

**\$198,394,480 (Approximate)**  
**Federal National Mortgage Association**



**Guaranteed Grantor Trust Pass-Through Certificates**  
**Fannie Mae Grantor Trust 1995-T5**

The Guaranteed Grantor Trust Pass-Through Certificates (the "Certificates") will represent beneficial ownership interests in Fannie Mae Grantor Trust 1995-T5 (the "Trust"). The assets of the Trust will consist of a single debt obligation (the "Funding Note") to be issued by CRIIMI MAE Financial Corporation III (the "Subsidiary"), a wholly-owned special purpose subsidiary of CRIIMI MAE Inc., a publicly-held real estate investment trust ("CRIIMI MAE"), and certain other assets. Payment of the Funding Note will be made from payments received on specified "fully modified pass-through" mortgage-backed securities (the "GNMA Certificates") guaranteed as to timely payment of principal and interest by the Government National Mortgage Association ("GNMA"), which will be pledged to Fannie Mae to secure the payment of the Funding Note. Each of the GNMA Certificates represents an ownership interest in a multifamily or nursing home mortgage loan (a "Mortgage Loan") that is insured by the Federal Housing Administration (the "FHA"). The Mortgage Loans are fixed-rate and generally are level-pay and fully amortizing. See "General—Structure" and "Description of the GNMA Certificates and Mortgage Loans" herein. The obligations of GNMA under its guarantee of the GNMA Certificates are backed by the full faith and credit of the United States.

Principal and interest on the Certificates will be distributed quarterly on the 17th calendar day occurring in March, June, September and December, commencing in March 1996 (or, if such 17th day is not a business day, on the first business day next succeeding such 17th day) (each, a "Quarterly Distribution Date"). Therefore, distributions of principal and interest will be made on or shortly after the 17th day of each March, June, September and December. Interest distributable on a Quarterly Distribution Date will accrue on the Certificates during the three preceding calendar months (an "Interest Accrual Period"). Principal of the Certificates will be distributable on each Quarterly Distribution Date as described herein. See "Description of the Certificates—Distributions of Interest" and "—Distributions of Principal" herein.

The Subsidiary will have the option to prepay the Funding Note in full, but not in part, at its full unpaid principal amount, plus accrued interest, on any Quarterly Distribution Date on or after the Quarterly Distribution Date on which, after giving effect to principal distributions to be made on the Certificates on such Quarterly Distribution Date, the remaining principal balance of the Certificates would be equal to or less than 20% of their original principal balance. The Funding Note will also be subject to special prepayment, in whole or in part, under the limited circumstances described herein. Any such prepayment would be made on a Distribution Date (defined herein as the 17th calendar day of a month, or, if such 17th day is not a business day, on the first business day next succeeding such 17th day) other than a Quarterly Distribution Date and would not exceed the amount otherwise distributable on the following Quarterly Distribution Date.  
*(Cover continued on next page)*

Investors should not purchase the Certificates before reading this Prospectus and the Information Statement referred to at the bottom of page 2.

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

THE CERTIFICATES WILL BE ISSUED BY FANNIE MAE, AND WILL BE GUARANTEED BY FANNIE MAE AS TO THE TIMELY DISTRIBUTION OF INTEREST AND THE PRINCIPAL DISTRIBUTION AMOUNT DUE THEREON, WHICH AMOUNTS CORRESPOND TO THE INTEREST AND PRINCIPAL DUE ON THE FUNDING NOTE. SEE "GENERAL—FANNIE MAE GUARANTY" HEREIN.

THE CERTIFICATES MAY NOT BE SUITABLE INVESTMENTS FOR ALL INVESTORS. NO INVESTOR SHOULD PURCHASE ANY CERTIFICATES UNLESS SUCH INVESTOR UNDERSTANDS AND IS ABLE TO BEAR THE PREPAYMENT, YIELD, LIQUIDITY AND OTHER RISKS ASSOCIATED WITH SUCH CERTIFICATES.

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

Class	Original Principal Balance(1)	Principal Type(2)	Interest Rate	Interest Type(2)	CUSIP Number	Final Distribution Date(3)
A .....	\$198,394,480	PT	7.0%	FIX	31359LZY4	March 2035

(1) Subject to a permitted variance of plus or minus 5%.

(2) See "Description of the Certificates—Certain Definitions and Abbreviations," "—Distributions of Interest" and "—Distributions of Principal" herein.

(3) Calculated as described herein under "Description of the Certificates—Maturity Considerations and Final Distribution Date."

The Certificates offered hereby will be offered by Donaldson, Lufkin & Jenrette Securities Corporation, Citibank, N.A., Deutsche Morgan Grenfell/C.J. Lawrence Inc. and Merrill Lynch, Pierce, Fenner & Smith Incorporated (the "Dealers") from time to time in negotiated transactions, at varying prices to be determined at the time of sale.

The Certificates offered hereby will be offered by the Dealers, subject to issuance by Fannie Mae and to prior sale or to withdrawal or modification of the offer without notice, when, as and if delivered to and accepted by the Dealers, and subject to approval of certain legal matters by counsel. It is expected that the Certificates offered hereby will be available through the book-entry system of The Depository Trust Company on or about December 15, 1995 (the "Settlement Date").

**Donaldson, Lufkin & Jenrette**  
 Securities Corporation



**Deutsche Morgan Grenfell**

**Merrill Lynch & Co.**

The date of this Prospectus is October 23, 1995.

*(Cover continued from previous page)*

Date. Upon any such prepayment Fannie Mae will distribute to the Certificateholders the principal amount of the Funding Note so prepaid, plus accrued interest. See "The Funding Note—Optional Prepayment" and "—Special Prepayment" herein.

The yield to investors in the Certificates will be sensitive in varying degrees to the rate of principal payments of the Mortgage Loans, the effect of any optional or special redemption of the Certificates, the actual characteristics of such Mortgage Loans and the purchase price paid for the Certificates. Accordingly, investors should consider the following risks:

- Subject to the effect of applicable lockouts and mortgage prepayment penalties, the Mortgage Loans may be prepaid by the related borrowers at any time and, accordingly, the rate of principal payments thereon is likely to vary considerably from time to time. Depending on other factors present at the time, Mortgage Loans having prepayment penalties may be less likely to prepay than Mortgage Loans that do not have such penalties. In addition, the full principal balance of a GNMA Certificate may be distributed upon a default of the underlying Mortgage Loan, which could take place during an otherwise applicable lockout or prepayment penalty period.
- The Certificates will be redeemed in whole in the event of an optional prepayment of the Funding Note and will be redeemed in whole or in part in the event of a special prepayment of the Funding Note. The occurrence of an optional prepayment (and, to a lesser extent, a special prepayment) will reduce the weighted average life of the Certificates. See "Description of the Certificates—Optional Redemption" and "—Special Redemption" herein.
- Slight variations in Mortgage Loan characteristics could substantially affect the weighted average life and yield of the Certificates.
- In the case of any Certificates purchased at a discount to their principal amounts, a slower than anticipated rate of principal payments is likely to result in a lower than anticipated yield.
- In the case of any Certificates purchased at a premium to their principal amounts, a faster than anticipated rate of principal payments is likely to result in a lower than anticipated yield.
- There will be no reimbursement to investors for any premium paid by such investors, or for any loss in an investor's yield, if such investors receive early payments of principal (including early payments received as a result of any optional or special redemption of the Certificates).

See "Risk Factors" herein.

In addition, investors should purchase Certificates only after considering the following:

- The actual final Distribution Date for the Certificates will likely occur earlier, and could occur much earlier, than the Final Distribution Date specified on the cover page. See "Description of the Certificates—Weighted Average Life of the Certificates" herein.
- The rate of principal distributions of the Certificates is uncertain and investors may be unable to reinvest the distributions thereof at yields equaling the yield on the Certificates. See "Risk Factors—Reinvestment Risk" herein.
- Investors whose investment activities are subject to legal investment laws and regulations or to review by regulatory authorities may be subject to restrictions on investment in the Certificates. Investors should consult their legal advisors to determine whether and to what extent the Certificates constitute legal investments or are subject to restrictions on investment. See "Legal Investment Considerations" herein.

The Dealers intend to make a secondary market for the Certificates offered hereby but are not obligated to do so. There can be no assurance that such a secondary market will develop or, if developed, that it will continue. Thus, investors may not be able to sell their Certificates readily, or at prices that will enable them to realize their anticipated yield. No investor should purchase Certificates unless such investor understands and is able to bear the risk that the value of the Certificates will fluctuate over time and that the Certificates may not be readily marketable.

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

No REMIC election will be made with respect to the Trust. Each Holder will be treated for federal income tax purposes as being an owner of an undivided interest in the Funding Note held by the Trust. See "Certain Federal Income Tax Consequences" herein.

Investors should purchase the Certificates only if they have read and understood this Prospectus and Fannie Mae's Information Statement dated March 31, 1995 and any supplements thereto (collectively, the "Information Statement").

The Information Statement is incorporated herein by reference and may be obtained from Fannie Mae by writing or calling its MBS helpline at 3900 Wisconsin Avenue, N.W., Area 2H-3S, Washington, D.C. 20016 (telephone 1-800-BEST-MBS or 202-752-6547). Such document may also be obtained from Donaldson, Lufkin & Jenrette Securities Corporation by writing or calling its Prospectus Department at 140 Broadway, 33rd Floor, New York, New York 10005 (telephone 212-504-4525); from Citibank, N.A. by writing or calling its Prospectus Department at 399 Park Avenue, 3rd Floor, New York, New York 10043 (telephone 212-793-5880); from Deutsche Morgan Grenfell/C.J. Lawrence Inc. by writing or calling its Prospectus Department at 31 West 52nd Street, New York, New York 10019 (telephone 212-469-6949); or from Merrill Lynch, Pierce, Fenner & Smith Incorporated by writing or calling its Prospectus Department at 4 Corporate Place, Corporate Park 287, Piscataway, New Jersey 08855 (telephone 908-878-6526). Other data specific to the Certificates is available in electronic form by calling Fannie Mae at 1-800-752-6440 or 202-752-6000.

