

## Prospectus

# \$98,148,804 (Approximate) Federal National Mortgage Association



## Guaranteed REMIC Pass-Through Certificates Fannie Mae REMIC Trust 1995-W3

The Guaranteed REMIC Pass-Through Certificates A Class, PO Class, XS Class and R Class (collectively, the "Certificates") are offered hereby. The Certificates, together with the B Class (the "B Class" or the "Subordinate Class"), which is not offered hereby, will represent the entire beneficial ownership interests in Fannie Mae REMIC Trust 1995-W3 (the "Trust"). The assets of the Trust will consist of first lien, single-family, fixed-rate, fully amortizing residential mortgage loans (the "Mortgage Loans") having the characteristics described herein.

The Certificates will be issued and guaranteed by Fannie Mae as to the timely distribution of interest and the Required Senior Principal Distribution Amount, as well as the distribution in full of the principal balance of each Class of Certificates not later than the Final Distribution Date. The rights of the holders of the Certificates will be senior to the rights of the holders of the Subordinate Class to receive distributions thereon. See "General—Fannie Mae Guaranty."

Investors should not purchase the Certificates before reading this Prospectus and the Information Statement referred to at the bottom of page 2. (Cover continued on next page)

**THE CERTIFICATES MAY NOT BE SUITABLE INVESTMENTS FOR ALL INVESTORS. NO INVESTOR SHOULD PURCHASE CERTIFICATES UNLESS SUCH INVESTOR UNDERSTANDS AND IS ABLE TO BEAR THE PREPAYMENT, YIELD, 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
A .....	\$97,918,000	SEQ	9.00%	FIX	31359LVT9	April 2025
PO .....	230,804	SEQ	(3)	PO	31359LVV4	April 2025
XS .....	(4)	NTL	(5)	W/IO	31359LVW2	April 2025
R .....	0	NPR	0	NPR	31359LVX0	April 2025

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

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

(3) The PO Class is a principal only class and will not bear interest.

(4) The XS Class will be a Notional Class, will have no principal balance and will bear interest on its notional principal balance (initially \$99,140,351). The notional principal balance of the XS Class will be equal to the aggregate Stated Principal Balance of the Mortgage Loans.

(5) The XS Class will bear interest at a rate per annum equal to the weighted average of the excess (but not less than zero) of the Net Mortgage Rate of each Mortgage Loan over 9.00% for each Interest Accrual Period on its notional principal balance. The XS Class will bear interest during the initial Interest Accrual Period at a per annum rate equal to approximately .3787%. See "Description of the Certificates—Distributions of Interest" herein.

The Certificates will be offered by Salomon Brothers Inc (the "Dealer") from time to time in negotiated transactions, at varying prices to be determined at the time of sale.

The Certificates will be offered by the Dealer, 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 Dealer, subject to the right by the Dealer to reject any order in whole or in part and subject to approval of certain legal matters by counsel. It is expected that the Certificates, except for the R Class, will be available through the book-entry system of the Federal Reserve Banks on or about June 30, 1995 (the "Settlement Date"). It is expected that the R Class in registered, certificated form will be available for delivery at the offices of the Dealer, Seven World Trade Center, New York, New York 10048, on or about the Settlement Date.

## Salomon Brothers Inc

The date of this Prospectus is May 16, 1995.

(Cover continued from previous page)

The yields to investors in each Class of Certificates will be sensitive to the rate of principal payments of the Mortgage Loans and, in the case of the PO Class, to the rate of principal payments of the Group I Mortgage Loans, and to the actual characteristics of such Mortgage Loans and the purchase price paid for the related Class. Accordingly, investors should consider the following risks:

- The Mortgage Loans generally may be prepaid at any time without penalty, and, accordingly, the rate of principal payments thereon is likely to vary considerably from time to time.
- Slight variations in Mortgage Loan characteristics could substantially affect the weighted average lives and yields of some or all of the Classes.
- 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.
- In the case of an Interest Only Class, a faster than anticipated rate of principal payments is likely to result in a lower than anticipated yield and, in certain cases, an actual loss on the investment.
- The yields and weighted average lives of the Certificates will be affected to a certain extent by the probable disproportionately higher allocation of prepayments to the Certificates vis-a-vis the Subordinate Certificates. See “Description of the Certificates—Principal Distributions—Application of Principal” herein. Further, investors should note that Fannie Mae guarantees the timely payment of the Required PO Class Principal Distribution Amount and the Required A Class Principal Distribution Amount to the PO Class and A Class, respectively; however, such principal distributions may not include the entire Stated Principal Balance with respect to each Liquidated Loan at the time of such liquidation. See “General—Fannie Mae Guaranty,” “Yield and Prepayment Considerations—Yield Generally” and “Description of the Certificates—Principal Distributions—Application of Principal” herein.

See “Yield and Prepayment Considerations” herein.

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

- The rate of principal distributions of the Certificates is uncertain and investors may be unable to reinvest the distributions thereon at yields equaling the yields on the Certificates. See “Yield and Prepayment Considerations—Reinvestment Risk” herein.
- The actual final payment of any Class may occur earlier, and could occur much earlier, than the Final Distribution Date for such Class specified on the cover page. See “Yield and Prepayment Considerations—Weighted Average Lives of the Certificates” 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 certain Classes of 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 Dealer intends to make a market for the Certificates offered hereby but is 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 salable.

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.

An election will be made to treat the Trust as a “real estate mortgage investment conduit” (“REMIC”) pursuant to the Internal Revenue Code of 1986, as amended (the “Code”). The R Class will be subject to transfer restrictions. See “Description of the Certificates—Certain Characteristics of the R Class” and “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 Salomon Brothers Inc by writing or calling its Prospectus Department at Brooklyn Army Terminal, 140 58th Street, Brooklyn, New York 11220 (telephone 718-567-2005).

