights against Treasury under the following circumstances: (i) we default on our guaranty payments, (ii) Treasury fails to perform its obligations under its funding commitment, and (iii) we and/or the conservator are not diligently pursuing remedies in respect of that failure. In that case, the holders of the affected certificates may file a claim in the U.S. Court of Federal Claims for relief requiring Treasury to fund up to the lesser of (1) the amount necessary to cure the payment default and (2) the lesser of (a) the amount by which our total liabilities exceed our total assets, as reflected on our balance sheet prepared in accordance with generally accepted accounting principles, and (b) \$100 billion less the aggregate amount of funding previously provided under the commitment.

### ***Voting Rights***

Solely for purposes of giving any consent pursuant to the trust agreement, if any DMBS certificate is beneficially held by a party, including us, determined under applicable accounting rules to be the transferor of mortgage loans, the DMBS certificate will be disregarded and deemed not to be outstanding. As a result, the voting rights to which that party is entitled will not be taken into account in determining whether the requisite percentage of voting rights necessary to effect any such consent has been obtained, except with respect to matters involving an event of default by the guarantor or the trustee or matters requiring unanimous consent of the certificateholders.

DMBS certificates that are beneficially held by us, as guarantor, will be disregarded and deemed not to be outstanding for purposes of determining whether a guarantor event of default has occurred and is continuing or whether to remove the trustee when a guarantor event of default has occurred and is continuing. In all other matters with respect to a trust, DMBS certificates that are beneficially owned by us, as guarantor, may be voted by us, as guarantor, to the same extent as DMBS certificates held by any other holder, unless we, as guarantor, are also a transferor with respect to that trust. If, however, we, as guarantor, beneficially own 100% of the DMBS certificates of a trust, those DMBS certificates owned by us, as guarantor, may be voted by us without restriction.

DMBS certificates that are beneficially held by a successor trustee will be disregarded and deemed not to be outstanding for purposes of determining whether a trustee event of default has occurred and is continuing or whether to remove that successor trustee when a trustee event of default has occurred and is continuing. In all other matters with respect to a trust, DMBS certificates that are beneficially owned by a successor trustee may be voted by that successor trustee to the same extent as DMBS certificates held by any other holder, unless that successor trustee is also a transferor with respect to that trust. If, however, a successor trustee beneficially owns 100% of the DMBS certificates of a trust, those DMBS certificates owned by that successor trustee may be voted by that successor trustee without restriction.

### ***Amendment***

We may amend the trust documents without notifying or obtaining the consent of the certificateholders to do any of the following:

- correct an error, or correct, modify or supplement any provision in the trust documents that is inconsistent with any other provision of the trust documents or this prospectus or the prospectus supplement;
- cure an ambiguity or supplement a provision of the trust documents, provided that such cure of an ambiguity or supplement of a provision is not otherwise inconsistent with the trust documents;

- modify the trust documents to maintain the fixed investment trust status of a trust for federal income tax purposes; or
- make any other amendment so long as the amendment will not (i) materially and adversely affect the interests of any certificateholder or (ii) have any material adverse tax consequences to certificateholders.

No amendment to cure an ambiguity in, supplement a provision of or modify the trust documents to maintain the tax status of a trust may be made if it would otherwise require certificateholder consent unless that consent is obtained.

In addition, if holders of DMBS certificates representing at least 51% of the voting rights of the related trust give their consent, we may amend the trust documents for that trust for a purpose not listed above, except that we may not do any of the following without the consent of all certificateholders of the related issuance of DMBS certificates:

- terminate or change our guaranty obligations;
- reduce or delay payments to certificateholders;
- take an action which materially increases the taxes payable in respect of the trust or affects the status of the trust as a fixed investment trust for federal income tax purposes;
- reduce the percentage requirement of certificateholders who must give their consent to any waiver or amendment; or
- make a change to the activities of the trust that would
  - allow the seller of the mortgage loans or participation interests to us to regain control of the mortgage loans or participation interests,
  - cause the trust to cease to be a qualified special purpose entity for accounting purposes, or
  - affect the interests (whether adversely or positively) of a certificateholder in any way that would be viewed as significant by a reasonable person.

During a receivership or future conservatorship, FHFA, acting as receiver or conservator, would have authority to repudiate or transfer our guaranty obligations without the consent of the certificateholders or any other party. See “**RISK FACTORS—FANNIE MAE GOVERNANCE FACTORS.**”

### ***Termination***

The trust will terminate with respect to an issuance of DMBS certificates when the certificate principal balance of the related pool has been reduced to zero and all distributions have been passed through to certificateholders. We do **not** have any clean-up call option; that is, we cannot terminate any trust solely because the unpaid principal balance of the related pool declines to a specified amount or reaches a specified percentage of the original unpaid principal balance of the pool.

### ***Merger***

The trust agreement provides that if we merge or consolidate with another corporation, the successor corporation will be our successor under the trust agreement and will assume all of our duties under the trust agreement, including our guaranty.

### ***Future Limitations on Certificateholder Rights Under the Trust Agreement***

If we are placed into receivership or if we emerge from the current conservatorship and are placed into conservatorship once again, certificateholders’ rights to remove us as trustee or master

servicer may be restricted. In addition, if we were again placed into conservatorship, FHFA will have the authority to repudiate or transfer our guaranty obligations as well as our other obligations under the trust documents for each issuance of DMBS certificates. If that occurred, certificateholders would have only the right to proceed against Treasury that is described above under “—Certificateholder Rights Upon a Guarantor Event of Default.” See “**RISK FACTORS—FANNIE MAE GOVERNANCE FACTORS**” above.

## MULTIFAMILY MORTGAGE LOAN POOLS

We combine multifamily mortgage loans and participation interests in multifamily mortgage loans into pools and issue our guaranteed mortgage-backed certificates that evidence beneficial ownership in the pooled loans and participation interests. For purposes of our description here, a participation interest is considered a separate multifamily mortgage loan, and payments on the participation interest are treated as payments on the underlying loan or loans subject to the participation interest.

### Disclosure Documents

Each time that we issue a DMBS, we prepare disclosure documents that describe the terms of the DMBS. These at-issuance disclosure documents are delivered to the DMBS investor and are available on our Web site through our Multifamily Securities Locator Service at [www.fanniemae.com](http://www.fanniemae.com). The at-issuance disclosure documents for a DMBS consist of this prospectus, the related prospectus supplement and any documents incorporated by reference into this prospectus or related prospectus supplement. See “**INCORPORATION BY REFERENCE**” above. The prospectus supplement has three parts: a prospectus supplement narrative, a pool statistics page and a schedule of loan information. The prospectus supplement narrative includes additional information about the DMBS certificates being issued and, in some cases, about the mortgage loans backing the DMBS. The pool statistics page provides pool-level data about the DMBS pool, and the schedule of loan information discloses certain loan-level information about the multifamily loans backing the DMBS certificates.

At-issuance disclosure documents contain the most current information available to us as of the issue date of the DMBS certificates being issued, unless the prospectus supplement provides for a different date. After DMBS certificates are issued, any corrections to the related at-issuance disclosure documents during the applicable offering period are posted on the Multifamily Securities Locator Servicer site on our Web site. After the offering period, we provide corrected information through our Multifamily Securities Locator Service, but we do not revise the at-issuance offering documents to provide any updated information.