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## REFERENCE SHEET

This reference sheet is not a summary of the transactions described herein, and it does not contain complete information about the Certificates. Investors should purchase the Certificates only after reading this Prospectus and the Information Statement referred to herein in their entirety.

### Certain Characteristics of the GNMA Certificates and Mortgage Loans (as of December 1, 1995)

The GNMA Certificates and the Mortgage Loans are expected to have the following characteristics (aggregated on the basis of the applicable FHA insurance programs):

FHA Insurance Program	Principal Balance (millions)	Number of GNMA Pools	Percent of Total Balance	Weighted Average Mortgage Loan Interest Rate	Weighted Average GNMA Certificate Interest Rate	Weighted Average Original Term to Maturity (in years)	Weighted Average Remaining Term to Maturity (in years)	Weighted Average Period from Issuance (in months)	Weighted Average Remaining Lockout Period (in years)	Weighted Average Term to End of Mortgage Loan Prepayment Penalty Period (in years)
223(f)	\$ 96.6	22	48.56%	8.772%	8.504%	33.6	28.8	58	1.7	3.8
232	37.0	9	18.61%	8.964%	8.655%	38.3	36.8	19	5.2	7.9
221(d)(4)	36.6	5	18.41%	8.776%	8.525%	39.7	36.5	37	1.2	3.5
223(a)(7)	22.7	7	11.44%	7.784%	7.532%	31.3	29.9	16	4.1	7.7
241(f)	3.0	1	1.52%	8.000%	7.750%	40.0	38.4	19	3.4	3.4
221(d)(3)	2.4	1	1.22%	7.750%	7.500%	39.3	39.2	2	4.9	9.9
223(d)	0.5	1	0.24%	11.000%	10.550%	27.5	21.9	67	0.0	4.4
	<u>\$198.9</u>	46	<u>100.0%</u>	8.677%	8.406%	35.5	32.1	41	2.6	5.0

In addition, the table contained on Exhibit A hereto sets forth certain information regarding the characteristics of the individual GNMA Certificates and Mortgage Loans as of December 1, 1995 (the "Issue Date"), including information regarding the applicable FHA program, property location, estimated principal balance, GNMA Certificate interest rate, mortgage interest rate, maturity date, original and remaining terms to maturity, GNMA Certificate age and issue date, and additional information regarding prepayment lockout and prepayment penalty periods applicable to the Mortgage Loans. Certain additional information regarding the GNMA Certificates and the Mortgage Loans may be obtained from Fannie Mae as described under "Description of the GNMA Certificates and Mortgage Loans—General" herein.

### Interest Rate

The Certificates offered hereby will bear interest at a rate of 7.0% per annum.

See "Description of the Certificates—Distributions of Interest" herein.

### Distributions of Principal

Principal of the Certificates will be distributed quarterly in an amount equal to the Principal Distribution Amount (as defined herein). In addition, the entire outstanding amount of principal may be distributed as an optional redemption of the Certificates, and certain limited amounts of principal may be distributed monthly as a special redemption of the Certificates, in each case under the circumstances described herein.

See "Description of the Certificates—Distributions of Principal," "—Optional Redemption" and "—Special Redemption" herein.

**Weighted Average Life (years)\***

Class	% of CPR Prepayment Assumption												
	Lockout**						Extended Protection**						
	0%	2%	5%	8%	10%	15%	100%***	2%	5%	8%	10%	15%	100%***
A . . . . .	22.8	18.6	14.3	11.6	10.2	8.0	3.1	19.4	15.8	13.4	12.2	10.2	5.4

\* Determined as specified under “Yield and Prepayment Considerations—Weighted Average Life of the Certificates” herein.  
 \*\* “Lockout” assumes no prepayment through the applicable lockout period and “Extended Protection” assumes no prepayment through any applicable Mortgage Loan prepayment penalty period.  
 \*\*\* Under the 100% CPR Prepayment Assumptions, it has been assumed that all Mortgage Loans as to which any lockout and prepayment penalty periods will have expired as of the Settlement Date will experience no prepayment for a period of 24 months following the Settlement Date.

## **RISK FACTORS**

### **Yield Considerations**

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

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

The effective yield on the Certificates will be reduced below the yield otherwise produced because principal and interest payable on a Distribution Date will not be distributed earlier than the 17th day following the end of the related Interest Accrual Period and will not bear interest during such delay. No interest at all will be paid on any Certificate after its principal balance has been reduced to zero. As a result of the foregoing, the market value of the Certificates will be lower than would have been the case if there were no such delay. Investors must make their own decisions as to the appropriate assumptions, including prepayment assumptions, to be used in deciding whether to purchase the Certificates.

The Certificates will also be affected by any early redemption of the Certificates as described herein under "Description of the Certificates—'Optional Redemption' and '—Special Redemption.'" There will be no reimbursement to investors for any premium paid by investors, or for any loss in an investor's yield if such investors receive early payments of principal (including early payments received as a result of any early redemption of the Certificates).

### **Reinvestment Risk**

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

## **Prepayment Considerations and Risks**

Subject to the effect of any optional or special redemption, the rate of distributions of principal of the Certificates is related directly to the rate of payments of principal of the Mortgage Loans, which may be in the form of scheduled amortization or prepayments (for this purpose, the term “prepayment” includes prepayments and liquidations resulting from default, casualty or condemnation). Most of the Mortgage Loans prohibit voluntary prepayments during specified lockout periods. Such lockout periods have remaining terms that range from approximately 0.3 to 9.2 years and with a weighted average remaining term of approximately 3.7 years. Certain of the Mortgage Loans also provide for payment of a mortgage prepayment penalty in connection with prepayments for a period extending beyond the lockout period. Depending on other factors present at the time, Mortgage Loans having prepayment penalties may be less likely to prepay than Mortgage Loans that do not have such penalties. Any collected prepayment penalties will be available for distributions of interest on the Certificates but will not be distributed to the extent that they, together with interest distributions on the GNMA Certificates, are in excess of interest due on the Certificates for the applicable Interest Accrual Period.

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

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

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

## **GENERAL**

The following summaries describing certain provisions of the Certificates do not purport to be complete and are subject to, and are qualified in their entirety by reference to, the remaining provisions of this Prospectus, the Information Statement and the provisions of the Trust Agreement (defined below). Capitalized terms used and not otherwise defined in this Prospectus have the meanings assigned to such terms in the Information Statement or in the Trust Agreement (as the context may require).

*Structure.* The Certificates will be issued and guaranteed by the Federal National Mortgage Association (“Fannie Mae”), a corporation organized and existing under the laws of the United States, under the authority contained in Section 304(d) of the Federal National Mortgage Association Charter Act (12 U.S.C. 1716 et seq.). The Trust will be created pursuant to a trust

agreement dated as of December 1, 1995 (the "Trust Agreement"), executed by Fannie Mae in its corporate capacity and in its capacity as Trustee (in such capacity, the "Trustee"), and the Certificates in the aggregate original principal balance set forth on the cover hereof will be issued by Fannie Mae pursuant thereto. A description of Fannie Mae and its business, together with certain financial statements and other financial information, is contained in the Information Statement.

The assets of the Trust will consist primarily of the Funding Note. Payments on the Funding Note will be made from the GNMA Certificates that are pledged to Fannie Mae to secure payment on the Funding Note. Each GNMA Certificate represents the entire beneficial ownership interest in a single Mortgage Loan. See "The GNMA Certificates and Mortgage Loans" herein.

*Authorized Denominations.* The Certificates will be issued in minimum denominations of \$1,000 and integral multiples of \$1 in excess thereof.

*Characteristics of Certificates.* The Certificates will be represented by one or more certificates (the "DTC Certificates") to be registered at all times in the name of the nominee of the Depository (as defined herein), which Depository will maintain such Certificates through its book-entry facilities. When used herein with respect to any DTC Certificate, the terms "Holders" and "Certificateholders" refer to the nominee of the Depository.

See "Description of the Certificates—Book-Entry Procedures" herein.

*Fannie Mae Guaranty.* Pursuant to its guaranty of the Certificates, Fannie Mae will be obligated to distribute to the Holders of Certificates (i) all interest accrued and distributable on the Certificates as provided herein under "Description of the Certificates—Distributions of Interest" at a rate of 7.0% per annum and (ii) the Principal Distribution Amount (as defined herein), whether or not sufficient funds are received with respect to the Funding Note. If Fannie Mae were unable to perform these guaranty obligations, distributions to Certificateholders would consist solely of payments and other recoveries on the Funding Note. The guaranty of Fannie Mae is not backed by the full faith and credit of the United States.

*Dates of Distribution.* Distributions on the Certificates will be made on the 17th day of each March, June, September and December (or, if such 17th day is not a business day, on the first business day next succeeding such 17th day) (each a "Quarterly Distribution Date"), commencing in March 1996. In addition, the Certificates are subject to special redemptions on certain other dates as described herein under "Description of the Certificates—Special Redemption."

*Record Date.* Each distribution on the Certificates will be made to Holders of record on the last day of the preceding month.

*Trust Factors.* As soon as practicable following the thirteenth day of each month, Fannie Mae will publish or otherwise make available for the Certificates the factor (carried to eight decimal places) (the "Trust Factor") which, when multiplied by the original principal balance of a Certificate, will equal the remaining principal balance of such Certificate after giving effect to the distribution of principal, if any, to be made on the 17th calendar day of such month (or, if such 17th day is not a business day, on the first business day next succeeding such 17th day) (each, a "Distribution Date"). The Trust Factor will remain unchanged in months as to which no distributions on the Certificates are to occur.

*Optional or Special Redemption.* An optional or special redemption of the Certificates may be effected as described herein under "Description of the Certificates—Optional Redemption" and "—Special Redemption."