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## REFERENCE SHEET

**This reference sheet is not a summary of the REMIC transaction 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.**

### Assumed Characteristics of the Mortgage Loans

The tables contained herein under the heading “The Mortgage Loans—General” set forth certain summary information regarding the assumed characteristics of the Mortgage Loans as of the Issue Date (as defined herein), aggregated on the basis of the characteristics specified therein, including certain information regarding principal balance, weighted average net mortgage rate, weighted average mortgage rate, weighted average age and weighted average maturity (“WAM”).

#### General

The Series 1995-W3 Certificates will consist of four classes of senior certificates designated as the A Class, PO Class, XS Class and R Class (collectively, the “Certificates”) and a single class of subordinate certificates (the “B Class” or the “Subordinate Class”). The Certificates and the Subordinate Class represent in the aggregate the entire beneficial ownership interests in the Trust.

It is expected that the Trust will consist of Mortgage Loans having an aggregate Stated Principal Balance of approximately \$99,140,351 (subject to a variance of plus or minus 5% in the aggregate). The Certificates initially evidence an undivided ownership interest of approximately 99% in the Mortgage Loans. The B Class initial principal balance will be approximately \$991,547 and will initially evidence an undivided ownership interest of approximately 1% in the Mortgage Loans. Only the Certificates are offered hereby. The Subordinate Class, which is not being offered hereby, will be issued to the Dealer on the Settlement Date and may be sold at any time thereafter in a limited private offering.

#### Interest Rates

The interest-bearing Certificates will bear interest at the respective per annum interest rates described on the cover hereof.

See “Description of the Certificates—Distributions of Interest” herein.

#### Notional Class

The XS Class is a notional class and will bear interest at the per annum rate described on the cover on the notional balance described below.

<u>Class</u>	<u>Percentage of Aggregate Stated Principal Balance of Mortgage Loans</u>
XS	100%

See “Description of the Certificates—Distributions of Interest—*Notional Class*” and “Yield and Prepayment Considerations—Yield Generally—*The XS Class*.”

#### Principal Distributions

On each Distribution Date, principal of the Certificates will be distributed as follows:

- (i) First, to the PO Class, the Required PO Class Principal Distribution Amount; and
- (ii) Then, to the A Class, the Required A Class Principal Distribution Amount.

The “Required A Class Principal Distribution Amount” as to each Distribution Date will be equal to the sum of the following:

(i) the product of (A) the then-applicable Senior Percentage and (B)(1) the aggregate amount of principal due on the Mortgage Loans during the Due Period minus (2) with respect to each Mortgage Loan in Group I, the PO Percentage of such amount;

(ii) the product of (A) the then-applicable Senior Prepayment Percentage and (B) the aggregate of the following amounts:

(1)(a) the aggregate of all full and partial principal prepayments received by Fannie Mae during the immediately preceding calendar month minus (b) with respect to each Mortgage Loan in Group I, the PO Percentage of such amount;

(2)(a) the Stated Principal Balance of any Mortgage Loan that Fannie Mae repurchases during the immediately preceding calendar month and any Substitution Adjustment Amounts received during the immediately preceding calendar month minus (b) with respect to each Mortgage Loan in Group I, the PO Percentage of such amount; and

(3)(a) the principal portion of all other unscheduled collections (other than amounts described in (1) or (2) of this clause (ii) and in clause (iii) hereof) including insurance proceeds, received by Fannie Mae during the immediately preceding calendar month to the extent applied as recoveries of principal minus (b) with respect to each Mortgage Loan in Group I, the PO Percentage of such amount;

(iii) with respect to the net liquidation proceeds allocable to principal of any Mortgage Loan that becomes a Liquidated Loan during the immediately preceding calendar month the lesser of (a) the product of (I) the then-applicable Senior Prepayment Percentage and (II)(x) such net liquidation proceeds minus, (y) with respect to each Mortgage Loan in Group I, the PO Percentage of such net liquidation proceeds and (b) the product of (I) the then-applicable Senior Percentage and (II)(x) the Stated Principal Balance of such Mortgage Loan at the time of liquidation minus, (y) with respect to each Mortgage Loan in Group I, the PO Percentage of such Stated Principal Balance;

(iv) the portion of any Subordination Deficit allocated to the A Class.

As to each Distribution Date, the “Required PO Class Principal Distribution Amount” shall be the sum of the amounts set forth in clauses (i)(B)(2), (ii)(B)(1)(b), (ii)(B)(2)(b), (ii)(B)(3)(b) and (iii)(a)(II)(y) or (iii)(b)(II)(y), as applicable, of the definition of Required A Class Principal Distribution Amount above plus the PO Percentage of the Realized Loss, if any, with respect to any Group I Mortgage Loans.

The PO Percentage on each Distribution Date will be calculated on a loan-by-loan basis as follows:  $(9\% - \text{applicable Group I Net Mortgage Rate}) \div 9\%$ .

Principal received with respect to the Mortgage Loans on each Distribution Date in excess of the Required Senior Principal Distribution Amount will be allocated to the Subordinate Class. Realized Losses will be allocated to the Subordinate Class until the Subordinate Class Termination Date. Thereafter, whenever a Realized Loss occurs, Fannie Mae will be required, pursuant to its guaranty, to make distributions on the Certificates to the extent such Realized Loss creates a Subordination Deficit.

The Senior Percentage and the Senior Prepayment Percentage will vary over time. See “Description of the Certificates—Principal Distributions.”

See “Description of the Certificates—Principal Distributions—*Application of Principal*” herein.