### Pool Statistics

The pool statistics page discloses the prefix, pool number and CUSIP number of the DMBS certificates, the issue date of the DMBS certificates, the principal balance of the DMBS pool on the issue date and the maturity date of the DMBS certificates and will identify the seller and servicer(s) of the multifamily loan or loans backing the DMBS certificates. In addition, the pool statistics page will indicate whether the DMBS certificates are standard DUS DMBS certificates, bulk delivery DMBS certificates or credit facility DMBS. See “**MULTIFAMILY MORTGAGE LOANS—DUS Loans.**”

A sample pool statistics page is provided in **Exhibit A** at the end of this prospectus. DMBS certificateholders should determine for themselves how to use the pool statistics.

## MULTIFAMILY MORTGAGE LOANS

Multifamily loans are originated for the purpose of purchasing, refinancing and/or rehabilitating multifamily residential properties, including apartment buildings, apartment communities, small

apartment properties, rural housing properties, seniors housing, cooperative housing projects, manufactured housing communities, student housing and military housing. Many multifamily properties are considered affordable multifamily housing.

Each participation interest backing a DMBS certificate is evidenced by a participation certificate representing a 100% interest in a short-term advance under a multifamily mortgage loan. Each mortgage loan is evidenced by a promissory note or other instrument and secured by a deed of trust, mortgage or similar security instrument creating a first lien (or, if the prospectus supplement so states, a subordinate lien) on a multifamily residential property consisting of five or more residential units.

### **Assignment of Mortgage Loans; Delivery and Custody of the Mortgage Loan Documents**

The trust agreement requires that at the time of issuance of the DMBS certificates, the participation interests in the mortgage loans comprising the related trust fund will be assigned to the trustee, together with all principal payments on or with respect to the mortgage loans due after the issue date. Each mortgage loan held in a particular trust fund will be identified in a schedule described in the related issue supplement.

The trust agreement requires that certain documents be maintained by the trustee (or a custodian for the trustee) for each mortgage loan, including the original mortgage note (or other instrument of indebtedness) endorsed in blank or to the order of the issuer or the trustee. If the original note is lost or otherwise unavailable, a lost note affidavit may be satisfactory if certain criteria are satisfied. The trust agreement also provides that mortgage loan documents may be maintained in electronic format.

Under the terms of the trust agreement, an unaffiliated third-party, the issuer, the seller, the master servicer, the trustee, a primary servicer, a subservicer or an affiliate of any of these entities may act as custodian. If we are not the custodian, our current policies require that the custodian must be either (a) a financial 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 NCUSIF, (b) a subsidiary of a parent financial institution that is supervised and regulated by one of these entities or (c) a Federal Home Loan Bank. In certain cases, we may permit the seller of the mortgage loans or an affiliate of the seller to act as our document custodian, provided that the entity meets these and certain additional requirements. We may modify our practices regarding the custody of mortgage documents at any time, subject to certain standards of care and other requirements described in the trust agreement. We periodically review our custodial practices and, subject to the terms of the trust agreement, make changes as we determine appropriate.

Before issuing DMBS certificates, we review the proposed Pool Statistics and Schedule of Loan Information for that issuance. From time to time after issuance of the DMBS certificates, we may conduct random spot checks to confirm that the related documents are held by the custodian. We may also file a Uniform Commercial Code financing statement or UCC-1 against any seller that has sold us mortgage loans or participation interests under a contract in which the seller assumes any recourse or loss sharing on the mortgage loans or participation interests. In the event of a bankruptcy or receivership of a seller, a court could determine that the mortgage loans or participation interests were not sold to us but were pledged to secure a financing. If as a result of any such determination mortgage loan payments were inadequate to cover the amounts due to certificateholders, we would make payments to the trust in an amount required to pay certificateholders what they are due.

### **Origination and Servicing of DUS Loans**

Most of the participation interests that we acquire and securitize are interests in multifamily mortgage loans newly originated by lenders under our DUS business line. We permit only multifamily lenders specifically approved by us to act as DUS lenders and deliver DUS loans. Our current

DUS lenders are identified on our Web site. We have two general types of DUS products, our standard DUS loans and our structured transaction DUS loans. Both types of loans are underwritten and serviced according to the guidelines set forth in a guide (the “Multifamily Guide”), which may be modified for certain loans or transactions. Each type is separately discussed below.

### ***Delivery***

When DUS lenders deliver noninterest-bearing DUS loans to us, the lender may sell the delivered loans to us for cash, or the lender may exchange the delivered loans for DMBS certificates that evidence an interest in one or more underlying pools that contain participation interests in the delivered loans. If the DUS lender exchanges the loans for DMBS certificates, the DUS lender may retain the DMBS certificates or may sell the DMBS certificates to a third-party investor.

### ***Underwriting and Servicing***

A DUS lender originates and underwrites DUS loans generally to conform to our DUS loan product requirements as described in the Multifamily Guide. We delegate to the DUS lenders the responsibility for underwriting and servicing DUS loans. Although most of the mortgage loans backing the DMBS certificates are DUS loans originated by DUS lenders in accordance with the Multifamily Guide, we may accept delivery of mortgage loans that will back DMBS certificates from lenders that are not DUS lenders. All mortgage loans backing DMBS certificates, however, are originated in accordance with the underwriting standards described in the Multifamily Guide, except to the extent that we use our discretion to grant various types of waivers, as described below.

### ***Loss Sharing***

In return for our delegation of the responsibility for underwriting and servicing DUS loans, the DUS lenders enter into arrangements with us that specify the method of sharing any losses on the loans that they deliver and/or service. These arrangements may vary among DUS lenders and may provide for different loss sharing among various transactions, ranging from the DUS lender bearing a specified first loss percentage for a transaction to the DUS lender having no loss sharing obligation for a transaction.

### ***Waivers***

Our underwriting guidelines in the Multifamily Guide are guidelines and not rigid requirements. When a borrower requests the waiver of one or more of the underwriting guidelines with respect to a DUS loan, the waiver is granted when the waiver is deemed to be prudent given all the circumstances. Those circumstances may include the creditworthiness of the borrower and its related principals or competitive pressures in a particular market. For example, one guideline that may be waived is the requirement that each borrower be a single asset entity. This requirement is designed to provide protection against the possibility that the borrower will become bankrupt, but the requirement is sometimes waived if the borrower has a strong credit rating, particularly if the loan is relatively small in size.

While both Fannie Mae and the lender are required to approve some of the waivers described above, the lender in its discretion may approve many of these waivers without any requirement that we also approve the waiver. When a waiver requires our approval, we may grant or deny the waiver in our discretion.

## **DUS Loans**

The two main types of DUS loans that back DMBS certificates are standard DUS loans (“standard DUS loans”) and structured transaction loans (“structured transactions”). Structured transactions are further divided into credit facility (“credit facility”) transactions and bulk delivery (“bulk delivery”) transactions. DMBS certificates may be backed by loans or advances made as

standard DUS loans or made under structured transactions. Most DUS loans are first lien mortgage loans that are non-recourse to the borrower. Each type of DUS loan is more fully described below.

### ***Advances and Loans***

The short-term advances and loans funded through DMBS certificates do not bear interest. Each short-term advance is disbursed to the borrower in a discounted amount that is less than 100% of the original stated principal amount of the advance or loan. If an advance or loan underlying any DMBS certificate is prepaid for any reason (including default) before its maturity date, we will not pay the prepayment to holders of the related DMBS before the maturity date of the DMBS certificate.