## THE FUNDING NOTE

### General

The Funding Note will be issued by the Subsidiary pursuant to a Funding Note Issuance and Security Agreement among the Subsidiary, CRIIMI MAE and Fannie Mae (the "Funding Agreement"). Under the terms of the Funding Agreement, Fannie Mae will deliver the Certificates to the Subsidiary in exchange for the Funding Note from the Subsidiary. The original principal amount, final payment date and payment characteristics of the Funding Note will be the same as the original principal balance, Final Distribution Date and payment characteristics of the Certificates. See "Description of the Certificates" below. All payments of principal, interest and mortgage prepayment penalties made on the GNMA Certificates and reinvestment income on such payments will secure the payment of principal and interest on the Funding Note. However, on a monthly basis, the excess of (a) distributions on the GNMA Certificates through such Distribution Date and reinvestment income over (b) the portion of such payments required to be paid as principal and interest on the Funding Note on the next succeeding Quarterly Distribution Date will be paid to the Subsidiary, and will not be available thereafter for payments on the Funding Note or distributions on the Certificates.

The Funding Note is a non-recourse obligation of the Subsidiary payable only from the proceeds of the GNMA Certificates and reinvestment income therefrom. The Funding Note will be held by Fannie Mae for the benefit of the Certificateholders and Fannie Mae. The Subsidiary will assign the GNMA Certificates to Fannie Mae, which will hold the GNMA Certificates in its name as security for the Funding Note for the benefit of the Certificateholders and Fannie Mae.

### Optional Prepayment

The Funding Note may be prepaid in full, but not in part, at the option of the Subsidiary on any Quarterly Distribution Date on or after the Quarterly Distribution Date on which, after giving effect to principal distributions to be made on the Certificates on such Quarterly Distribution Date, the remaining principal balance of the Certificates would be equal to or less than 20% of their original principal balance. Notice of such prepayment must be given by the Subsidiary to Fannie Mae not earlier than the eighteenth day of the month preceding the Quarterly Distribution Date on which such prepayment is to occur and not later than the third business day of the month in which such Quarterly Distribution Date occurs. If the Funding Note is to be prepaid, and the Trust Factor published for such month will be zero. Any optional prepayment of the Funding Note (and the resulting redemption of the Certificates) will be at a prepayment (and redemption) price equal to the unpaid principal amount of the Funding Note (and the Certificates), plus accrued and unpaid interest for the related Interest Accrual Period.

### Special Prepayment

The Funding Note is subject to special prepayment, in whole or in part, on any Distribution Date other than a Quarterly Distribution Date upon Fannie Mae's determination in accordance with certain assumptions specified in the Funding Note Agreement that, because of principal prepayments on the Mortgage Loans underlying the GNMA Certificates and the yields available for reinvestment, the funds available for payment of interest on the next succeeding Quarterly Distribution Date could be insufficient to meet the required interest payment on the Funding Note for such Quarterly Distribution Date. If a determination is made to require a special prepayment of the Funding Note, the Trust Factor for such month will reflect the distribution to be made on the Certificates in such redemption. Any special prepayment of the Funding Note (and the resulting redemption to be made of the Certificates) will be at a prepayment (and redemption) price equal to the principal amount of the portion of the Funding Note to be prepaid, plus accrued and

unpaid interest thereon through the preceding calendar month. The amount of any special prepayment will be limited to the amount of principal payments on the GNMA Certificates received since the immediately preceding Quarterly Distribution Date that would otherwise be required to be applied to the payment of principal on the Funding Note on the next succeeding Quarterly Distribution Date.

In the event Fannie Mae determines that a special prepayment is necessary, the Subsidiary will have the option to contribute sufficient funds to cover debt service on the Funding Note in lieu of a special prepayment. In such case, no special redemption of the Certificates will occur.

### **Events of Default**

In the event of a default (“Event of Default”) under the Funding Note Agreement, Fannie Mae, among other things, may declare the Funding Note to be immediately due and payable. An Event of Default consists of (i) failure of the Subsidiary to make payments of principal and interest required under the Funding Note, (ii) default in the performance or breach of any covenant or warranty of the Subsidiary in the Funding Note Agreement and the continuation of such default or breach for a period of ten days after notice to the Subsidiary by Fannie Mae or (iii) certain events of bankruptcy, insolvency, receivership or reorganization of the Subsidiary. Notwithstanding any such declaration of acceleration of the Funding Note, Fannie Mae will be required to retain indefinitely the GNMA Certificates unless Fannie Mae, in its sole judgment, determines that (a) the GNMA Certificates would not continue to provide sufficient funds for the payment of principal and interest on the Funding Note as such principal and interest would have become due if there had not been such declaration or (b) such retention would be likely to (i) subject to tax the arrangement by which the Funding Note or Certificates are created and sold or (ii) violate applicable laws. Following any such determination, Fannie Mae may, but will not be required to, sell the GNMA Certificates. The proceeds of any such sale will be applied to payments on the Funding Note and the Certificates in the same manner as prepayments on the GNMA Certificates. If any deficiency exists between the proceeds of such sale and the outstanding principal balance of the Certificates, Fannie Mae under its guarantee will distribute the amount of such deficiency to the Certificateholders.

### **The Subsidiary**

The Subsidiary will be created under the laws of the State of Maryland and is a wholly-owned, special purpose subsidiary of CRIIMI MAE, a publicly-held real estate investment trust. Neither CRIIMI MAE nor the Subsidiary nor any affiliate thereof will insure or guarantee payments on the Certificates. The Funding Note is a non-recourse obligation of the Subsidiary, payable from and secured only by the GNMA Certificates and reinvestment income as described above, and is not guaranteed by CRIIMI MAE or any affiliate thereof.

## DESCRIPTION OF THE CERTIFICATES

### Book-Entry Procedures

#### *General*

The Certificates will be represented by one or more certificates (the “DTC Certificates”) to be registered at all times in the name of the nominee of The Depository Trust Company, a New York-chartered limited purpose trust company, or any successor depository selected or approved by Fannie Mae (the “Depository”). In accordance with its normal procedures, the Depository will record the positions held by each Depository participating firm (each, a “Depository Participant”) in the DTC Certificates, whether held for its own account or as a nominee for another person. State Street Bank and Trust Company will act as paying agent for, and perform certain administrative functions with respect to, the DTC Certificates.

No person acquiring a beneficial ownership interest in the DTC Certificates (a “beneficial owner” or an “investor”) will be entitled to receive a physical certificate representing such ownership interest. An investor’s interest in the DTC Certificates will be recorded on the records of the brokerage firm, bank, thrift institution or other financial intermediary (a “financial intermediary”) that maintains such investor’s account for such purpose. In turn, the financial intermediary’s record ownership of such interest will be recorded on the records of the Depository (or of a Depository Participant that acts as an agent for the financial intermediary if such intermediary is not a Depository Participant). Accordingly, an investor will not be recognized by the Trustee or the Depository as a Certificateholder and must rely on the foregoing arrangements to evidence its interest in the DTC Certificates. Beneficial ownership of an investor’s interest in the DTC Certificates may be transferred only by compliance with the procedures of an investor’s financial intermediary and of Depository Participants. In general, beneficial ownership of an investor’s interest in the DTC Certificates will be subject to the rules, regulations and procedures governing the Depository and Depository Participants as in effect from time to time.

#### *Method of Distribution*

Each distribution on the DTC Certificates will be distributed by the Trustee to the Depository in immediately available funds. The Depository will be responsible for crediting the amount of such distributions to the accounts of the Depository Participants entitled thereto, in accordance with the Depository’s normal procedures, which currently provide for distributions in next-day funds settled through the New York Clearing House. Each Depository Participant and each financial intermediary will be responsible for disbursing such distributions to the beneficial owners of the DTC Certificates that it represents. Accordingly, the beneficial owners may experience some delay in their receipt of distributions.

### Distributions of Interest

#### *Category of Class*

For the purpose of payments of interest, the Certificates will be categorized as follows:

<u>Interest Type*</u>	<u>Class</u>
Fixed Rate	A

\* See “Description of the Certificates—Certain Definitions and Abbreviations” herein.

*General.* The Certificates will bear interest at a rate of 7.0% per annum. Distributions of interest will be calculated on the basis of a 360-day year consisting of twelve 30-day months and will be made on each Quarterly Distribution Date, commencing in March 1996. The interest to be distributed on each Quarterly Distribution Date with respect to the Certificates will consist of three months' interest on the outstanding principal balance of the Certificates immediately prior to such Quarterly Distribution Date.

In addition, in the event that any special redemption is made on the Certificates on any Distribution Date, the payment to Certificateholders will include an amount representing interest accrued through the end of the preceding calendar month on the principal amount to be redeemed. See "Special Redemption" below.

*Interest Accrual Period.* Interest to be distributed on a Quarterly Distribution Date will accrue on the Certificates during the three-month period preceding the month in which such Quarterly Distribution Date occurs (each, an "Interest Accrual Period").

See "Risk Factors—Yield Considerations" herein.

## **Distributions of Principal**

### *Category of Class*

For the purpose of payments of principal, the Certificates will be categorized as follows:

<u>Principal Type*</u>	<u>Class</u>
Pass-Through	A

\* See "Description of the Certificates—Certain Definitions and Abbreviations" herein.

### *Principal Distribution Amount*

On each Quarterly Distribution Date, principal will be distributed on the Certificates in an amount (the "Principal Distribution Amount") equal to (i) the sum of (x) all principal distributions made on the GNMA Certificates during the two months preceding such Quarterly Distribution Date, (y) the principal distributions reported by GNMA to be receivable on the GNMA Certificates during the month of such Quarterly Distribution Date and (z) the excess, if any of all principal distributions made on the GNMA Certificates during the month of the immediately preceding Quarterly Distribution Date over the amount of principal preliminarily reported by GNMA to be receivable on the GNMA Certificates during such month, less (ii) the amount of any principal paid due to any special redemption of the Certificates since the preceding Quarterly Distribution Date, whether or not such sum is in fact paid with respect to the Funding Note. See "General—Trust Factors" and "The Funding Note" herein.

Fannie Mae will calculate the amount specified in clause (y) above for each Quarterly Distribution Date based in part on preliminary GNMA Certificate factors reported on or about the seventh business day of the month of such Quarterly Distribution Date. In some months, the factors for some GNMA Certificates may not be reported. As to any GNMA Certificate for which a factor has not been reported, Fannie Mae will calculate the remaining principal balance to which the applicable GNMA Certificate would be reduced on the basis of assumed amortization schedules. Fannie Mae will create those schedules by using available remaining term to maturity and interest rate information and adjusting such remaining term to maturity to the current month. Such calculations will reflect payment factor information previously reported to Fannie Mae and calculated subsequent scheduled amortization (but not prepayments) on the related Mortgage

Loans. Fannie Mae’s determination of the principal payments by the methodology described above will be final.