**Weighted Average Lives (years) \***

<u>Class</u>	<u>% of PSA Prepayment Assumption**</u>					
	<u>0%</u>	<u>150%</u>	<u>250%</u>	<u>350%</u>	<u>450%</u>	<u>550%</u>
A .....	20.8	9.2	6.3	4.7	3.7	3.1
PO .....	20.4	9.0	6.1	4.6	3.6	3.0
XS .....	20.8	9.3	6.3	4.7	3.8	3.2

\* Determined as specified under “Yield and Prepayment Considerations—Weighted Average Lives of the Certificates” herein.  
 \*\* For a description of the PSA Prepayment Assumption, see “Yield and Prepayment Considerations—Prepayment Assumptions and Decrement Tables” herein.



## 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 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 June 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 Classes and aggregate original principal balances set forth on the cover hereof as well as the Subordinate Class 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 of the Mortgage Loans and will in the aggregate evidence the entire beneficial ownership interest in the distributions of principal and interest thereon. The Certificates (other than the R Class) and the Subordinate Class will be designated as the “regular interests,” and the R Class will be designated as the “residual interest,” in the REMIC constituted by the Trust.

*Authorized Denominations.* The Certificates, other than the R Certificate, will be issued in minimum denominations of \$1,000 and integral multiples of \$1 in excess thereof. The R Certificate will be issued as a single Certificate and will not have a principal balance.

*Characteristics of Certificates.* The Certificates, other than the R Certificate, will be issued and maintained and may be transferred by Holders only on the book-entry system of the Federal Reserve Banks. Such entities whose names appear on the book-entry records of a Federal Reserve Bank as the entities for whose accounts such Certificates have been deposited are herein referred to as “Holders” or “Certificateholders.” A Holder is not necessarily the beneficial owner of a book-entry Certificate. Beneficial owners will ordinarily hold book-entry Certificates through one or more financial intermediaries, such as banks, brokerage firms and securities clearing organizations. See “Description of the Certificates—Book-Entry Procedures” herein. When used herein with respect to any book-entry Certificate, the terms “Holders” and “Certificateholders” refer to such financial intermediaries.

The R Certificate will not be issued in book-entry form but will be issued in fully registered, certificated form. As to the R Certificate, “Holder” or “Certificateholder” refers to the registered owner thereof. The R Certificate will be transferable at the corporate trust office of the Transfer Agent, or at the agency of the Transfer Agent in New York, New York. The Transfer Agent initially will be State Street Bank and Trust Company in Boston, Massachusetts (“State Street”). A service charge may be imposed for any registration of transfer of the R Certificate and Fannie Mae may require payment of a sum sufficient to cover any tax or other governmental charge. See also “Description of the Certificates—Certain Characteristics of the R Class” herein.

The distribution to the Holder of the R Certificate of the proceeds of any remaining assets of the Trust will be made only upon presentation and surrender of the related Certificate at the office of the Paying Agent. The Paying Agent initially will be State Street.

*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 on the Classes of Certificates during each Interest Accrual Period at the respective interest rates described on the cover hereof, (ii) the Required Senior Principal Distribution Amount and (iii) the principal balance of each Class of Certificates in full no later than the applicable Final Distribution Date, whether or not sufficient funds

are available in the Certificate Account. Fannie Mae guarantees the timely payment of the Required PO Class Principal Distribution Amount and the Required A Class Principal Distribution Amount to the PO Class and the A Class, respectively; however, such principal distributions may not include the entire Stated Principal Balance with respect to each Liquidated Loan at the time of the liquidation. If Fannie Mae were unable to perform these guaranty obligations, distributions to Certificateholders would consist solely of payments and other recoveries on the Mortgage Loans and, accordingly, delinquencies and defaults on the Mortgage Loans would affect distributions to Certificateholders. The guaranty of Fannie Mae is not backed by the full faith and credit of the United States.

*Distribution Dates.* Distributions on the Certificates will be made on the 25th day of each month or, if such 25th day is not a business day, on the first business day next succeeding such 25th day (each a “Distribution Date”), commencing in the month following the Settlement Date.

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

*REMIC Trust Factors.* As soon as practicable following the 12th day of each month, Fannie Mae will publish or otherwise make available for each Class of Certificates the factor (carried to eight decimal places) which, when multiplied by the original principal balance of a Certificate of such Class, will equal the remaining principal balance of such Certificate after giving effect to the distribution of principal to be made on the following Distribution Date.

*Optional Termination.* Fannie Mae may effect an early termination of the Trust as described herein under “The Trust Agreement—Termination.”

## **THE MORTGAGE LOANS**

### **General**

It is expected that the Trust will consist of approximately 1,013 mortgage loans (collectively, the “Mortgage Loans”) having an aggregate Stated Principal Balance of approximately \$99,140,351 (subject to a variance of plus or minus 5% in the aggregate) as of June 1, 1995 (the “Issue Date”). The Mortgage Loans were originated or purchased by one or more institutions approved by Fannie Mae on the basis of certain criteria, which may include depth of mortgage origination experience, servicing experience and financial capacity. Each of Fannie Mae, the seller and the servicer of the Mortgage Loans will be a party to a sale and servicing agreement dated as of June 1, 1995 (the “Sale and Servicing Agreement”).

The Mortgage Loans consist of first lien, single family, fixed-rate, fully amortizing mortgage loans. Each Mortgage Loan is evidenced by a promissory note or similar evidence of indebtedness (a “Mortgage Note”) that is secured by a first mortgage or deed of trust on a single family residential property and that provides for monthly payments of principal and interest. As used herein, the property that secures repayment of a Mortgage Loan is referred to as the “Mortgaged Property.”