### ***Standard DUS Loans***

When a borrower and a lender enter into a standard DUS loan, there is no agreement under which the lender has committed to make further advances or loans to the borrower as part of the same transaction. Instead, the DUS lender extends a five, seven or ten-year loan to the borrower to be funded by a series of short term advances each made consecutively upon the maturity of the preceding advance, and funded by the issuance of consecutive DMBS certificates as described above.

Standard DUS loans are governed by the related loan documents and by the Multifamily Guide. The loan documents are typically the standard form of DUS loan documents, including a form of DUS DMBS note, with any exceptions approved by us in our sole discretion.

### ***Structured Transactions***

In structured transactions, we purchase participation interests in mortgage loans or advances that are being financed under a structured transaction arrangement. Under a structured transaction arrangement, a pool of mortgages secured by multiple properties serves as collateral for short-term borrowings that have terms of one year or less and for intermediate- and long-term financings that have terms of five to ten years, though some arrangements may provide for only short-term borrowings or only intermediate- and long-term financings. A structured transaction arrangement may be a credit facility or a bulk delivery transaction. In structured transactions, the lender and the borrower will enter into either a master credit facility agreement (for credit facility transactions) or a master loan agreement (for bulk delivery transactions) (either referred to as the “master agreement”) under which the lender is committed to lend additional funds to the borrower.

The master agreement may provide that short-term advances may be borrowed, repaid, and re-borrowed over the term of the master agreement. A short-term advance or loan requires the borrower to repay the entire amount of principal including all of the initial discount on or before the maturity date of the DMBS certificates. Under the master agreement, the borrower may elect to refinance the short-term advance or loan. If the borrower refinances the advance or loan, a new DMBS certificate will be issued which will be backed by a single participation interest that equals 100% of the unpaid principal balance of the refinanced advance or loan.

In addition, the master agreement generally prohibits an advance or loan from being assumed by a new mortgagor or a mortgaged property from being further encumbered by a subordinate mortgage lien. In addition, unless specifically permitted by us, most transfers of ownership interests in the borrower and transfers of ownership interests or changes of control of certain affiliates of the borrower are prohibited under the master agreement.

***Credit Facility Transactions.*** In a credit facility transaction, the lender makes short-, intermediate- or long-term loans (each, an “advance”) to the borrower secured by mortgage(s) on multiple properties, which advances may be evidenced by one or more mortgage notes under which short-term advances are made at a discount and intermediate-term and long-term advances are interest-bearing. Participation interests representing short-term advances issued at a discount are the only credit facility advances that may underlie DMBS Certificates. These short-term advances

are funded through the issuance of consecutive DMBS certificates as described above. A credit facility may permit a borrower, upon satisfaction of certain conditions, to add, substitute or release properties over time. The master agreement also may provide that the borrower has the right to increase the dollar amount of the lender's commitment to make advances under certain conditions. In credit facility transactions, all of the advances made under a credit facility are generally cross-collateralized and cross-defaulted. See “—**Characteristics of Mortgage Loans—Cross-Default and Cross-Collateralization Provisions**” below.

***Bulk Delivery Transactions.*** In a bulk delivery transaction, the lender makes loans on multiple properties for a term, typically between five and ten years, to be funded by a series of short term advances each made consecutively upon maturity of the preceding advance. These short-term advances are funded through the issuance of consecutive DMBS certificates as described above. All loans in a bulk delivery are pooled together, but a separate loan for each property generally is made to each related borrower, and each loan is evidenced by a separate note and secured by a mortgage on the multifamily property owned by that borrower. In a bulk delivery transaction, the master agreement will contain conditions for adding new but related borrowers and new properties to the arrangement and, sometimes, conditions for substituting mortgaged properties. In bulk delivery transactions, the loans made under the transaction may be, but generally are not, cross-collateralized or cross-defaulted.

## **Characteristics of Mortgage Loans**

The mortgage loans backing DMBS certificates may have one or more of the following characteristics:

***Conventional Mortgage Loans.*** Most of the multifamily mortgage loans backing the DMBS certificates are conventional mortgage loans—that is, loans that are not insured by the Federal Housing Administration (the “FHA”) or other government agencies. We refer to non-conventional loans as government loans and refer to pools of loans that include exclusively government loans as government pools. Some conventional loan pools, however, may include loans that are insured by the FHA or other governmental agencies.

***Lien on the Related Mortgaged Property.*** Each mortgage loan or pool of loans backing a DMBS certificate is secured by a first lien or a subordinate lien on one or more mortgaged properties. If any lien is a subordinate lien, that fact will be reflected in the schedule of loan information included in the prospectus supplement.

Sometimes we purchase a multifamily mortgage loan secured by a mortgaged property that is already encumbered by one or more mortgage liens. At other times, a mortgaged property that secures a mortgage loan backing the related DMBS certificates may be further encumbered by a subordinate lien mortgage loan after the issue date of the DMBS certificates. We may permit a new subordinate lien mortgage loan on the mortgaged property where we are satisfied that the new subordinate loan will not have a material adverse effect on the financial performance of the existing mortgage loan backing the DMBS certificates. We evaluate requests for subordinate financing on a loan-by-loan basis and may consider a number of factors.

An event of default may occur under a mortgage loan not included in your pool but secured by the mortgaged property related to the existing mortgage loan in your pool. The event of default (i) may trigger an event of default under the existing mortgage loan in your pool or any other mortgage loans and (ii) may entitle the holder of the other mortgage lien to foreclose on and sell the mortgaged property subject to the lien of any mortgage loans senior to the defaulted mortgage loan. Nevertheless, we guarantee that you will receive the full original stated principal amount of your DMBS certificate on its maturity date, even if we receive foreclosure proceeds prior to such date.

***Cross-Default and Cross-Collateralization Provisions.*** In certain cases, particularly in connection with credit facility transactions, two or more multifamily mortgage loans may be cross-defaulted and/or cross-collateralized with other loans.

If the loans are cross-defaulted, the occurrence of an event of default under one loan will trigger an event of default under each of the other loans in the pool. In this case, not only may we declare the defaulted mortgage loan immediately due and payable but we may also declare one or more of the other mortgage loans immediately due and payable. Despite any such declaration, however, our guaranty ensures that you will receive the full original stated principal balance of your DMBS certificate on its maturity date, and not any earlier.

If the loans are cross-collateralized, the mortgaged property securing one loan will also serve as additional collateral for each of the other loans in the pool. Each mortgage loan, therefore, is secured not only by a first priority lien on the related mortgaged property but also by a lien on each of the other mortgaged properties, which is either equal or junior in priority to the first priority mortgage on the property. Cross-collateralization provisions expand the collateral available for repayment of one mortgage loan to include not only the related mortgaged property but also each of the other mortgaged properties securing loans in the pool. If an event of default occurs under one of the loans, the related mortgaged property and one or more of the other mortgaged properties may be sold to satisfy the outstanding debt obligations. Nevertheless, your DMBS certificate will not be prepaid. Our guaranty ensures that you will receive the full original stated principal balance of your DMBS certificate on its maturity date.

***Loan-to-Value Ratios.*** All mortgage loans backing the DMBS certificates have loan-to-value ratios that do not exceed 100% at the time of loan origination.

***Debt Service Coverage Ratios.*** Among the underwriting criteria applied when a lender originates a mortgage loan is the debt service coverage ratio of that loan. With respect to loans that are cross-collateralized and cross-defaulted, an aggregate debt service coverage ratio is considered.