In addition, in the event of any special prepayment of the Funding Note on any Distribution Date, a special redemption of the Certificates will occur on such date in an amount equal to the principal amount of the Funding Note so prepaid. See “Special Redemption” herein.

**Optional Redemption**

Upon any prepayment of the Funding Note at the option of the Subsidiary as described under “The Funding Note—Optional Prepayment,” Fannie Mae will distribute to the Certificateholders the unpaid principal amount of the Funding Note, plus accrued and unpaid interest thereon. In such event, the Trust Factor published on or about the thirteenth calendar day of the month of such distribution will be zero. The effect of such prepayment will be to cause the complete redemption of all Certificates at a price equal to the unpaid principal balance of the Certificates so redeemed, plus accrued and unpaid interest thereon for the related Interest Accrual Period.

In addition, the outstanding Certificates may be redeemed in whole, but not in part, at the option of Fannie Mae, upon not less than 30 nor more than 60 days’ notice, on any Distribution Date on or after the Distribution Date on which, after giving effect to principal distributions to be made on the Certificates on such Distribution Date, the outstanding principal balance of the Certificates would be equal to or less than 1% of their original principal balance. Any such optional redemption will be at a redemption price equal to the outstanding principal balance of the Certificates, plus any accrued and outstanding interest thereon.

**Special Redemption**

Upon any prepayment of the Funding Note in whole or in part on a Distribution Date pursuant to a special prepayment as described under “The Funding Note—Special Prepayment,” Fannie Mae will redeem a principal amount of the Certificates on such date equal to the principal amount of the Funding Note so prepaid, plus accrued and unpaid interest thereon through the preceding calendar month. In any such event, Fannie Mae will publish a Trust Factor on or about the thirteenth calendar day of the month of such redemption to reflect the payment made in redemption. The amount of any redemption will not exceed the amount of principal payments on the GNMA Certificates received since the immediately preceding Distribution Date that would otherwise be required to be applied to the payment of principal on the Funding Note and the Certificates on the next succeeding Quarterly Distribution Date. As a result, the primary consequence of a special prepayment of the Funding Note is to cause limited amounts of principal and interest to be paid on the Certificates one or two months earlier than the next succeeding Quarterly Distribution Date.

**Certain Definitions and Abbreviations**

The following chart identifies and generally defines the categories specified on the cover page of the Prospectus.

<u>Abbreviation</u>	<u>Category</u>	<u>Definition</u>
<b>PRINCIPAL TYPE</b>		
PT	Pass-Through	Certificates that are designed to receive principal payments based on actual or scheduled payments on the underlying mortgage loans or actual or scheduled distributions on the underlying securities.
<b>INTEREST TYPE</b>		
FIX	Fixed Rate	Certificates whose interest rate is fixed throughout the life of the Certificates.

## **Structuring Assumptions**

*Pricing Assumptions.* Unless otherwise specified, the information in the tables in this Prospectus has been prepared on the basis of (i) the assumed characteristics of the Mortgage Loans and GNMA Certificates set forth on Exhibit A hereto and (ii) the following assumptions (the “Pricing Assumptions”):

- (i) the Settlement Date for the Certificates is December 15, 1995;
- (ii) all principal payments (including prepayments) on the Mortgage Loans are distributed on the Certificates on the Quarterly Distribution Date relating to the month in which such payments are received;
- (iii) the Mortgage Loans prepay at the percentages of CPR specified in the related table, provided that no prepayments occur during lockout periods or prepayment penalty periods;
- (iv) distributions on the Certificates are always received on the 17th of the month, whether or not a business day; and
- (v) no optional redemption or special redemption is made.

*Prepayment Assumptions.* Prepayments of mortgage loans commonly are measured relative to a prepayment standard or model. The model used herein is the “Constant Prepayment Rate” or “CPR” model. The CPR model represents an assumed constant rate of prepayment each month, expressed as a per annum percentage of the then outstanding principal balance of the pool of mortgage loans. It is highly unlikely that prepayments will occur at any CPR rate or at any other constant rate.

*CPR does not purport to be an historical description of the prepayment experience of any pool of mortgage loans or a prediction of the anticipated rate of prepayment of any pool of mortgage loans, including the Mortgage Loans. It is highly unlikely that the Mortgage Loans will repay at any particular percentage of CPR or at any other constant rate.*

## **Weighted Average Life of the Certificates**

The weighted average life of a security refers to the average length of time, weighted by principal, that will elapse from the date of issuance to the date each dollar of principal is repaid to the investor. The weighted average life of a Certificate is determined by (a) multiplying the amount of the reduction, if any, of the principal balance of such Certificate from one Distribution Date to the next Distribution Date by the number of years from the Settlement Date to the second such Distribution Date, (b) summing the results and (c) dividing the sum by the aggregate amount of the reductions in principal balance of such Certificate referred to in clause (a).

The weighted average life of the Certificates will be influenced by, among other factors, the rate at which principal payments (including scheduled payments, principal prepayments and liquidations due to default, casualty and condemnation) are made on the Mortgage Loans. Prepayments on the Mortgage Loans will be applied to principal distributions on the Certificates. In addition, the weighted average life will be influenced by any optional redemption (or, to a limited extent, any special redemption) of the Certificates as described herein. The interaction of the foregoing factors may have different effects on the Certificates at different times during the life of such Certificates. Accordingly, no assurance can be given as to the weighted average life of the Certificates.

## **Maturity Considerations and Final Distribution Date**

The original maturities of substantially all of the Mortgage Loans are expected to be between 23 and 40 years. Each Mortgage Loan will provide for amortization of principal according to a

schedule that, in the absence of prepayments, would result in repayment of such Mortgage Loan by its maturity date.

The Final Distribution Date is the date by which the principal balance of the Certificates is required to be fully paid, assuming no prepayments on the Mortgage Loans, and is specified on the cover page hereof. The Final Distribution Date will be determined so that distributions will be sufficient to retire the Certificates on or before such Final Distribution Date, and does not take into account the effects of the accelerated and decelerated amortization provisions described above.

## Decrement Table

The following table indicates the percentages of original principal balance of the Certificates that would be outstanding after each of the dates shown at various percentages of CPR and the corresponding weighted average lives of such Certificates. The table has been prepared on the basis of the Pricing Assumptions. However, it is not the case that all of the Mortgage Loans will prepay at a particular percentage of CPR. Moreover, the diverse remaining terms to maturity of the Mortgage Loans (which may include recently originated Mortgage Loans) could produce slower or faster principal distributions than indicated in the table at the specified percentages of CPR, even if the distributions of the weighted average maturities of the Mortgage Loans are identical to the distributions of the weighted average maturities specified in the Pricing Assumptions.

### Percent of Original Principal Balance Outstanding

Date	CPR Prepayment Assumption													
	Lockout†							Extended Protection†						
	0%	2%	5%	8%	10%	15%	100%††	0%	2%	5%	8%	10%	15%	100%††
Initial Percent	100	100	100	100	100	100	100	100	100	100	100	100	100	100
December 1996	99	99	97	96	96	94	79	99	99	98	98	97	96	99
December 1997	99	97	94	92	91	87	49	99	98	97	95	95	93	77
December 1998	98	95	91	87	84	79	29	98	96	94	93	91	89	67
December 1999	97	93	87	81	78	70	21	97	95	92	90	88	85	65
December 2000	96	90	83	76	71	62	19	96	93	90	87	85	80	61
December 2001	95	88	79	70	65	55	19	95	92	87	83	81	75	44
December 2002	94	85	74	65	60	48	15	94	89	84	79	75	69	35
December 2003	93	83	71	60	54	43	11	93	87	80	73	70	62	19
December 2004	91	80	66	55	49	36	3	91	84	75	67	63	53	6
December 2005	90	77	62	50	43	31	0	90	81	70	61	56	45	1
December 2006	88	74	58	45	38	25	0	88	78	66	55	50	38	0
December 2007	86	72	54	41	34	21	0	86	75	61	50	44	31	0
December 2008	84	69	50	37	30	18	0	84	72	57	45	39	26	0
December 2009	82	66	46	33	26	15	0	82	69	53	40	34	22	0
December 2010	80	62	43	29	23	12	0	80	66	49	36	30	18	0
December 2011	78	59	39	26	20	10	0	78	62	45	32	26	15	0
December 2012	75	56	36	23	17	8	0	75	59	41	29	23	12	0
December 2013	72	53	33	20	15	7	0	72	56	38	25	19	10	0
December 2014	69	49	30	18	13	5	0	69	52	34	22	17	8	0
December 2015	65	46	27	16	11	4	0	65	49	31	20	14	6	0
December 2016	61	42	24	14	9	3	0	61	45	28	17	12	5	0
December 2017	57	39	21	12	8	3	0	57	41	25	15	10	4	0
December 2018	53	35	19	10	6	2	0	53	37	22	13	9	3	0
December 2019	48	31	16	8	5	2	0	48	33	19	11	7	2	0
December 2020	43	27	14	7	4	1	0	43	29	16	9	6	2	0
December 2021	39	24	12	6	3	1	0	39	26	14	7	5	1	0
December 2022	35	21	10	5	3	1	0	35	23	12	6	4	1	0
December 2023	31	19	8	4	2	*	0	31	20	10	5	3	1	0
December 2024	27	16	7	3	2	*	0	27	17	8	4	2	*	0
December 2025	23	13	6	2	1	*	0	23	14	7	3	2	*	0
December 2026	19	11	4	2	1	0	0	19	11	5	2	1	*	0
December 2027	15	8	3	1	1	0	0	15	9	4	2	1	0	0
December 2028	11	6	2	1	*	0	0	11	7	3	1	*	0	0
December 2029	9	5	2	1	*	0	0	9	5	2	1	*	0	0
December 2030	6	3	1	*	*	0	0	6	4	1	*	*	0	0
December 2031	4	2	1	*	0	0	0	4	2	1	*	0	0	0
December 2032	2	1	*	0	0	0	0	2	1	*	0	0	0	0
December 2033	1	*	0	0	0	0	0	1	*	*	0	0	0	0
December 2034	*	0	0	0	0	0	0	*	0	0	0	0	0	0
December 2035	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Weighted Average Life (years)**	22.8	18.6	14.3	11.6	10.2	8.0	3.1	22.8	19.4	15.8	13.4	12.2	10.2	5.4

\* Indicates an outstanding principal balance greater than 0% and less than 0.5% of the original principal balance.  
 \*\* Determined as specified under "Weighted Average Life of the Certificates" herein.  
 † "Lockout" assumes no prepayment through the applicable lockout period and "Extended Protection" assumes no prepayment through any applicable Mortgage Loan prepayment penalty period.  
 †† Under the 100% CPR Prepayment Assumptions, it has been assumed that all Mortgage Loans as to which any lockout and prepayment penalty periods will have expired as of the Settlement Date will experience no prepayment for a period of 24 months following the Settlement Date.