Each Mortgage Loan provides for payments by the obligor on the related Mortgage Note (the “borrower”) as of a scheduled day in each month that is fixed at the time of origination. In addition, each Mortgage Loan provides that interest is charged to each related borrower at the rate of interest set forth or calculated as provided in the related Mortgage Note on the outstanding principal balance thereof calculated on the basis of a 360-day year consisting of twelve 30-day months. Scheduled monthly payments by a borrower either earlier or later than the scheduled due date therefor will not affect the amortization schedule or the relative application of such payment to principal and interest.

None of the Mortgage Loans are FHA-insured or VA-guaranteed.

Set forth below is certain summary information regarding the assumed characteristics of the Mortgage Loans, aggregated on the basis of the specified characteristics as of the Issue Date (without



giving effect to prepayments received on the Mortgage Loans on or after June 1, 1995). Such summary information has been aggregated on the basis of the assumed characteristics specified below and is not intended to reflect actual or assumed individual Mortgage Loan characteristics.

The “Weighted Average Net Mortgage Rate” for any Distribution Date and Mortgage Loan Group is the weighted average of the Net Mortgage Rates in effect with respect to the Mortgage Loans in such Mortgage Loan Group during the preceding calendar month, weighted on the basis of the respective Stated Principal Balances of such Mortgage Loans immediately prior to such Distribution Date. The “Weighted Average Age” is the weighted average loan age of the Mortgage Loans. The “Net Mortgage Rate” for any Mortgage Loan is the applicable mortgage interest rate therefor less 0.47%. The “Group I Mortgage Loans” are all Mortgage Loans having Net Mortgage Rates lower than 9.00%. The “Group II Mortgage Loans” are all Mortgage Loans having Net Mortgage Rates equal to or greater than 9.00%.

### Group I Mortgage Loans

<u>Batch</u>	<u>Principal Balance</u>	<u>Weighted Average Net Mortgage Rate</u>	<u>Weighted Average Mortgage Rate</u>	<u>Weighted Average Age (in months)</u>	<u>WAM (in months)</u>
1	\$1,611,021.78	8.530%	9.000%	15	345
2	1,147,402.18	8.655	9.125	8	352
3	2,392,853.44	8.780	9.250	7	353
4	4,187,098.95	8.905	9.375	8	352
	<u>\$9,338,376.35</u>	<u>8.778%</u>	<u>9.248%</u>	<u>9</u>	<u>351</u>

### Group II Mortgage Loans

<u>Batch</u>	<u>Principal Balance</u>	<u>Weighted Average Net Mortgage Rate</u>	<u>Weighted Average Mortgage Rate</u>	<u>Weighted Average Age (in months)</u>	<u>WAM (in months)</u>
5	\$89,801,974.70	9.418%	9.888%	7	351

### Statistical Information

The statistical information presented below concerning the Mortgage Loans expected to be included in the Trust is based on the aggregate Stated Principal Balance of such Mortgage Loans as of the Issue Date. The column entitled “% of Aggregate Loan Balance” in the following tables may not sum to 100% due to rounding.

The loan-to-value ratios shown below were calculated based upon values of the Mortgaged Properties at the time of origination. No assurance can be given that values of the Mortgaged Properties have remained or will remain at their levels on the dates of origination of the related Mortgage Loans. If the residential real estate market has experienced or should experience an overall decline in property values such that the outstanding balances of the Mortgage Loans approach or exceed the value of the Mortgaged Properties, the actual rates of delinquencies, foreclosures and losses could be higher than those now generally experienced in the mortgage lending industry.

As of the Issue Date, the average Stated Principal Balance of the Mortgage Loans was \$97,868.07; the mortgage interest rates of the Mortgage Loans ranged from 9.00% to 10.750%; the weighted average mortgage interest rate of the Mortgage Loans was 9.828%; and the weighted average remaining term to maturity of the Mortgage Loans was 351 months. The remaining terms to maturity as of the Issue Date of the Mortgage Loans ranged from 127 months to 358 months. The maximum and minimum Stated Principal Balance as of the Issue Date were \$202,626.51 and \$38,741.68, respectively. No Mortgage Loan will mature later than April, 2025.

### Geographic Distribution of Mortgaged Properties

The geographic distribution of the Mortgage Loans by state, as of the Issue Date, was as follows:

<u>State</u>	<u>Number of Mortgage Loans</u>	<u>Aggregate Loan Balance</u>	<u>% of Aggregate Loan Balance</u>
Alabama	3	\$ 395,147.36	0.40%
Arkansas	2	158,666.06	0.16
Arizona	38	3,163,386.55	3.19
California	62	6,938,788.10	7.00
Colorado	55	5,270,942.84	5.32
Connecticut	23	2,487,890.89	2.51
District of Columbia	2	315,405.33	0.32
Delaware	6	533,979.31	0.54
Florida	70	6,119,708.98	6.17
Georgia	23	2,355,248.90	2.38
Idaho	5	481,427.24	0.49
Illinois	11	1,108,700.92	1.12
Kansas	1	67,747.29	0.07
Kentucky	1	59,801.55	0.06
Louisiana	20	1,847,410.86	1.86
Massachusetts	31	2,931,608.41	2.96
Maryland	18	1,817,592.63	1.83
Maine	2	126,351.51	0.13
Michigan	15	1,654,205.70	1.67
Minnesota	5	398,471.88	0.40
Missouri	3	266,298.46	0.27
North Carolina	53	5,283,076.15	5.33
New Hampshire	8	557,377.64	0.56
New Jersey	127	13,266,603.31	13.38
New Mexico	12	1,176,396.40	1.19
Nevada	37	3,216,513.41	3.24
New York	174	18,646,205.62	18.81
Ohio	4	350,272.58	0.35
Oklahoma	5	480,802.96	0.48
Oregon	14	1,202,553.36	1.21
Pennsylvania	36	3,399,578.52	3.43
Rhode Island	2	152,811.68	0.15
South Carolina	5	432,328.19	0.44
Tennessee	14	1,082,790.67	1.09
Texas	76	6,723,043.63	6.78
Utah	7	544,077.99	0.55
Virginia	16	1,529,992.01	1.54
Vermont	5	511,847.19	0.52
Washington	21	1,991,924.10	2.01
Wisconsin	1	93,374.87	0.09
Totals	<u>1,013</u>	<u>\$99,140,351.05</u>	<u>100.00%</u>