***Addition, Release and Substitution of Mortgaged Property.*** In a credit facility, the master agreement may provide that the borrower has the right to add, release or substitute mortgaged properties as long the conditions specified in the agreement are satisfied. In a bulk delivery, the master agreement will contain conditions for adding new borrowers and new properties to the arrangement and, sometimes, conditions for substituting mortgaged properties. The conditions to be satisfied vary among different structured transactions. In addition, applying similar conditions, we may permit substitutions of the mortgaged properties backing standard DUS DMBS certificates. In most instances, these substitutions will occur on the maturity date of a DMBS certificate. Sometimes these changes may be permitted at other times, but no prepayment of the DMBS certificates will result. Examples of the conditions that must be met for addition, release or substitution of properties include the following:

- the underwriting of the proposed mortgaged property to be added or substituted must be performed in accordance with our standards;
- the lender and Fannie Mae must be satisfied that after the addition, release or substitution of a mortgaged property, the debt service coverage ratio will not be less than, and the loan-to-value ratio will not be greater than, the required ratios set forth in the related master agreement;
- the borrower must not be in default under the loan documents; and
- title, survey and all documents necessary to release, add or substitute the mortgaged property must be prepared to the lender's satisfaction.

***Assumption and Further Encumbrances.*** The mortgage loans underlying DMBS certificates generally cannot be assumed by a new mortgagor, and the related mortgaged properties generally cannot be further encumbered by a subordinate mortgage lien. In addition, unless

specifically permitted by us, most transfers of ownership interests in the borrower and transfers of ownership interests or changes of control of certain affiliates of the borrower are defaults under the master agreement or loan documents. However, we reserve the right to waive these requirements.

For structured transactions, each time that a DMBS backed by an advance or a loan is issued, we will issue a new schedule of loan information for that DMBS containing detailed information about the new advance or loan, as appropriate, and updating information on any other outstanding advances or loans secured by the same real property. Whenever we issue a new schedule of loan information, the new schedule will provide information about the existence and total value of any additional collateral (which may be a letter of credit or other collateral). The additional collateral may cause the DMBS certificates not to qualify as interests in real property for purposes of the federal income tax laws applicable to certain investors. See **“MATERIAL FEDERAL INCOME TAX CONSEQUENCES.”**

### **Schedule of Loan Information**

In the schedule of loan information found in each prospectus supplement, we will furnish certain data elements about the underlying multifamily mortgage loans in the pool. The data elements included in the schedule of loan information for the loans in any particular pool may vary but generally will include the data elements listed below.

#### *Characteristics of the Loan and the Mortgaged Property*

##### *Terms for Most Loans*

- Pool Number
- Seller Number
- Issue Date Principal Balance
- Maturity Date
- First Monthly Payment Due
- Original Amortization Term
- Property Type
- Property City, State and Zip Code
- Number of Multifamily Units
- Appraised Value or Property Value

A sample schedule of loan information showing data elements that are generally provided may be found in **Exhibit B** at the end of this prospectus.

### **FANNIE MAE PURCHASE PROGRAM**

The multifamily mortgage loans we purchase must meet standards required by the Charter Act. These standards require that the mortgage loans be, in our judgment, of a quality, type and class consistent with the purchase standards imposed by private institutional mortgage investors. Consistent with those requirements, and with the purposes for which we were chartered, we establish eligibility criteria and policies for the mortgage loans we purchase, for the sellers from which we purchase loans, and for the primary servicers that service our loans. See **“FANNIE MAE”** in this prospectus for information regarding the Charter Act and its purpose.

### **Multifamily Guide**

Our eligibility criteria and policies, summarized below, are set forth in our Multifamily Guide and updates and amendments to the Multifamily Guide. We amend or replace our Multifamily Guide and our eligibility criteria and policies from time to time. Thus, not all the loans in a particular pool may be subject to the same eligibility standards. Moreover, the standards described in the Multifamily Guide may not be the same as the standards that applied when loans in a particular pool were originated.

## **Multifamily Mortgage Loan Eligibility Standards**

The Charter Act does not establish any maximum original principal balance dollar limitations for the conventional multifamily mortgage loans that we purchase. We purchase FHA-insured and USDA-guaranteed mortgage loans up to the maximum original principal amount that FHA will insure or USDA will guarantee for the area in which the property is located.

## **Seller and Servicer Eligibility**

Before we approve a company to become a seller or primary servicer for us, we require that the company demonstrate the following to our satisfaction:

- that it has a proven ability to originate or service, as applicable, the type of multifamily loans for which our approval is being requested;
- that it employs a staff with adequate experience in that area;
- that it has as one of its principal business purposes the origination or servicing, as applicable, of multifamily loans;
- that it is properly licensed, or otherwise authorized, to originate, sell or service, as applicable, multifamily loans in each of the jurisdictions in which it does business;
- that its financial condition is acceptable to us;
- that it has quality control and management systems to evaluate and monitor the overall quality of its multifamily loan production and servicing activities; and
- that it is covered by a fidelity bond and errors and omissions insurance acceptable to us.

We enter into a written mortgage selling and servicing contract with each seller and primary servicer that we approve, under which, among other things, the seller or primary servicer agrees to maintain the foregoing attributes to our satisfaction. DUS lenders must be specially approved and enter into additional agreements with us. See **“MULTIFAMILY MORTGAGE LOANS—DUS Loans.”**

## **Servicing Arrangements**

We are responsible for supervising and monitoring the servicing of the mortgage loans as master servicer under the trust agreement. We contract with other entities to perform servicing functions under our supervision. We refer to these entities as our primary servicers. The primary servicer with which we contract is often the seller that sold us the loans.

Any agreement between a primary servicer and us governing the servicing of the mortgage loans held by a trust is a contract solely between the primary servicer and us. Certificateholders will not be deemed to be parties to any servicing agreement and will have no claims, rights, obligations, duties, or liabilities with respect to the primary servicer. We, in our capacities as guarantor and trustee, are a third-party beneficiary of each of these agreements. This means that we may pursue remedies against primary servicers in our capacities as guarantor and trustee if the master servicer or primary servicer fails to take action after receiving notice of a breach.

We may resign from our duties as master servicer under the trust agreement upon providing 120 days' advance notice to the trustee and to the guarantor. After that time, the trustee would become master servicer until a successor has assumed our duties as master servicer. Even if our duties as master servicer under the trust agreement terminate, we would remain obligated under our guaranty as guarantor. See **“DESCRIPTION OF THE DMBS CERTIFICATES—Trust Agreement—Collection and Other Servicing Procedures.”**

In some instances, we may own a mortgage loan secured by a mortgaged property in which we or the lender or primary servicer also owns, directly or indirectly, an equity interest. In these

circumstances, we may be required to contract with a party not affiliated with Fannie Mae or the transaction to perform certain servicing functions.

### **Servicing Compensation and Payment of Certain Expenses**

Unless otherwise stated in the prospectus supplement, each month the primary servicer receives and may retain as a servicing fee a portion of the interest collected on the loans that is not required to be paid to certificateholders. The primary servicer also receives and may retain all or a portion of the assumption fees, late payment charges and other similar charges, and may retain a portion of prepayment premiums, to the extent that these fees, charges and premiums are collected from borrowers, as additional servicing compensation unless the prospectus supplement states otherwise. The trust pays all the expenses that it incurs. We are entitled to the investment income from collections on the mortgage loans in our capacities as issuer, master servicer, and trustee.