## DESCRIPTION OF THE GNMA SECURITIES AND MORTGAGE LOANS

### General

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

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

Each GNMA Certificate will be a "fully modified pass-through" mortgage-backed security issued and serviced by a mortgage banking company or other financial concern approved by GNMA as a seller-servicer of loans insured by the FHA.

It is expected that 46 Mortgage Loans will underlie the GNMA Certificates. The Mortgage Loans are expected to have an aggregate balance of approximately \$198,891,709 (subject to a permitted variance of plus or minus 5%) as of the Issue Date, after giving effect to all payments or principal due on or before that date. The Mortgage Loans are fixed-rate and generally are level-pay and fully amortizing. Each Mortgage Loan is secured by a mortgage, deed of trust or deed to secure debt that creates a first lien on the applicable borrower's fee simple estate in a multifamily property consisting of five or more dwelling units (a "Mortgaged Property").

Following the issuance of the Certificates, Fannie Mae will prepare a Final Data Statement setting forth, among other information, the unpaid principal balances of the Mortgage Loans underlying the GNMA Certificates as of the Issue Date. The Final Data Statement will not accompany this Prospectus but will be made available by Fannie Mae. To request the Final Data Statement, telephone Fannie Mae at 1-800-BEST-MBS or 202-752-6547. The contents of the Final Data Statement and other data specific to the Certificates are available in electronic form by calling Fannie Mae at 1-800-752-6440 or 202-752-6000.

### FHA Insurance Programs

The following is a summary of the various FHA insurance programs under which the Mortgage Loans are insured.

#### *Section 223(f)*

Section 223(f) provides for federal insurance of private mortgage loans originated by FHA-approved lenders in connection with the purchase or refinancing of existing multifamily housing complexes which contain at least five units and do not require substantial rehabilitation.

If the related mortgage loan is in connection with the acquisition of an existing project, the maximum mortgage loan amount under Section 223(f) is 85% (90% for a cooperative multifamily project or a project financed with state or local assistance and meeting certain eligibility requirements) of the cost of acquisition, as determined by the FHA. If, on the other hand, the

property is to be refinanced without a change in ownership, then the maximum mortgage loan amount shall not exceed (a) for rental projects, the greater of 70% of the FHA's estimate of the value of the property or the cost to refinance the existing indebtedness or (b) for cooperative projects, the cost to refinance the existing indebtedness. In addition to the above limitations, a mortgage loan which is insured under Section 223(f) shall not have a principal amount in excess of the lesser of (a) 85% of the FHA's estimate of the value of the project and (b) the statutory amount per family dwelling unit depending on the number of bedrooms.

A mortgage loan insured under Section 223(f) must have a maturity of not less than ten years nor more than the lesser of (a) 35 years (40 years for an FHA Mortgage refinancing a project financed with state or local assistance or financing a project in certain areas as prescribed by the FHA) and (b) 75% (100% if the project is in certain areas as prescribed by the FHA) of the estimated remaining economic life of the project.

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

### *Section 232*

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

A nursing home is a facility, which is licensed or regulated by the State or municipality, for the accommodation of convalescents or other persons who require skilled nursing and related medical services. An intermediate care facility provides housing for persons who need minimum yet continuous care, but do not require continuous medical or nursing services. A qualified board and care home must provide continuous protective oversight for persons, including intervention in the event of a crisis or supervision of medication or nutritional needs, and the facility must be in compliance with Section 1616(e) of the Social Security Act. Finally, assisted living for the frail elderly is characterized as a facility that provides supportive services and separate dwelling units for persons who are at least 62 years old and who are unable to perform at least 3 activities of daily living. Activities of daily living include such activities as bathing, shopping, obtaining and taking medications, managing money, dressing and eating. All the facilities must be operated under the necessary licenses required by federal, state and local regulations.

The maximum mortgage amount which is insurable under Section 232 is 90% of the value of the project, for profit motivated mortgagors (95% of such value, for private non-profit mortgagors), including the equipment to be used in its operation. However, in the event that the mortgage loan is used to finance an existing project to be repaired or rehabilitated, the maximum mortgage amount which is insurable under Section 232 is 85% of the value of the project, for profit motivated mortgagors (90% of such value, for non-profit mortgagors), including the equipment. Section 232 mortgages may have terms not exceeding 40 years.

#### *Section 221(d)(4)*

Section 221(d)(4) provides for federal insurance of private construction loans to finance new or substantially rehabilitated rental apartment projects containing five or more units. The purpose of this program is to encourage the production of housing for low and moderate income families that have been displaced as a result of urban renewal, governmental action or disaster.

The maximum insurable loan amount under Section 221(d)(4) cannot exceed the lesser of (i) the statutory amount per dwelling unit and (ii) 90% of the replacement costs (or, for rehabilitation projects, the sum of the cost of rehabilitation and the value of the property before repairs) of the project. The terms of the mortgage loans vary based upon the FHA's review.

#### *Section 223(a)(7)*

Section 223(a)(7) permits the FHA to refinance FHA mortgage loans on multifamily properties. Such refinancing results in prepayment of the existing mortgage loan. The principal amount of the new, refinanced mortgage loan is limited to the lesser of (i) the original principal amount of the existing mortgage loan or (ii) the unpaid balance of the existing mortgage loan, to which certain FHA approved items and improvements may be added.

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

#### *Section 241*

Section 241 provides for federal insurance of private supplemental loans (subordinate liens) to finance improvements or additions, including energy conserving improvements and advances during construction or improvement to a multifamily project, a nursing home, an intermediate care facility, a group practice facility, any mortgage insured under any section of the Housing Act or any mortgage held by the FHA. The purpose of the Section 241 loan program is to provide a project with a means to remain competitive, extend its economic life and finance the replacement of obsolete equipment, without the refinancing of the existing mortgage.

Supplemental loans which are insured under Section 241 may be in an amount of up to 90% of the value of improvements, additions and/or equipment financed by the loan; provided, that such amount, when added to the outstanding balance of the mortgage covering the project, shall not exceed the maximum mortgage amount insurable under the section or title pursuant to which the mortgage covering such project is insured. For a property not previously insured by the FHA, the maximum insurable amount is the least of (a) the value of the improvements, (b) an amount which can be supported by net income and (c) an amount which when added to the existing indebtedness does not exceed the FHA's estimate of the value of the project after improvements. There is no statutory or regulatory limit on the mortgage term under Section 241. Instead, the loan shall have a term which is satisfactory to the FHA.

#### *Section 221(d)(3)*

Section 221(d)(3) provides for federal insurance on construction loans to finance new or substantially rehabilitated rental apartment projects where the mortgagor is a public body or agency. The public body or agency must certify that it is not, among other things, receiving

financial assistance from the United States pursuant to the National Housing Act of 1937; a cooperative; a limited dividend corporation; or a private non-profit corporation or association regulated under federal or state laws as to rents, charges and methods of operation.

The maximum insurable loan amount under Section 221(d)(3) cannot exceed (i) the statutory amount determined by the number of bedrooms and other factors and (ii) in the case of new construction, the replacement cost of the improvements or, in the case of repair and rehabilitation, the sum of the estimated cost of repair and rehabilitation.

*Section 223(d)*

Section 223(d) authorizes the FHA to insure loans made to cover operating losses of certain projects that are secured by existing FHA-insured mortgage loans. An “operating loss” is defined as the amount by which the sum of the taxes, interest on the mortgage debt, mortgage insurance premiums, hazard insurance premiums and the expense of maintenance and operation of the project covered by the mortgage loan exceeds the income of the project.

Any loans insured under Section 223(d) shall bear interest at such rate and be secured in such a manner as the FHA shall require; shall be limited in a term not exceeding the unexpired term of the original mortgage loan and shall be insured under the same section as the original mortgage loan. In the event of a failure of the borrower to make any payment due under a Section 223(d) loan or under the original mortgage loan, and if such default continues for a period of 30 days, both the 223(d) loan and the original mortgage loan shall be considered in default under FHA regulations. In such event, FHA insurance benefits shall be computed in the same manner as for the original mortgage loan.

**FHA Default and Prepayment Experience**

The following tables set forth the default rates on mortgage loans fully insured under the specified FHA programs for the periods shown. These tables were prepared by Fannie Mae based solely on information furnished by the FHA. Fannie Mae has not independently verified such information and makes no representation concerning default rates or their effect on prepayments of the Mortgage Loans. In addition, there is no assurance that the information provided below is reflective of the default and prepayment experience for the specified FHA programs subsequent to the periods shown, and Fannie Mae makes no representation regarding the default and prepayment experience of such programs for any such subsequent periods.