### Original Loan-to-Value Ratios

The original loan-to-value ratios as of the origination dates of the Mortgage Loans were distributed as follows:

<u>Loan-to-Value Ratio</u>	<u>Number of Mortgage Loans</u>	<u>Aggregate Loan Balance</u>	<u>% of Aggregate Loan Balance</u>
Less than 19.99%	5	\$ 522,739.41	0.53%
20.00% to 29.99%	18	1,580,592.50	1.59
30.00% to 39.99%	48	3,897,195.62	3.93
40.00% to 49.99%	122	12,008,401.02	12.11
50.00% to 59.99%	268	25,369,371.06	25.59
60.00% to 69.99%	311	31,187,334.06	31.46
70.00% to 71.00%	241	24,574,717.38	24.79
Totals	<u>1,013</u>	<u>\$99,140,351.05</u>	<u>100.00%</u>

### The Mortgage Loans

#### *General*

Approximately 98% of the Mortgage Loans will be secured by mortgages on detached one- to four-family dwelling units, and approximately 2% of the Mortgage Loans will be secured by mortgages on attached planned unit developments, condominiums and townhomes. Approximately 78% of the Mortgage Loans are for the purchase of a residence. No more than 14% of the Mortgage Loans will be equity refinance mortgage loans made to borrowers who used less than the entire amount of the proceeds to refinance an existing mortgage loan. Approximately 8% of the Mortgage Loans will be rate and term refinance mortgage loans made to borrowers who used the entire proceeds to refinance an existing mortgage loan. A substantial portion of the Mortgage Loans are secured by primary residences at approximately 98%, and approximately 2% are secured by second residences. Substantially all of the Mortgage Loans were underwritten pursuant to a reduced documentation program.

### Fannie Mae Mortgage Purchase Program

#### *General*

The Mortgage Loans will be permanent loans (as opposed to construction and land development loans) secured by Mortgages on properties comprised primarily of single-family dwelling units, including units in condominium projects and planned unit developments. Each Mortgage Loan will be subject to and must comply with the terms of the current Fannie Mae Selling Guide unless Fannie Mae grants an exception with respect to certain requirements. Each Mortgage Loan will be documented by the appropriate FNMA/FHLMC Uniform Instrument in effect at the time of origination, or an FHA or VA mortgage instrument or other instrument acceptable to Fannie Mae, and will comply with all applicable federal and local laws, including laws relating to usury, equal credit opportunity, and disclosure.

There is no requirement that Mortgage Loans be payable on the first day of the month in order to be eligible for inclusion in the Trust. The Mortgage Loans generally must have had maturities of not more than 30 years from their date of origination.

#### *Maximum Loan Amounts*

Pursuant to the requirements of the Fannie Mae Selling Guide, first lien conventional mortgage loans secured by residential property (as compared to cooperative share loans) must be real property loans secured by first mortgages on residential properties with original principal balances that (when combined with the original principal balance of any second lien mortgage loan in which Fannie Mae has an interest) did not exceed certain federally imposed maximum principal balance limitations

applicable to Fannie Mae. Currently, the maximum dollar purchase limitations for residential mortgage loans are as follows: \$203,150 for mortgages secured by one-family residences (\$304,725 in Alaska, Hawaii and the Virgin Islands); \$259,850 for mortgages secured by two-family residences (\$389,775 in Alaska, Hawaii and the Virgin Islands); \$314,100 for mortgages secured by three-family residences (\$417,150 in Alaska, Hawaii and the Virgin Islands); and \$390,400 for mortgages secured by four-family residences (\$585,600 in Alaska, Hawaii and the Virgin Islands).

#### *Maximum Loan-to-Value Ratios*

The maximum loan-to-value ratio at the time of purchase for a conventional mortgage loan secured by a first mortgage on an owner-occupied one-family property (other than a second home) that does not secure any subordinate financing is generally 95% (90% in the case of adjustable-rate mortgage loans). Where such property also secures subordinate financing, the maximum combined loan-to-value ratio of the first lien and second lien is 90%. In the case of a conventional mortgage loan secured by a first mortgage on an owner-occupied one-family second home that does not secure any subordinate financing, the maximum loan-to-value ratio is 80%. Where such second home property also secures subordinate financing, the maximum combined loan-to-value ratio of the first lien and second lien is 90%.

The maximum combined loan-to-value ratio of the first lien and any second lien at the time of purchase is (i) 90% in the case of an owner-occupied two-family property, (ii) 80% in the case of an owner-occupied three-to four-family property, and (iii) 70% in the case of an investment property. In the case of a refinancing (*i.e.*, where the mortgage is not made at the time of purchase) of a property, regardless of property type, the maximum combined loan-to-value ratio of the first lien and any second lien at the time of refinancing is 80%.

First lien conventional mortgage loans (other than multifamily mortgage loans) with loan-to-value ratios exceeding 80% must, at a minimum, have the principal amount of the indebtedness in excess of 80% of the value of the related mortgaged property insured or guaranteed by a qualified insurer. Any mortgage insurer must be licensed to transact a mortgage guaranty insurance business in the state where the related mortgaged property is located and be acceptable to Fannie Mae as a mortgage insurer. As an alternative, Lenders may (i) contract with Fannie Mae to repurchase such conventional mortgage loans for such period and under such circumstances as Fannie Mae may require in the event the conventional mortgage loans are in default or (ii) retain a participation interest of not less than 10% in such conventional mortgage loans.