### **Seller Representations and Warranties**

Our sellers make representations and warranties to us about the mortgage loans we purchase. In general, the representations and warranties relate to:

- compliance with our eligibility standards and with our underwriting guidelines;
- characteristics of the mortgage loans in each pool;
- compliance with applicable federal and state laws and regulations in the origination of the loans;
- compliance with all applicable laws and regulations related to authority to do business in the jurisdiction where a mortgaged property is located;
- our acquisition of loans free and clear of any liens;
- validity and enforceability of the loan documents; and
- the lien position of the mortgage.

We rely on these representations and warranties at the time of purchase to ensure that loans meet our eligibility standards. Some of the representations and warranties may continue throughout the term of the loans. After purchase, we perform random quality control reviews of selected loans to monitor compliance with our guidelines, eligibility standards and applicable laws and regulations. At our option, we may purchase, or we may require a seller or primary servicer to purchase, a loan from a pool if we find a material breach of representations and warranties.

### **MATERIAL FEDERAL INCOME TAX CONSEQUENCES**

The DMBS certificates and payments on the DMBS certificates generally are subject to taxation. Therefore, you should consider the tax consequences of holding a DMBS certificate before acquiring one. The following discussion describes certain material U.S. federal income tax consequences of the purchase, ownership, and disposition of the DMBS certificates. The discussion is based on provisions of the Internal Revenue Code of 1986, as amended (the “Code”), the Treasury regulations thereunder, Internal Revenue Service (“IRS”) rulings and pronouncements, and judicial decisions now in effect, all of which are subject to change at any time, possibly on a retroactive basis.

The discussion in this section is general and does not purport to deal with all aspects of federal taxation that may be relevant to particular investors. This discussion may not apply to your particular circumstances for various reasons including the following:

- This discussion reflects federal tax laws in effect as of the date of this prospectus. Changes to any of these laws after the date of this prospectus may affect the tax consequences discussed below.

- This discussion addresses only DMBS certificates acquired by beneficial owners at original issuance and held as capital assets (generally, property held for investment).
- This discussion does not address all tax consequences that may be relevant to beneficial owners subject to special rules, such as dealers in securities, certain traders in securities, banks, tax-exempt organizations, insurance companies, regulated investment companies, real estate mortgage investment conduits, real estate investment trusts, persons that hold DMBS certificates as part of a hedging transaction or as a position in a straddle or conversion transaction, or persons whose functional currency is not the U.S. dollar.
- This discussion does not address the tax consequences of the purchase, ownership or disposition of a DMBS certificate by a partnership. If a partnership holds a DMBS certificate, the tax treatment of a partner will generally depend upon the status of the partner and the activities of the partnership.
- This discussion may be supplemented by a discussion in any applicable prospectus supplement.
- This discussion does not address taxes imposed by any state, local, or foreign taxing jurisdiction.

**For these reasons, you should consult your own tax advisor regarding the federal income tax consequences of holding and disposing of DMBS certificates as well as any tax consequences arising under the laws of any state, local, or foreign taxing jurisdiction.**

For purposes of this discussion, the term mortgage loan, in the case of a participation interest, means the interest in the underlying mortgage loan represented by that participation interest, and in applying a federal income tax rule that depends on the origination date of a mortgage loan or the characteristics of a mortgage loan at its origination, the term mortgage loan means the underlying mortgage loan and not the participation interest.

As used in this section, the term “United States holder” means a beneficial owner of a DMBS certificate that is for United States federal income tax purposes (i) a citizen or resident of the United States, (ii) a corporation (or other entity taxable as a corporation for U.S. federal income tax purposes) created or organized in or under the laws of the United States or any state thereof or the District of Columbia, (iii) an estate, the income of which is subject to U.S. federal income tax regardless of the source of its income, or (iv) a trust if a court within the United States can exercise primary supervision over its administration and at least one United States person has the authority to control all substantial decisions of the trust.

### **U.S. Treasury Circular 230 Notice**

The tax discussions contained in this prospectus (including the sections entitled “**MATERIAL FEDERAL INCOME TAX CONSEQUENCES**” and “**ERISA CONSIDERATIONS**”) and any applicable prospectus supplement were not intended or written to be used, and cannot be used, for the purpose of avoiding United States federal tax penalties. These discussions were written to support the promotion or marketing of the transactions or matters addressed in this prospectus. You should seek advice based on your particular circumstances from an independent tax advisor.

### **Tax Treatment of the DMBS Certificates**

In Revenue Ruling 84-10, 1984-1 C.B. 155, the IRS set forth certain federal income tax consequences relating to investments in the certificates issued with respect to a mortgage pool. Pursuant to Revenue Ruling 84-10, a mortgage pool will not be classified as an association taxable as a corporation for federal income tax purposes. Instead, a mortgage pool will be classified as a grantor trust, and each beneficial owner of a certificate will be considered to be the beneficial owner of a pro

rata undivided interest in each of the mortgage loans included in that particular pool. Although Revenue Ruling 84-10 does not specifically address participation interests in mortgage loans, other 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 in mortgage loans.

### **Credit Facility DMBS Certificates**

Based on Revenue Ruling 84-10, the credit facility DMBS certificates are interests in grantor trusts that own the underlying mortgage loans for U.S. federal income tax purposes. A United States holder of a credit facility DMBS certificate will be treated as the owner of a pro rata undivided interest in each of the mortgage loans included in the related mortgage pool, all of which will be short-term obligations for U.S. federal income tax purposes. A United States holder of a credit facility DMBS certificate must report on its federal income tax return its pro rata share of the entire income from each mortgage loan in the related pool, consistent with the United States holder's method of accounting. The items of income from such a mortgage loan include original issue discount (discussed below), prepayment premiums, assumption fees, and late payment charges, plus certain amounts paid by us under our guaranty. A United States holder can deduct its pro rata share of the expenses of the grantor trust as provided in section 162 or section 212 of the Code, consistent with its method of accounting and subject to the discussion below.

A United States holder must allocate its basis in a credit facility DMBS certificate among the mortgage loans included in the related pool in proportion to the relative fair market values of those mortgage loans. If the basis allocated to a mortgage loan exceeds the principal amount, the United States holder may have premium with respect to that mortgage loan. Premium is discussed below. Although short-term obligations are technically not subject to the market discount rules, if the basis allocated to a mortgage loan is less than the principal amount of that mortgage loan, such discount may be treated in a manner similar to market discount (discussed below). You should consult your own tax advisor regarding the treatment of such discount.

As a result of the treatment of the credit facility DMBS certificates as interests in grantor trusts that own the underlying mortgage loans for U.S. federal income tax purposes, the following consequences will result for certain investors:

1. A credit facility DMBS certificate owned by a domestic building and loan association will be considered to represent "loans secured by an interest in real property" within the meaning of section 7701(a)(19)(C)(v) of the Code, provided that 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 credit facility DMBS certificate owned by a real estate investment trust will be treated as a "real estate asset" within the meaning of section 856(c)(5)(B) of the Code, and the interest income on the DMBS certificate will be considered "interest on obligations secured by mortgages on real property" within the meaning of section 856(c)(3)(B) of the Code.

The tax consequences to domestic building and loan associations and real estate investment trusts discussed above will not apply to a mortgage loan to the extent that its principal amount exceeds the value of the real property securing the loan. We believe that the fair market value of the real property securing each mortgage loan exceeds the principal balance of that mortgage loan as of the issue date of the DMBS certificates based upon the lender's representation that each mortgage loan complies with underwriting guidelines with respect to property value and loan-to-value ratio. The principal security for each mortgage loan is a first lien (or, in the case of a subordinate lien mortgage loan, a subordinate lien) on real property. However, the mortgage loans may also be secured by a security interest in related tangible personal property (e.g., equipment and furniture) and in related intangible personal property such as rents and revenues, insurance proceeds, condemnation awards or settlements, contract rights, deposits, permits, accounts, licenses, and so forth. If the

principal balance of a mortgage loan exceeds the fair market value of the real property securing the mortgage loan, the credit facility DMBS certificates will retain the special tax attributes discussed above in proportion to the value of the real property remaining as security for the mortgage loan.