**Historical Default Experience(1)**

<b>FHA Insurance Program(2)</b>	<b>Year of Loan Endorsements</b>	<b>Number of Loan Endorsements</b>	<b>Number of Claim Terminations(5)</b>	<b>Percent of Claim Terminations(5)</b>
223(f) <sup>(3)</sup> (48.56%) . . . . .	1975-1994	1003	84	8.37%
223(f) <sup>(4)</sup> (48.56%) . . . . .	1975-1994	973	69	7.09%
221(d)(4) <sup>(3)</sup> (18.41%) . . . . .	1962-1994	7276	1200	16.49%
221(d)(4) <sup>(4)</sup> (18.41%) . . . . .	1962-1994	3305	895	27.08%
232 (18.61%) . . . . .	1960-1994	1939	172	8.87%

## Historical Prepayment Experience(1)

FHA Insurance Program(2)	Year of Loan Endorsements	Number of Loan Endorsements	Number of Non-Claim Terminations(6)	Percent of Non-Claim Terminations(6)
223(f)(3) (48.56%) . . . . .	1975-1994	1003	229	22.83%
223(f)(4) (48.56%) . . . . .	1975-1994	973	228	23.43%
221(d)(4)(3) (18.41%) . . . . .	1962-1994	7276	845	11.61%
221(d)(4)(4) (18.41%) . . . . .	1962-1994	3305	758	22.93%
232 (18.61%) . . . . .	1960-1994	1939	1005	51.83%

- (1) Data through July 1994 (the most recently available data furnished by the FHA).
- (2) Percentage of composition by HUD programs for Mortgage Loans backing the GNMA Certificates is indicated in parentheses.
- (3) Data inclusive of Section 8 subsidies.
- (4) Data does not include loans with Section 8 subsidies.
- (5) A "Claim Termination" with respect to an FHA Mortgage Loan is a prepayment in full as a result of a default of that FHA mortgage loan and receipt of FHA insurance benefits.
- (6) A "Non-Claim Termination" with respect to an FHA Mortgage Loan is a prepayment in full of that mortgage loan which is not a result of a default and receipt of FHA Insurance benefits.

### Certain Additional Characteristics of the Mortgage Loans

*Lockouts.* Except as described below, most of the Mortgage Loans have provisions that prohibit voluntary prepayment for a number of years following origination ("lockout provisions"). The lockout periods on such Mortgage Loans have remaining terms that range from approximately 0.3 to 9.2 years and have a weighted average remaining term of approximately 3.7 years. In the case of mortgage loans insured under Section 232, full or partial prepayments by nonprofit mortgagors cannot be effected without prior written consent from the FHA. The enforceability of these lockout provisions under certain state laws is unclear.

*Mortgage Prepayment Penalties.* Certain of the Mortgage Loans have a period (a "prepayment penalty period") during which voluntary and involuntary prepayments (except for prepayments resulting from condemnation or casualty losses) must be accompanied by a mortgage prepayment equal to a specified percentage of the principal amount of the Mortgage Loan being prepaid. The prepayment penalty period extends beyond the termination of the lockout provision. Exhibit A to this Prospectus sets forth, for each Mortgage Loan, a description of the related mortgage prepayment penalty and the period during which the mortgage prepayment penalty applies as well as the last day of any applicable lockout provision.

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

*Coinsurance.* Based on information provided to Fannie Mae by HUD and the current servicers of the Mortgage Loans, 5 of the Mortgage Loans (representing approximately 16.6% of the Mortgage Loans underlying the GNMA Certificates by outstanding principal amount) are federally insured under FHA coinsurance programs that provide for the retention by the mortgage lender of a portion of the mortgage insurance risk that otherwise would be assumed by FHA under

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

## **THE TRUST AGREEMENT**

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

### **Reports to Certificateholders**

As soon as practicable following the eleventh calendar day of each month, Fannie Mae will publish or otherwise make available the Trust Factor (carried to eight decimal places) for the Certificates after giving effect to the distribution of principal, if any, to be made on the following Distribution Date. The principal balance of a Certificate after giving effect to any such principal distribution will be the product of the applicable Trust Factor and the applicable denomination or initial principal balance of such Certificate. The Trust Factor will remain unchanged in months as to which no distributions on the Certificates are to occur. Fannie Mae also will furnish to each person who was a Certificateholder at any time during a calendar year such statements and information as shall be required to be furnished pursuant to the Code (as defined below).

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

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

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

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

In addition, the Trust Agreement provides that Fannie Mae is not under any obligation to appear in, prosecute, or defend any legal action that is not incidental to its responsibilities under the Trust Agreement and that in its opinion may involve it in any expense or liability. Fannie Mae may, however, in its discretion undertake any such legal action that it may deem necessary or

desirable in the interests of the Certificateholders. In such event, the legal expenses and costs of such action will be expenses and costs of Fannie Mae.

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

### **Events of Default**

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

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

As long as an Event of Default under the Trust Agreement remains unremedied, the Holders of Certificates representing principal balances aggregating not less than 25 percent of the aggregate of the principal balances of all Certificates may, in writing, terminate all of the obligations and duties of Fannie Mae as Trustee and in its corporate capacity under the Trust Agreement (other than its guaranty obligations described above, which continue notwithstanding any such termination) and name and appoint, in writing, a successor to succeed to all such responsibilities, duties and obligations of Fannie Mae thereunder (other than Fannie Mae's guaranty obligations) and to the legal title of the Funding Note and other assets held in the Trust.

### **Amendment**

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

The Trust Agreement also may be amended by Fannie Mae with the consent of the Holders of Certificates representing principal balances aggregating not less than 66 percent of the aggregate principal balances of all Certificates so as to waive compliance by Fannie Mae with any terms of the Trust Agreement, or to allow Fannie Mae to eliminate, change, add to or modify the terms of the Trust Agreement. However, no such waiver or amendment may, without the consent of all Certificateholders, terminate or modify the guaranty obligations of Fannie Mae or reduce the percentages of the Certificates the Holders of which are required to consent to any waiver or amendments. In addition, no waiver or amendment shall, without the consent of each

Certificateholder affected thereby, reduce in any manner the amount of, or delay the timing of, payments received on the Funding Note or other assets in the Trust that are required to be distributed on the Certificates.

### **Termination**

The Trust Agreement terminates upon the final payment or liquidation of the Funding Note and distribution of all proceeds thereof. The Funding Note contains a feature pursuant to which Fannie Mae may declare the Funding Note immediately due and payable in the event that certain events of default occur thereunder; in such event, Fannie Mae may, if certain conditions are not satisfied, cause the early redemption of the Funding Note at a price of par plus accrued interest thereon, which amounts will be distributed to the Certificateholders, as received. See “The Funding Note—Events of Default” herein.

The Trust Agreement will terminate also upon repurchase by Fannie Mae, at its option, of the Funding Note at a price equal to the outstanding principal balance thereof together with one month’s accrued interest thereon, provided that Fannie Mae will not exercise such option unless the unpaid principal balance of the Funding Note at the time of repurchase is less than one percent of the principal balance thereof as of the Issue Date. The exercise of such option will effect retirement of the Certificates.

In no event, however, will the Trust continue beyond the expiration of 21 years from the death of the last survivor of the persons named in the Trust Agreement. Fannie Mae will give written notice of termination of the Trust Agreement as it relates to each affected Certificateholder, and the final distribution will be made to the person entitled thereto.

## **CERTAIN FEDERAL INCOME TAX CONSEQUENCES**

### **General**

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

The Certificates, evidencing interests in the Trust, will be issued under a book-entry system to Holders acting on behalf of beneficial owners (“Owners”). Dewey Ballantine, special tax counsel to Fannie Mae, will deliver its opinion to Fannie Mae that, assuming compliance with the Trust Agreement, the arrangement pursuant to which the Trust will be administered by Fannie Mae and the Certificates will be issued will be classified as a grantor trust under subpart E, Part I of subchapter J of the Internal Revenue Code of 1986, as amended (the “Code”), and not as an association taxable as a corporation. Each Owner of a Certificate will be treated for federal income tax purposes as the owner of an undivided interest in the Funding Note.

No election will be made to treat the arrangements by which either the Certificates or the Funding Note are issued and administered as a REMIC under the Code.

### **Special Tax Attributes**

The Funding Note is evidence of indebtedness of the Subsidiary for federal income tax purposes and does not constitute an ownership interest in the GNMA Certificates or an equity interest in

Fannie Mae or the Subsidiary. Accordingly, Certificates held by a mutual savings bank or a domestic building and loan association will not represent interests in “qualifying real property loans” within the meaning of Code section 593(d)(1). Certificates held by a domestic building and loan association will not be treated as “loans secured by an interest in real property” within the meaning of Code section 7701(a)(19)(C)(v). Based on authority addressing analogous transactions, Certificates will be treated as “obligations of a corporation which is an instrumentality of the United States” within the meaning of Code section 7701(a)(19)(C)(ii). Certificates held by a real estate investment trust will not constitute “real estate assets,” but will constitute “Government securities” within the meaning of Code section 856(c)(5)(A). Interest on the Funding Note received by a real estate investment trust will not be treated as “interest on obligations secured by mortgages on real property or on interests in real property” within the meaning of Code section 856(c)(3)(B). Certificates held by a regulated investment company will constitute “Government securities” within the meaning of Code section 851(b)(4)(A)(i).

## **Taxation of the Certificates**

### *General*

Each Owner will be required to report on its federal income tax return its pro rata share of the entire income from the Funding Note, including gross interest income at the interest rate on the Funding Note, in accordance with its method of accounting, and original issue discount, as described below.

### *Original Issue Discount*

The Funding Note may be issued with “original issue discount” within the meaning of section 1273(a) of the Code. Owners should be aware that for federal income tax purposes they must include in gross income original issue discount as it accrues under a method that takes account of the compounding of interest, generally in advance of receipt of the cash attributable to such income. Fannie Mae will supply, at the time and in the manner required by the Internal Revenue Service (the “IRS”), to Holders of Certificates, brokers and middlemen information with respect to the original issue discount accruing on the Funding Note, computed as described below.

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

Notwithstanding the general definition, original issue discount will be treated as zero if such discount is less than 0.25 percent of the stated redemption price at maturity of the Funding Note multiplied by its weighted average life. The weighted average life of the Funding Note is apparently computed for this purpose as the sum, for all distributions included in its stated redemption price at maturity, of the amounts determined by multiplying (i) the number of complete years (rounding down for partial years) from the Settlement Date until the date on which each such distribution is expected to be made under the assumption that the Mortgage Loans backing the GNMA Certificates prepay at the rate specified herein (the “Prepayment Assumption”) by (ii) a fraction, the numerator of which is the amount of such distribution and the denominator of which is the stated redemption price at maturity. If original issue discount is treated as zero under this rule,

the actual amount of original issue discount must be allocated to the principal distributions on the Funding Note and, when each such distribution is received, gain equal to the discount allocated to such distribution will be recognized.