#### *Additional Considerations; Exceptions*

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

The seller of Mortgage Loans has represented to Fannie Mae that the Mortgage Loans conform to the criteria described in the preceding paragraph, with the following exceptions: Mortgage Loans collectively constituting not more than 45.7% of the aggregate Stated Principal Balance of the Mortgage Loans secured by owner occupied principal residences and second homes may each have been originated in purchase money and “no cash-out” and “limited cash-out” rate/term refinance transactions with respect to which (a) the originator did not (i) obtain the Uniform Residential Loan Application (Fannie Mae Form 1003), (ii) verify the borrower’s income and employment, (iii) require the two months’ mortgage payments reserve specified in the Selling Guide, (b) the

originator verified the borrower's assets by using (i) the Verification of Deposit (Fannie Mae Form 1006) or (ii) the borrower's original bank statement(s) for the most recent three months, (c) the originator obtained two appraisals and (d) the original loan-to-value ratio of each such Mortgage Loan does not exceed 70% (with certain permitted exceptions). Mortgage Loans collectively constituting not more than 54.4% of the aggregate Stated Principal Balance of the Mortgage Loans (a) secured by owner occupied principal residences and second homes may each have been originated in purchase money transactions and "no cash-out" and "limited cash-out" rate/term refinance transactions and (b) secured by one-family owner occupied principal residences (other than condominiums) and second homes may each have been originated in "cash-out" refinance transactions, with respect to which (x) the originator did not (i) obtain the Uniform Residential Loan Application (Fannie Mae Form 1003), (ii) verify the borrower's income and employment, (iii) verify that the borrower had sufficient cash deposits and other assets to complete the mortgage transaction, and (iv) require the two months' mortgage payments reserve specified in the Selling Guide, (y) the originator obtained two appraisals and (z) the original loan-to-value ratio of each such Mortgage Loan does not exceed 60%.

## **DESCRIPTION OF THE CERTIFICATES**

### **General**

The Series 1995-W3 Certificates will consist of four classes of senior certificates designated as the A Class, PO Class, XS Class and R Class (collectively, the "Certificates"), and a single class of subordinate certificates (the "B Class" or the "Subordinate Class"). The Certificates and the Subordinate Class represent in the aggregate the entire beneficial ownership interests in the Trust consisting of a pool of Mortgage Loans.

The Certificates initially evidence an undivided ownership interest of approximately 99% in the Mortgage Loans. The B Class initial principal balance will be approximately \$991,547 and will initially evidence an undivided ownership interest of approximately 1% in the Mortgage Loans. Only the Certificates are offered hereby. The Subordinate Class, which is not being offered hereby, will be issued to the Dealer on the Settlement Date and may be sold at any time thereafter in a limited private offering.

### **Book-Entry Procedures**

The Certificates, other than the R Class, will be issued in minimum denominations of \$1,000 and integral multiples of \$1 in excess thereof. The book-entry Certificates will be maintained on the book-entry system of the Federal Reserve Banks in a manner that permits separate trading and ownership. Each Class of Certificates will be assigned a CUSIP number and will be tradable separately under such CUSIP number.

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

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



establishing and maintaining accounts for their respective customers. The rights of the beneficial owner of a book-entry Certificate with respect to Fannie Mae and the Federal Reserve Banks may be exercised only through the Holder of such Certificate. Fannie Mae and the Federal Reserve Banks will have no direct obligation to a beneficial owner of a book-entry Certificate that is not also the Holder of the Certificate. The Federal Reserve Banks will act only upon the instructions of the Holder in recording transfers of a book-entry Certificate.

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

## **Certificated Class**

The R Class will not be issued in book-entry form but will be issued in fully registered, certificated form. As to the R Class Certificate, "Holder" or "Certificateholder" refers to the registered owner thereof. The R Class Certificate will be transferrable at the corporate trust office of the Transfer Agent. A service charge may be imposed for any registration of transfer of an R Class Certificate, and Fannie Mae may require payment of a sum sufficient to cover any tax or other governmental charge.

## **Distributions of Interest**

### *Categories of Classes*

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

<u>Interest Type*</u>	<u>Classes</u>
Fixed Rate	A
Principal Only	PO
Weighted Average Coupon/Interest Only	XS
No Payment Residual	R

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

*General.* The Certificates will bear interest at the respective per annum interest rates set forth or described on the cover. Interest on the Certificates is calculated on the basis of a 360-day year consisting of twelve 30-day months and is distributable monthly on each Distribution Date, commencing in the month after the Settlement Date. Interest to be distributed on each Certificate on a Distribution Date will consist of one month's interest on the outstanding principal balance of such Certificate immediately prior to such Distribution Date.

*Interest Accrual Period.* Interest to be distributed on a Distribution Date will accrue on the Certificates during the one-month period set forth below (an "Interest Accrual Period").

<u>Classes</u>	<u>Interest Accrual Period</u>
All interest-bearing Classes	Calendar month preceding the month in which the Distribution Date occurs

See "Yield and Prepayment Considerations" herein.

*Notional Class.* The XS Class will be a "Notional Class." The Notional Class will have no principal balance and will bear interest at the weighted average (weighted by the related Stated Principal Balances) of the excess (but not less than zero) of the Net Mortgage Rate of each Mortgage Loan over 9.00% for each Interest Accrual Period on its notional principal balance. The notional

principal balance of the Notional Class will be equal to the indicated percentage of the aggregate Stated Principal Balance of the Mortgage Loans immediately prior to the related Distribution Date.