### **Standard DUS DMBS Certificates and Bulk Delivery DMBS Certificates**

It is not clear under current law whether the standard DUS DMBS certificates or the bulk delivery DMBS certificates should be treated for U.S. federal income tax purposes as interests in a grantor trust or as debt instruments secured by the underlying mortgage loans that back these DMBS certificates (or as grantor trust interests in such debt instruments). We intend to take the position that the standard DUS DMBS certificates and the bulk delivery DMBS certificates are interests in grantor trusts that own the underlying mortgage loans for U.S. federal income tax purposes, and the remainder of this discussion assumes that those DMBS certificates will be so treated. As a result, a United States holder of a standard DUS or bulk delivery DMBS certificate must report on its federal income tax return its pro rata share of the entire income from each mortgage loan in the related pool, consistent with the United States holder's method of accounting. The items of income from such a mortgage loan include interest, original issue discount (discussed below), prepayment premiums, assumption fees, and late payment charges, plus any amount paid by us as interest under our guaranty. A United States holder can deduct its pro rata share of the expenses of the grantor trust as provided in section 162 or section 212 of the Code, consistent with its method of accounting and subject to the discussion below.

A United States holder must allocate its basis in a standard DUS or bulk delivery DMBS certificate among the mortgage loans included in the related pool in proportion to the relative fair market values of those mortgage loans. If the basis allocated to a mortgage loan is less than the principal amount of that mortgage loan, the United States holder may have market discount with respect to that mortgage loan, and if the basis exceeds the principal amount, the United States holder may have premium with respect to that mortgage loan. Market discount and premium are discussed below.

In addition, the consequences described above with respect to holders of credit facility DMBS that are domestic building and loan associations or real estate investment trusts should also apply to such holders holding standard DUS DMBS certificates and bulk delivery DMBS certificates. However, there can be no assurance that the standard DUS DMBS certificates and/or the bulk delivery DMBS certificates will not instead be treated as debt instruments secured by the underlying mortgage loans (or as grantor trust interests in such debt instruments), in which case the following consequences would result:

1. A standard DUS or bulk delivery DMBS certificate owned by a domestic building and loan association would not be treated as an "interest in real property" within the meaning of section 7701(a)(19)(C)(v) of the Code, but instead would be treated as an "obligation of a corporation which is an instrumentality of the United States" within the meaning of section 7701(a)(19)(C)(ii) of the Code.
2. A standard DUS or bulk delivery DMBS certificate owned by a real estate investment trust would not be treated as a "real estate asset" within the meaning of section 856(c)(5)(B) of the Code but instead would be treated as a "government security" within the meaning of section 856(c)(4)(A) of the Code. The interest income on the DMBS certificate would not be considered "interest on obligations secured by mortgages on real property" within the meaning of section 856(c)(3)(B) of the Code (although such interest income would be qualifying income for purposes of the 95% gross income test applicable to REITs).

Potential purchasers of the standard DUS DMBS certificates and the bulk delivery DMBS certificates should consult their own tax advisor regarding the appropriate U.S. federal income tax treatment of those DMBS certificates.

## **Interest and Original Issue Discount**

A United States holder of a DMBS certificate must include in income its pro rata share of the interest (subject to the discussion of short-term obligations below) and original issue discount, if any, paid or accrued on the mortgage loan or loans underlying the DMBS certificate as ordinary interest income over the term of such DMBS certificate. Any qualified stated interest will be included in income in accordance with the DMBS holder's normal method of accounting. A United States holder of a DMBS certificate must include any original issue discount in income as it accrues, subject to the discussion of short-term obligations below and generally in advance of the receipt of the related cash flow. A mortgage loan will be considered to have been issued with original issue discount if its stated redemption price at maturity exceeds its issue price by more than a specified de minimis amount.

As described above, each credit facility DMBS Certificate will represent an ownership interest in one or more mortgage loans, all of which will be short-term obligations for U.S. federal income tax purposes. As a result, each credit facility DMBS certificate will be treated as being issued with original issue discount equal to the excess of the total payments on the underlying mortgage loans over the underlying mortgage loans' issue price. A cash method United States holder would include payments on the credit facility DMBS certificate in income upon its receipt of such payments unless it elected to accrue the discount for U.S. federal income tax purposes. A cash method United States holder that elected to accrue the discount or an accrual method United States holder would include the amount of the discount in income as it accrues on a straight-line basis, unless it elected to accrue the discount according to a constant yield method based on daily compounding. A United States holder that is not required and does not elect to include the discount in income currently would be required to defer deductions for any interest paid on indebtedness incurred to purchase or carry a credit facility DMBS certificate in an amount not exceeding the discount until it is included in income. A United States holder of a short-term obligation that is an accrual basis taxpayer, a bank (as defined in section 581), a regulated investment company, or another class of United States holder described in section 1281 of the Code generally is required to include original issue discount on such an obligation in income as it accrues on a straight-line basis, regardless of its method of accounting. Alternatively, such a United States holder may make an irrevocable election to accrue such original issue discount on the basis of the obligation's yield to maturity and daily compounding.

If the standard DUS DMBS certificates and/or the bulk delivery DMBS certificates were to be treated as debt instruments secured by the underlying mortgage loans (or as grantor trust interests in such debt instruments), those DMBS certificates would be treated as short-term obligations for federal income tax purposes. As a result, each DMBS certificate would be treated as being issued with original issue discount equal to the excess of the total payments on the certificate over its issue price. In addition, the tax accounting methods applicable to United States holders of a credit facility DMBS Certificate would apply to the United States holders of the standard DUS and/or bulk delivery DMBS Certificates.

## **Market Discount**

A United States holder that acquires an interest in a mortgage loan for less than its principal amount generally will be treated as having acquired the loan at a market discount in the amount of the excess of the principal amount over the United States holder's basis in that mortgage loan, unless the excess is less than a specified de minimis amount. Market discount on a mortgage loan is considered to be zero if the market discount is less than 0.25 percent of the principal balance of the mortgage loan multiplied by the number of complete years from the date the United States holder acquires an interest in the mortgage loan to the maturity of the mortgage loan. A United States holder must determine the amount of accrued market discount for a period using a straight-line method, based on the maturity of the mortgage loan, unless the United States holder elects to determine accrued market discount using a constant yield method.

In general, three consequences arise if a United States holder acquires an interest in a mortgage loan (e.g., a DMBS certificate) with market discount. First, the United States holder must treat any principal payment with respect to a mortgage loan acquired with market discount as ordinary income to the extent of the market discount that accrued while such United States holder held an interest in that mortgage loan. Second, the United States holder must treat gain on the disposition or retirement of a DMBS certificate as ordinary income under the circumstances discussed below under “**—Sales and Other Dispositions of DMBS Certificates.**” Third, a United States holder that incurs or continues indebtedness to acquire a DMBS certificate at a market discount may be required to defer the deduction of all or a portion of the interest on the indebtedness until the corresponding amount of market discount is included in income. Alternatively, a United States holder may elect to include market discount in income on a current basis as it accrues, in which case the three consequences discussed above will not apply. If a United States holder makes this election, the United States holder must also apply the election to all debt instruments acquired by the United States holder on or after the beginning of the first taxable year to which the election applies. A United States holder may revoke the election only with the consent of the IRS.