The Prepayment Assumption with respect to the Funding Note will be 0% CPR. Fannie Mae makes no representation, however, that the Mortgage Loans backing the GNMA Certificates will prepay at that or at any other rate. Each investor must make its own decision as to the appropriate prepayment assumption to be used in deciding whether to purchase any of the Certificates.

Each Owner must include in gross income the sum of the “daily portions” of original issue discount on the Funding Note for each day during its taxable year on which it held a Certificate. For this purpose, in the case of an original Owner of a Certificate, the daily portions of original issue discount will be determined as follows. A calculation will first be made of the portion of the original issue discount that accrued during each “accrual period.” Final regulations issued by the Treasury Department relating to the tax treatment of debt instruments with original issue discount (the “OID Regulations”) provide that for purposes of measuring the accrual of original issue discount on a debt instrument, each Owner may use an accrual period of any length, up to one year, as long as each Quarterly Distribution Date falls on either the final day or the first day of an accrual period. Fannie Mae intends to report original issue discount based on accrual periods of three months, beginning on a Quarterly Distribution Date and ending on the day before the next Quarterly Distribution Date.

Under the special rules of section 1272(a)(6) of the Code, the portion of original issue discount treated as accruing for any accrual period will equal the *excess*, if any, of (i) the sum of (A) the present values of all the distributions remaining to be made on the Funding Note, if any, as of the end of the accrual period and (B) the distribution made on the Funding Note during the accrual period of amounts included in the stated redemption price at maturity, *over* (ii) the adjusted issue price of the Funding Note at the beginning of the accrual period. The present value of the remaining distributions referred to in the preceding sentence will be calculated based on (i) the original yield to maturity of the Funding Note, calculated as of the Settlement Date, giving effect to the Prepayment Assumption, (ii) events (including actual prepayments) that have occurred prior to the end of the accrual period and (iii) the Prepayment Assumption. The adjusted issue price of the Funding Note at any time will equal the issue price of the Funding Note, increased by the aggregate amount of previously accrued original issue discount with respect to the Funding Note, and reduced by the amount of any distributions made on the Funding Note as of that time of amounts included in the stated redemption price at maturity. The original issue discount accruing during any accrual period will then be allocated ratably to each day during the period to determine the daily portion of original issue discount.

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

#### *Premium*

An Owner that is treated as purchasing an interest in the Funding Note at a cost greater than its remaining stated redemption price at maturity will be considered to have purchased such interest at a premium. Such a purchaser need not include in income any remaining original issue

discount and may elect, under section 171(c)(2) of the Code, to treat such premium as “amortizable bond premium.” If an Owner makes such an election, the amount of any interest payment that must be included in such Owner’s income for each period ending on a Quarterly Distribution Date will be reduced by the portion of the premium allocable to such period based on the Funding Note’s yield to maturity. The legislative history of the Tax Reform Act of 1986 states that such premium amortization should be made under principles analogous to those governing the accrual of market discount (as discussed below). If such election is made by the Owner, the election also will apply to all bonds the interest on which is not excludable from gross income (“fully taxable bonds”) held by the Owner at the beginning of the first taxable year to which the election applies and to all such fully taxable bonds thereafter acquired by it, and is irrevocable without the consent of the IRS. If such an election is not made, (i) such Owner must include the full amount of each interest payment in income as it accrues, and (ii) the premium must be allocated to the principal distributions on the Funding Note and, when each such distribution is received, a loss equal to the premium allocated to such distribution will be recognized. Any tax benefit from the premium not previously recognized will be taken into account in computing gain or loss upon the sale or disposition of the interest in the Funding Note.

#### *Market Discount*

An Owner that is treated as purchasing an interest in the Funding Note at a market discount, that is, at a purchase price less than the adjusted issue price of such Certificate, will be required to allocate each principal distribution first to accrued market discount on the Funding Note, and recognize ordinary income to the extent such distribution does not exceed the aggregate amount of accrued market discount that was not previously included in income. With respect to a Funding Note that has unaccrued original issue discount, such market discount must be included in income in addition to original issue discount includible under the rules described above under “*Original Issue Discount*.” An Owner that incurs or continues indebtedness to acquire an interest in the Funding Note at a market discount may also be required to defer the deduction of all or a portion of the interest on such indebtedness until the corresponding amount of market discount is included in income. In general terms, market discount on a Funding Note may be treated as accruing either (i) under a constant yield method, taking into account the Prepayment Assumption, or (ii) in proportion to remaining accruals of original issue discount, if any, or if none, in proportion to remaining distributions of interest on the Funding Note. Fannie Mae will make available, as required by the IRS, to Holders of Certificates information necessary to compute the accrual of market discount on the Funding Note.

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

#### *Special Election*

For any interest in a Funding Note acquired on or after April 4, 1994, the OID Regulations permit an Owner to elect to include in gross income all “interest” that accrues on the Funding Note by using a constant yield method. For purposes of the election, the term “interest” includes stated interest, acquisition discount, original issue discount, *de minimis* original issue discount, market discount, *de minimis* market discount and unstated interest, as adjusted by any amortizable

bond premium or acquisition premium. An Owner should consult its own tax advisor regarding the time and manner of making, and the scope of, the election and the implementation of the constant yield method.

#### *Trust Expenses*

Each Owner also will be entitled to deduct, consistent with its method of accounting, its pro rata share of reasonable fees paid or incurred by the Trust as provided in section 162 or 212 of the Code. If an Owner is an individual, estate or trust, the deduction for such Owner's share of such fees will be allowed only to the extent that all of such Owner's miscellaneous itemized deductions, including such Owner's share of such fees, exceed 2% of such Owner's adjusted gross income. In addition, in the case of an Owner who is an individual, certain otherwise allowable itemized deductions will be reduced by an amount equal to 3% of such Owner's adjusted gross income in excess of a statutorily defined threshold, but not by more than 80% of such itemized deductions.

#### **Sales of Certificates**

A sale or other disposition of a Certificate constitutes a sale or other disposition of a pro rata portion of the Funding Note. A seller will recognize gain or loss equal to the difference between the amount realized from the sale and its adjusted basis in the Funding Note. The adjusted basis generally will equal the cost of the interest in the Funding Note to the seller, increased by any original issue discount or market discount included in the seller's gross income and reduced by distributions previously received by the seller of amounts included in the stated redemption price at maturity and by any premium that has reduced the seller's interest income with respect to the Funding Note.

Generally, any gain or loss recognized by a seller will be capital gain or loss, provided the Certificate is held as a "capital asset" (generally, property held for investment) within the meaning of section 1221 of the Code. Gain recognized by a seller that acquired an interest in the Funding Note at a market discount will be taxable as ordinary income in an amount not exceeding the portion of such discount that accrued during the period the seller held the interest in the Funding Note, reduced by any market discount includible in income under the rules described above under "Taxation of the Certificates—*Market Discount*." In addition, because the Funding Note will be "evidence of indebtedness" within the meaning of section 582(c)(1) of the Code, gain or loss recognized from the sale of a Certificate by a bank or thrift institution to which such section applies will be ordinary income or loss.

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

Fannie Mae will furnish or make available, within a reasonable time after the end of each calendar year, to each Holder of a Certificate at any time during such year, such information as is required by Treasury regulations and such other information as Fannie Mae deems necessary or desirable to assist Holders in preparing their federal income tax returns, or to enable Holders to make such information available to Owners or other financial intermediaries for which such Holders hold Certificates as nominees.

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

## **Foreign Investors**

Distributions made on a Certificate to, or on behalf of, an Owner that is not a U.S. Person (a “Non-U.S. Person”) generally will be exempt from U.S. federal income and withholding taxes, provided (a) the Owner is not subject to U.S. tax as a result of a connection to the United States other than ownership of the Certificate, (b) the Owner is not a “10 percent shareholder” with respect to the Subsidiary within the meaning of section 871(h)(3)(B) of the Code or a controlled foreign corporation described in section 881(c)(3)(C) of the Code and related to the Subsidiary, (c) the Owner signs a statement under penalties of perjury that certifies that such Owner is a Non-U.S. Person, and provides the name and address of such Owner, and (d) the last U.S. Person in the chain of payment to the Owner receives such statement from such Owner or a financial institution holding on its behalf and does not have actual knowledge that such statement is false.

## **LEGAL INVESTMENT CONSIDERATIONS**

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

Pursuant to the Secondary Mortgage Market Enhancement Act of 1984 (“SMMEA”), securities issued or guaranteed by Fannie Mae (such as the Certificates) will be legal investments for such entities created under the laws of the United States or any state whose authorized investments are subject to state regulation to the same extent as obligations issued or guaranteed as to principal and interest by the United States or any agency or instrumentality thereof. Under SMMEA, if a state enacted legislation prior to October 4, 1991 specifically limiting the legal investment authority of any such entities with respect to securities issued or guaranteed by Fannie Mae, such securities will constitute legal investments for such entities only to the extent provided in such legislation. Certain states have adopted such legislation prior to the October 4, 1991 deadline. Investors should consult their own legal advisors in determining whether and to what extent the Certificates constitute legal investments or are subject to restrictions on investment.

## **LEGAL OPINION**

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

## **ERISA CONSIDERATIONS**

The Employee Retirement Income Security Act of 1974, as amended (“ERISA”) and the Code impose certain requirements on employee benefit plans and certain other retirement plans and arrangements, as well as on collective investment funds and separate accounts in which such plans

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

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

## **PLAN OF DISTRIBUTION**

Fannie Mae will acquire the Funding Note from the Subsidiary in exchange for the Certificates. The Dealers propose to offer the Certificates directly to the public from time to time on behalf of the Subsidiary in negotiated transactions at varying prices to be determined at the time of sale. The Dealers, who may receive underwriting compensation in connection with any such offering, may effect such transactions to or through dealers, who may be deemed to have received underwriting compensation.