<u>Class</u>	<u>Percentage of Stated Principal Balance of Mortgage Loans</u>
XS	100%

The notional principal balance of the Notional Class is used for purposes of the determination of interest distributions thereof and does not represent an interest in the principal distributions on the Mortgage Loans. Although the Notional Class will not have a principal balance, a REMIC Trust Factor (as described herein) will be published with respect to such Class that will be applicable to the notional principal balance thereof, and references herein to the principal balances of the Certificates generally shall be deemed to refer also to the notional principal balance of the Notional Class.

## Principal Distributions

### *Categories of Classes*

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

<u>Principal Type*</u>	<u>Classes</u>
Sequential Pay	A, PO
No Payment Residual	R
Notional	XS

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

### *Application of Principal*

On each Distribution Date, principal of the Certificates (the “Required Senior Principal Distribution Amount”) will be distributed as follows:

- (i) First, to the PO Class, the Required PO Class Principal Distribution Amount; and
- (ii) Then, to the A Class, the Required A Class Principal Distribution Amount.

The “Required A Class Principal Distribution Amount” as to each Distribution Date will be equal to the sum of the following:

(i) the product of (A) the then-applicable Senior Percentage and (B) (1) the aggregate amount of principal due on the Mortgage Loans during the period beginning on the second day of the month preceding the month of such distribution and ending on the first day of the month of such distribution (each, a “Due Period”) minus (2) with respect to each Mortgage Loan in Group I, the PO Percentage of such amount;

(ii) the product of (A) the then-applicable Senior Prepayment Percentage and (B) the aggregate of the following amounts:

(1) (a) the aggregate of all full and partial principal prepayments received by Fannie Mae during the immediately preceding calendar month minus (b) with respect to each Mortgage Loan in Group I, the PO Percentage of such amount;

(2) (a) the Stated Principal Balance of any Mortgage Loan that Fannie Mae repurchases during the immediately preceding calendar month under the circumstances described in “The Trust Agreement—Collection and Other Servicing Procedures” below and any Substitution Adjustment Amounts received during the immediately preceding calendar month minus (b) with respect to each Mortgage Loan in Group I, the PO Percentage of such amount;

(3) (a) the principal portion of all other unscheduled collections (other than amounts described in (1) or (2) of this clause (ii) and in clause (iii) hereof) including insurance proceeds received by Fannie Mae during the immediately preceding calendar month to the

extent applied as recoveries of principal minus (b) with respect to each Mortgage Loan in Group I, the PO Percentage of such amount;

(iii) with respect to the net liquidation proceeds allocable to principal of any Mortgage Loan that becomes the subject of a final liquidation (a “Liquidated Loan”) during the immediately preceding calendar month the lesser of (a) the product of (I) the then-applicable Senior Prepayment Percentage and (II) (x) such net liquidation proceeds minus, (y) with respect to each Mortgage Loan in Group I, the PO Percentage of such net liquidation proceeds and (b) the product of (I) the then-applicable Senior Percentage and (II) (x) the Stated Principal Balance of such Mortgage Loan at the time of liquidation minus, (y) with respect to each Mortgage Loan, the PO Percentage of such Stated Principal Balance;

(iv) the sum of the A Class and PO Class outstanding principal balances minus the aggregate Stated Principal Balance of the Mortgage Loans (such excess, a “Subordination Deficit”) minus the PO Percentage of the Realized Loss, if any, with respect to any Group I Mortgage Loans.

As to each Distribution Date, the “Required PO Class Principal Distribution Amount” shall be the sum of the amounts set forth in clauses (i) (B) (2), (ii) (B) (1) (b), (ii) (B) (2) (b), (ii) (B) (3) (b) and (iii) (a) (II) (y) or (iii) (b) (II) (y), as applicable, of the definition of Required A Class Principal Distribution Amount above plus the PO Percentage of the Realized Loss, if any, with respect to any Group I Mortgage Loans.

The “PO Percentage” on each Distribution Date will be calculated on a loan-by-loan basis as to each Group I Mortgage Loan as follows:  $(9\% - \text{applicable Group I Net Mortgage Rate}) \div 9\%$ .

References herein to the “Stated Principal Balance” of a Mortgage Loan or to the aggregate Stated Principal Balance of all Mortgage Loans are to the principal balance or aggregate principal balance, as the case may be, utilized by Fannie Mae in calculating the then-outstanding principal balances of Certificates. Such Stated Principal Balances may differ from actual principal balances of the related Mortgage Loans for a number of reasons, including advances by Fannie Mae on delinquent Mortgage Loans and delays in the distribution of certain Mortgage Loan receipts.

The “Senior Percentage” initially will equal approximately 99.00% and will in no event exceed 100%, will be adjusted for each Distribution Date to be the percentage equal to the A Class outstanding principal balance immediately prior to such Distribution Date divided by the sum of the A Class and B Class outstanding principal balances immediately prior to such Distribution Date. The “Subordinate Percentage” as of any date of determination is equal to 100% minus the Senior Percentage as of such date.

The “Senior Prepayment Percentage” for any Distribution Date will be determined as follows:

<u>Distribution Date</u>	<u>Senior Prepayment Percentage</u>
July 1995 through June 2000 .....	100%;
July 2000 through June 2001 .....	the Senior Percentage plus 70% of the Subordinate Percentage;
July 2001 through June 2002 .....	the Senior Percentage plus 60% of the Subordinate Percentage;
July 2002 through June 2003 .....	the Senior Percentage plus 40% of the Subordinate Percentage;
July 2003 through June 2004 .....	the Senior Percentage plus 20% of the Subordinate Percentage;
July 2004 and thereafter .....	the percentage equivalent of the following: the outstanding principal balance of the A Class divided by the sum of the A Class and the B Class outstanding principal balances:

*provided, however*, that if immediately before any Distribution Date cumulative Realized Losses on the Mortgage Loans exceed 50% of the B Class initial principal balance, the Senior Prepayment Percentage for such Distribution Date and all future Distribution Dates will be 100%.