Short-term obligations are technically not subject to the market discount rules. It is unclear whether rules similar to the market discount rules would apply to United States holders of short-term obligations. You should consult your own tax advisor regarding the treatment of any discount with respect to short-term obligations.

### **Premium**

A United States holder that acquires an interest in a mortgage loan for more than its principal amount generally has premium with respect to that mortgage loan in the amount of the excess. In that event, the United States holder may elect to treat the premium as amortizable bond premium. If the election is made, a United States holder must also apply the election to all debt instruments the interest on which is not excludible from gross income (fully taxable bonds) held by the United States holder at the beginning of the first taxable year to which the election applies and to all fully taxable bonds thereafter acquired by the United States holder. A United States holder may revoke the election only with the consent of the IRS.

If a United States holder makes this election, the United States holder reduces the amount of any interest payment that must be included in the United States holder’s income by the portion of the premium allocable to the period based on the mortgage loan’s yield to maturity. Correspondingly, a United States holder must reduce its basis in the mortgage loan by the amount of premium applied to reduce any interest income. The amount of premium to be allocated among the interest payments on an adjustable rate mortgage (“ARM”) is determined by reference to an equivalent fixed-rate debt instrument constructed as of the date the United States holder acquires an interest in the ARM.

If a United States holder does not elect to amortize premium, (i) the United States holder 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 principal distribution is received, a loss equal to the premium allocated to that distribution will be recognized. Any tax benefit from premium not previously recognized will be taken into account in computing gain or loss upon the sale or disposition of the DMBS certificate. See “**—Sales and Other Dispositions of DMBS Certificates.**”

### **Expenses of the Trust**

A United States holder’s ability to deduct its share of the fee payable to the servicer, the fee payable to us for providing our guaranty, and other expenses to administer the mortgage pool is limited under section 67 of the Code in the case of (i) estates and trusts and (ii) individuals owning an interest in a DMBS 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, certain limited liability companies, and non-publicly-offered regulated investment companies, but do not include estates, non-grantor trusts, cooperatives, real estate investment trusts, or publicly-offered regulated investment companies.

Generally, a United States holder can deduct its share of these costs only to the extent that these costs, when aggregated with certain of the United States holder's other miscellaneous itemized deductions, exceed two percent of the United States holder's adjusted gross income. For this purpose, an estate or non-grantor trust computes adjusted gross income 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.

In addition, section 68 of the Code may provide for certain limitations on itemized deductions otherwise allowable for a United States holder who is an individual. Further, a United States holder may not be able to deduct any portion of these costs in computing its alternative minimum tax liability.

### **Mortgage Loan Servicing**

The IRS has 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 United States holders of 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. In general, if a mortgage loan is treated as a stripped bond, any discount with respect to that mortgage loan will be treated as original issue discount. Any premium with respect to such a mortgage loan may be treated as amortizable bond premium regardless of the date the mortgage loan was originated, because a stripped bond is treated as originally issued on the date a United States holder acquires the stripped bond. See “—**Premium**” above. In addition, the excess portion of servicing compensation will be excluded from the income of holders and thus will not be subject to the limitations on the deductibility of miscellaneous itemized deductions. See “—**Expenses of the Trust**” above.

A mortgage loan effectively will not be treated as a stripped bond, however, but will instead be treated as a market discount bond if the mortgage loan meets either the 100 basis point test or the de minimis test. A mortgage loan will meet 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  $\frac{1}{8}$  of one percent times the number of whole years to final stated maturity.

***The IRS guidance 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. You should consult your own tax advisor about the IRS guidance and its application to investments in the DMBS certificates.

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

Upon the sale, exchange, or other disposition of a DMBS certificate, the United States holder generally will recognize gain or loss equal to the difference between the amount realized upon the

disposition and the United States holder's adjusted basis in the DMBS certificate. The adjusted basis of a DMBS certificate generally will equal the cost of the DMBS certificate to the United States holder, increased by any amounts of original issue discount, market discount and other discount included in the United States holder's gross income with respect to the DMBS certificate, and reduced by any distributions on the DMBS certificate previously received by the United States holder as principal and by any premium that has reduced the United States holder's interest income with respect to the DMBS certificate. Any such gain or loss generally will be capital gain or loss, except (i) as provided in section 582(c) of the Code (which generally applies to banks) or (ii) to the extent any gain represents original issue discount or accrued market discount not previously included in income (to which extent such gain would be treated as ordinary income). Any capital gain (or loss) will be long-term capital gain (or loss) if at the time of disposition the United States holder held the DMBS certificate for more than one year. The ability to deduct capital losses is subject to limitations.

### **Information Reporting and Backup Withholding**

For each payment on a DMBS certificate, we will post on our Web site, or otherwise make available, information that will allow each beneficial owner to determine its pro rata share of the income and administrative expense of the related DMBS trust, and any other information required by the Code or the Treasury regulations thereunder.

Payments of interest, original issue discount and principal and payments of proceeds from the sale of DMBS certificates may be subject to backup withholding if the recipient of the payment is not an exempt recipient and fails to furnish certain information, including its taxpayer identification number, to us or our agent, or otherwise fails to establish an exemption from backup withholding. Any amounts deducted and withheld from such a payment would be allowable as a credit against the beneficial owner's U.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.

### **Non-United States Holders**

Additional rules apply to a beneficial owner of a DMBS certificate that is not a United States holder and that is not a partnership (a "Non-U.S. holder"). Payments on a DMBS certificate made to, or on behalf of, a beneficial owner that is a Non-U.S. holder generally will be exempt from U.S. federal income and withholding taxes, provided the following conditions are satisfied:

- the beneficial owner does not hold the DMBS certificate in connection with its conduct of a trade or business in the United States;
- the beneficial 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;
- the beneficial 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;
- the beneficial owner is not an excluded person (i.e., a 10-percent shareholder of Fannie Mae or the borrower within the meaning of section 871(h)(3)(B) of the Code or a controlled foreign corporation related to Fannie Mae or the borrower within the meaning of section 881(c)(3)(C) of the Code);
- the beneficial owner signs a statement under penalties of perjury certifying that it is a Non-U.S. holder and provides its name, address, and taxpayer identification number (a "Non-U.S. beneficial ownership statement"), and
- the last United States person in the chain of payment to the beneficial owner (the withholding agent) receives such non-U.S. beneficial ownership statement from the beneficial owner or a

financial institution holding on behalf of the beneficial owner and does not have actual knowledge that such statement is false.

Backup withholding will not apply to payments made to a beneficial owner that is a Non-U.S. holder if the beneficial owner or a financial institution holding on behalf of the beneficial owner provides a non-U.S. beneficial ownership statement to the withholding agent. A non-U.S. beneficial ownership statement may be made on an IRS Form W-8BEN or a substantially similar substitute form. The beneficial owner or financial institution holding on behalf of the beneficial owner must inform the withholding agent of any change in the information on the statement within 30 days of such change.