## **LEGAL MATTERS**

Certain legal matters will be passed upon for the Dealers by Skadden, Arps, Slate, Meagher & Flom. Certain legal matters relating to CRIIMI MAE and the Subsidiary and certain federal income tax matters relating to the Funding Note will be passed upon by Thacher Proffitt & Wood. An opinion with respect to certain tax matters will be delivered to Fannie Mae by Dewey Ballantine, Washington, D.C.

GNMA Certificates and Mortgage Loans

GNMA Pool Number	FHA Program	City	State	Approximate Principal Balance as of Issue Date	GNMA Certificate Interest Rate	Mortgage Interest Rate	Maturity Date	GNMA Original Term to Maturity (mos.)	GNMA Remaining Term to Maturity (mos.)	GNMA Certificate Age (mos.)	GNMA Issue Date	Lockout End Date*	Lockout/Prepayment Penalty Code**
156513	223f	W. Hyattsville	MD	7,407,868	9.500%	9.750%	4/15/21	420	304	116	4/1/86	N/A	Expired
156514	223f	Riverdale	MD	5,677,107	9.500	9.750	4/15/21	420	304	116	4/1/86	N/A	Expired
156515	223f	Temple Hills	MD	5,038,622	9.500	9.750	4/15/21	420	304	116	4/1/86	N/A	Expired
156517	223f	Silver Spring	MD	1,585,047	9.500	9.750	4/15/21	420	304	116	4/1/86	N/A	Expired
156530	223f	Landover	MD	5,037,485	9.500	9.750	4/15/21	420	304	116	4/1/86	N/A	Expired
157680	223f	Alexandria	VA	6,244,817	9.500	9.750	4/15/21	420	304	116	4/1/86	N/A	Expired
181836	221d4	Lexington Park	MD	6,561,243	8.250	8.500	2/15/34	474	458	16	8/1/94	3/24/97	3
188029	223f	Hyattsville	MD	1,944,239	8.750	9.000	4/15/21	322	304	18	6/1/94	6/1/04	1
188032	223a7	Twinsburg	OH	2,782,238	8.250	8.500	12/15/21	330	312	18	6/1/94	6/1/99	2
212339	223f	Gaithersburg	MD	10,362,126	8.000	8.300	3/15/28	414	387	27	9/1/93	2/24/98	1
223625	223f	Pittsburgh	PA	1,861,117	7.625	7.875	8/15/24	366	344	22	2/1/94	2/1/04	1
249167	223f	Lexington	KY	3,710,985	10.250	10.500	1/15/23	420	325	95	1/1/88	1/1/93	2
251613***	221d4	Austell	GA	11,739,960	8.500	8.750	11/15/29	478	407	71	1/1/90	N/A	N/A
255943	223f	Dallas	TX	1,254,571	8.250	8.500	12/15/22	343	324	19	5/1/94	6/1/04	1
256123***	232	N. Charleston	SC	2,007,539	7.750	8.000	3/15/26	384	363	21	3/1/94	3/1/99	2
257426***	223f	Mableton	GA	7,430,477	7.000	7.250	4/15/24	366	340	26	10/1/93	10/1/98	4
267081	232	Orchard Park	NY	523,470	10.050	10.500	8/15/15	297	236	61	11/1/90	5/1/00	1
269232	223f	Houston	TX	5,110,819	7.625	7.875	7/15/28	420	391	29	7/1/93	N/A	7
270331	223d	Providence	RI	487,261	10.550	11.000	11/15/17	330	263	67	5/1/90	5/1/95	2
271927	223a7	Bridgton	ME	1,942,515	7.125	7.380	9/15/24	369	345	24	12/1/93	11/1/03	1
271928	223a7	Franklin	NH	2,304,432	7.125	7.380	9/15/25	381	357	24	12/1/93	11/1/03	1
271929	223a7	Fryeburg	ME	1,146,746	7.125	7.380	12/15/16	276	252	24	12/1/93	11/1/03	1
271930	223a7	Lancaster	NH	1,992,854	7.125	7.380	2/15/21	326	302	24	12/1/93	11/1/03	1
274469***	221d4	Columbia	SC	6,893,401	9.750	10.000	4/15/31	476	424	52	8/1/91	8/1/96	2
281225***	232	Ocala	FL	4,864,401	10.500	10.750	4/15/31	475	424	51	9/1/91	9/1/96	2
295660	223a7	Sanford	ME	2,781,487	7.125	7.380	1/15/28	409	385	24	12/1/93	11/1/03	1
301001	223f	Suitland	MD	5,431,701	8.000	8.250	4/15/21	333	304	29	7/1/93	7/1/98	4
301758	223f	St. Peter	MN	694,536	8.250	8.500	5/15/29	420	401	19	5/1/94	5/1/99	2
302194	223f	West Carrollton	OH	4,592,650	8.450	8.700	4/15/27	420	476	44	4/1/92	4/1/97	2
306800	221d4	Tulsa	OK	1,019,363	10.200	10.500	9/15/32	472	441	31	5/1/93	3/1/02	1
342931	223f	North Salt Lake	UT	1,572,836	7.750	8.000	7/15/28	420	391	29	7/1/93	7/1/98	2
347063	223f	Upland	CA	7,138,294	7.500	7.750	7/15/28	421	391	30	6/1/93	N/A	8
347065	223f	Lexington	KY	2,690,908	8.600	9.100	7/15/27	409	379	30	6/1/93	7/1/97	2
355994	232	Spokane	WA	7,006,691	7.750	8.250	2/15/35	475	470	5	7/1/95	3/1/05	1
363336	232	Warren	AR	3,307,467	9.720	10.000	5/15/32	464	437	27	9/1/93	N/A	9
364018	232	New Rochelle	NY	5,509,938	9.500	9.750	7/15/32	450	439	11	1/1/95	12/26/01	1
365648****	241f	Carol Stream	IL	3,024,312	7.750	8.000	5/15/34	480	461	19	5/1/94	5/1/99	1
368760	232	Bedford	NH	7,402,261	7.625	7.875	3/15/33	464	447	17	7/1/94	4/1/04	1
383723	223f	Garden City	NY	3,522,119	7.950	8.250	6/15/29	420	402	18	6/1/94	6/1/04	1
389407	223f	Walker	MI	2,851,611	8.375	8.750	7/15/24	360	343	17	7/1/94	7/1/99	2
391959	221d3	Faribault	MN	2,431,668	7.500	7.750	2/15/35	472	470	2	10/1/95	11/1/00	2
391961	223f	Waukegan	IL	5,416,090	8.250	8.500	1/15/28	405	385	20	4/1/94	12/30/97	2
391987	223a7	Cupertino	CA	9,795,731	7.750	8.000	8/15/28	400	392	8	4/1/95	4/1/96	5
400386	232	Des Moines	IA	4,344,686	8.000	8.250	10/15/34	476	466	10	2/1/95	8/1/99	2
406688	232	Hayesville	NC	2,037,940	9.020	9.375	5/15/33	458	449	9	3/1/95	12/14/97	2
413936	221d4	Odenton	MD	10,408,079	7.750	8.000	6/15/35	475	474	1	11/1/95	4/30/98	6
Total/Weighted Average				\$198,891,709	8.406%	8.677%		426	385	41			

\* Calculated based on publicly available information. Lockout End Dates may be earlier in certain cases. As described herein, the FHA may override any lockout and/or prepayment penalty provision when the related mortgage loan is in default if the FHA determines that it is in the best interest of the federal government to permit a refinancing or partial prepayment without restrictions or penalties.

\*\* Lockout/Prepayment Penalty Codes:

- (1) Lockout through the lockout end date.
- (2) Lockout through the lockout end date; thereafter prepayment penalty of 5% of the prepaid amount declining by 1% annually.
- (3) Lockout through the lockout end date; thereafter prepayment penalty of 5% of the prepaid amount declining by 2% annually.
- (4) Lockout through the lockout end date; thereafter prepayment penalty of 3% of the prepaid amount declining by 1% annually.
- (5) Lockout through the lockout end date; thereafter prepayment penalty of 3.5% of the prepaid amount declining by 0.5% annually.
- (6) Lockout through the lockout end date; thereafter prepayment penalty of 3% of the prepaid amount until 3/1/99, declining by 1% annually.
- (7) Prepayment penalty of 5% of the prepaid amount until 7/1/94, declining by 1% annually.
- (8) Prepayment penalty of 5% of the prepaid amount until 7/1/99, declining by 1% annually.
- (9) Prepayment penalty of 2.8% of the prepaid amount from 5/23/92, declining by 0.2% annually.

\*\*\* Coinsured Mortgage Loans.

\*\*\*\* Based solely on information provided by HUD, 77.8% of the units included in this Mortgaged Property receive project-based Section 8 rent subsidies from HUD.

NOTE:

The information with respect to the GNMA Certificates and the Mortgage Loans set forth on this Exhibit A has been collected and summarized by Donaldson, Lufkin & Jenrette Securities Corporation and provided to Fannie Mae. Fannie Mae has made no independent verification of such information and, therefore, does not warrant its truth or accuracy and shall not be responsible therefor.

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No dealer, salesman or other person has been authorized to give any information or to make any representation in connection with this offering other than those contained in this Prospectus and the Information Statement and, if given or made, such information or representations must not be relied upon as having been authorized. This Prospectus and the information statement do not constitute an offer to sell or a solicitation of an offer to buy any of the Certificates offered hereby in any state to any person to whom it is unlawful to make such offer or solicitation in such state. The Delivery of this Prospectus and the Information Statement at any time does not imply that the information contained herein or therein is correct as of any time subsequent to the date hereof or thereof.

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**\$198,394,480**  
(Approximate)

## Federal National Mortgage Association



Guaranteed Grantor Trust  
Pass-Through Certificates

Fannie Mae Grantor Trust 1995-T5

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#### PROSPECTUS

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**Donaldson, Lufkin & Jenrette**  
Securities Corporation



**Deutsche Morgan Grenfell**

**Merrill Lynch & Co.**

October 23, 1995

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