## LEGAL INVESTMENT CONSIDERATIONS

If you are an institution whose investment activities are subject to legal investment laws and regulations or to review by regulatory authorities, you may be or may become subject to restrictions on investment in certain DMBS certificates of an issuance, including, without limitation, restrictions that may be imposed retroactively. If you are a financial institution that is subject to the jurisdiction of the Comptroller of the Currency, the Board of Governors of the Federal Reserve System, the FDIC, the Office of Thrift Supervision, the National Credit Union Administration, Treasury or other federal or state agencies with similar authority, you should review the rules, guidelines and regulations that apply to you prior to purchasing or pledging DMBS certificates of an issuance. In addition, if you are a financial institution, you should consult your regulators concerning the risk-based capital treatment of any DMBS certificate. **You should consult your own legal advisors to determine whether and to what extent the DMBS certificates of an issuance constitute legal investments or are or may become subject to restrictions on investment and whether and to what extent the DMBS certificates of an issuance can be used as collateral for various types of borrowings.**

## ERISA CONSIDERATIONS

The Employee Retirement Income Security Act (“ERISA”) or section 4975 of the Code imposes requirements on employee benefit plans subject to ERISA (such as employer-sponsored retirement plans) and upon other types of benefit plans and arrangements subject to section 4975 of the Code (such as individual retirement accounts). ERISA and section 4975 of the Code also impose these requirements on some entities in which these benefit plans or arrangements invest. We refer to these plans, arrangements and entities, collectively, as plans. Any person who is a fiduciary of a plan also is subject to the requirements imposed by ERISA and section 4975 of the Code. Before a plan invests in any DMBS certificate, the plan fiduciary must consider whether the governing instruments for the plan permit the investment, whether the DMBS certificates are a prudent and appropriate investment for the plan under its investment policy, and whether such an investment might result in a transaction prohibited under ERISA or section 4975 of the Code for which no exemption is available.

The U.S. Department of Labor has issued a regulation covering the acquisition by a plan of a guaranteed governmental mortgage pool certificate, defined to include certificates which are backed by, or evidence an interest in, specified mortgages or participation interests in specified mortgages and are guaranteed by Fannie Mae as to the payment of interest and principal. Under the regulation, investment by a plan in a guaranteed governmental mortgage pool certificate does not cause the assets of the plan to include the mortgage loans underlying the certificate or cause the sponsor, trustee and other servicers of the mortgage pool to be subject to the fiduciary responsibility provisions of ERISA or the prohibited transaction provisions of ERISA or section 4975 of the Code in providing services with respect to the mortgages in the pool. Our counsel, Sidley Austin LLP, has advised us that the DMBS certificates qualify under the definition of guaranteed governmental mortgage pool certificates and, as a result, the purchase and holding of DMBS certificates by plans will not cause the underlying mortgage loans or the assets of Fannie Mae to be subject to the fiduciary requirements

of ERISA or to the prohibited transaction provisions of ERISA or section 4975 of the Code merely by reason of a plan's holding of a DMBS certificate. However, investors should consult with their own counsel regarding the ERISA eligibility of certificates they may purchase.

#### **LEGAL OPINION**

If you purchase DMBS certificates, we will send you, upon request, an opinion of our general counsel (or one of our deputy general counsels) as to the validity of the DMBS certificates and the related trust documents.

**Exhibit A**

*All information in this exhibit is for illustrative purposes only and should not be deemed to represent any actual loan or any actual issuance. Information presented may vary for individual pools.*

**Federal National Mortgage Association  
Mortgage-Backed Securities Program**

Supplement to Prospectus Dated October 1, 2010

[\$ [ ] .00

Issue Date [ ], 2010

Security Description FNDM [ ] DMBS

Fannie Mae Pool Number [ ]

CUSIP [ ]

Principal Payable on [ ]

**Pool Statistics (as of Issue Date)**

Number of Participation Interests . . . . .	[ ]
Outstanding Balance . . . . .	[ ]
Maturity Date . . . . .	[ ]
Term . . . . .	[ ]
Servicer . . . . .	[ ]

**Geographic Distribution of Security Properties\***

\* See Schedule of Loan Information

The date of this Supplement is [ ]

(Pool No. [ ])

**Fannie Mae  
Multifamily DMBS  
Schedule of Loan Information**

Number of Advances Outstanding.....	[ ]*
Fannie Mae Pool Number .....	[ ]
Aggregate Issue Date Principal Balance: .....	[ ]
Number of Mortgaged Properties: .....	[ ]*
Aggregate Real Property Value**: .....	[ ]
Value of Other Collateral: .....	[ ]
Total Collateral Value: .....	[ ]
Fannie Mae Seller Name: .....	[ ]
Transaction Type: .....	[ ]

\* Additional information regarding each Advance and each Mortgaged Property on Succeeding Pages of this Schedule of Loan Information.

\*\* As most recently reported to the Corporation by the servicer of the Mortgage Loan; see body of Prospectus Supplement for additional information.

**Fannie Mae  
Multifamily DMBS  
Schedule of Loan Information**

**Advances Outstanding**

Fannie Mae CUSIP No: .....	[ ]
Fannie Mae Pool Number: .....	[ ]
Issue Date Principal Balance: .....	[ ]
Issue Date: .....	[ ]
Original Amortization Term: .....	[ ]
Mortgage Note Interest Rate: .....	[ ]
Interest Only End Date: .....	[ ]
Mortgage Interest Rate: .....	[ ]
1st Monthly Payment Date: .....	[ ]
Security Maturity Date: .....	[ ]
Lockout Flag#Mos: .....	[ ]
Pool Prefix: .....	[ ]
Yield Maintenance End Date: .....	[ ]
Fixed Prepayment Schedule Type: .....	[ ]
U.S. Treasury Security Due Date: .....	[ ]
U.S. Treasury Yield Rate: .....	[ ]
Defeasance: .....	[ ]
Note Date: .....	[ ]
Fannie Mae Servicer Name: .....	[ ]

**Original Term:** The number of months used to calculate original monthly principal and interest payment.

**Lockout Flag/# Mos:** The number of months in the lockout period from the date that the Advance is made.

**1st Monthly Payment Date:** The first date that a payment is due and payable.

**Prepayment Premium:** See the body of the Prospectus Supplement for additional information.

**U.S. Treasury Security Due Date:** The maturity date of the U.S. Treasury Security used for calculation of the Prepayment Premium, if any. See the body of the Prospectus Supplement for additional information.

(Pool No. [            ] )

**Fannie Mae  
Multifamily DMBS  
Schedule of Loan Information**

**Collateral Details**

City: ..... [ ]  
State: ..... [ ]  
Zip Code: ..... [ ]  
No. Units: ..... [ ]  
Co-op Ind: ..... [ ]  
Collateral Reference No: ..... [ ]  
(Pool No. [        ])

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No one is authorized to give information or to make representations in connection with the DMBS certificates other than the information and representations contained in or incorporated into this prospectus. You must not rely on any unauthorized information or representation. This prospectus and the related disclosure documents do not constitute an offer or solicitation with regard to the DMBS certificates if it is illegal to make such an offer or solicitation to you under state law. By delivering this prospectus at any time, no one implies that the information contained in it is correct after its date.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved the DMBS certificates or determined if this prospectus or any supplement to this prospectus is truthful and complete. Any representation to the contrary is a criminal offense.

Additional prospectuses and information regarding outstanding pools are available upon request by calling us at 800-237-8627 or 202-752-7115 or by visiting our Web site at [www.fanniemae.com](http://www.fanniemae.com).

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# Guaranteed Discount Mortgage-Backed Certificates (Multifamily Residential Mortgage Loans)

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## MULTIFAMILY DMBS PROSPECTUS

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October 1, 2010

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