Principal received with respect to the Mortgage Loans on each Distribution Date in excess of the Required Senior Principal Distribution Amount will be allocated to the Subordinate Class. Realized Losses will be allocated to the Subordinate Class until the Subordinate Class Termination Date. Thereafter, whenever a Realized Loss occurs, Fannie Mae will be required, pursuant to its guaranty, to make distributions on the Certificates to the extent such Realized Loss creates a Subordination Deficit.

The timing for the distributions of principal prepayments (including liquidation proceeds) is subject to the receipt of information about such principal payments from the servicer of the Mortgage Loans in sufficient time to allow the published monthly factors to reflect such payments. See “General—*REMIC Trust Factors*” herein. In the event that timely information is not available, Fannie Mae will distribute such payments on the Distribution Date in the next month. For purposes of distributions, a Mortgage Loan will be considered to have been prepaid in full if, in the judgment of the servicer retained by Fannie Mae, the full amount finally recoverable on account of such Mortgage Loan has been received, whether or not such full amount is equal to the principal balance of the Mortgage Loan.

## Class Definitions and Abbreviations

Classes of Certificates fall into different categories. The following chart identifies and generally defines the categories of Classes specified on the cover page of the Prospectus.

<u>Abbreviation</u>	<u>Category of Class</u>	<u>Definition</u>
<b>PRINCIPAL TYPES</b>		
NPR	No Payment Residual	A Residual Class that receives no payment of principal.
NTL	Notional	A Class having no principal balance and bearing interest on the related notional principal balance. The notional principal balance is used for purposes of the determination of interest distributions on an Interest Only Class that is not entitled to principal.
SEQ	Sequential Pay	Classes that receive principal payments in a prescribed sequence, that do not have predetermined schedules and that under all circumstances receive payments of principal continuously from the first Distribution Date on which they receive principal until they are retired. A single Class that receives principal payments before or after all other Classes in the same Series of Certificates may be identified as a Sequential Pay Class.

<u>Abbreviation</u>	<u>Category of Class</u>	<u>Definition</u>
<b>INTEREST TYPES</b>		
FIX	Fixed Rate	A Class whose interest rate is fixed throughout the life of the Class.
IO	Interest Only	A Class that receives some of all of the interest payments made on the Mortgage Loans or other assets of the Trust and little or no principal. Interest Only Classes have either a nominal or a notional principal balance. A nominal principal balance represents actual principal that will be paid on the Class. It is referred to as nominal since it is extremely small compared to other Classes. A notional principal balance is the amount used as a reference to calculate the amount of interest due on an Interest Only Class that is not entitled to any principal.
NPR	No Payment Residual	A Residual Class that receives no payments of interest.
PO	Principal Only	A Class that does not bear interest and is entitled to receive only payments of principal.
W	Weighted Average Coupon	A Class whose interest rate represents an effective weighted average interest rate that may change from period to period.

### **Structuring 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 set forth herein under “The Mortgage Loans—General” and (ii) the following assumptions (the “Pricing Assumptions”):

- payments on all Mortgage Loans are due and received on the first day of each month;
- each year consists of twelve 30-day months;
- the Mortgage Loans prepay at the constant percentages of the Prepayment Assumption specified in the related table;
- the closing date for the sale of the Certificates is the Settlement Date;
- the first Distribution Date for the Certificates occurs in the month following the Settlement Date; and
- there are no defaults, losses or delinquencies on the Mortgage Loans.

### **Certain Characteristics of the R Class**

The R Class will not have a principal balance and will not bear interest. The Holder of the R Class will be entitled to receive the proceeds of the remaining assets of the Trust, if any, after the principal balances of all Classes, including the B Class, have been reduced to zero. It is not anticipated that there will be any material assets remaining in such circumstance.

The R Class will be subject to certain transfer restrictions. An R Certificate may not be transferred to a “disqualified organization” or any person who would hold an R Certificate on behalf of a disqualified organization. For purposes of the preceding sentence, a transfer includes any transfer of record or beneficial ownership, whether pursuant to a purchase, a default under a secured lending agreement or otherwise. The term “disqualified organization” includes the United States, any state or political subdivision thereof, any foreign government, any international organization, or any agency or instrumentality of the foregoing (other than certain taxable instrumentalities), any cooperative



organization furnishing electric energy or providing telephone service to persons in rural areas, or any organization (other than a farmers' cooperative) that is exempt from federal income tax, unless such organization is subject to the tax on unrelated business income. Each transferee of an R Certificate will be required to execute an affidavit, in a form acceptable to Fannie Mae, that: (i) it is not a disqualified organization, (ii) it is not acquiring the R Certificate for the account of a disqualified organization, (iii) it consents to any amendment of the Trust Agreement that shall be deemed necessary by Fannie Mae (upon advice of counsel) to constitute a reasonable arrangement to ensure that the R Certificate will not be owned directly or indirectly by a disqualified organization, (iv) no purpose of the acquisition of the R Certificate is to avoid or impede the assessment or collection of tax, (v) it understands that it may incur tax liabilities in excess of any cash flows generated by the R Certificate, (vi) it intends to pay taxes associated with holding the R Certificate as they become due, and (vii) it will not transfer such R Certificate unless (a) it has received from the transferee an affidavit containing these same seven representations and (b) as of the time of the transfer, it does not have actual knowledge that such affidavit is false. See "Certain Federal Income Tax Consequences—Sales of Certificates—*Residual Certificates Transferred to or Held by Disqualified Organizations*" below. Such transferee also must deliver a properly executed Internal Revenue Service ("IRS") Form W-9 on which such transferee provides its taxpayer identification number. In addition, a pass-through entity (including a nominee) that holds the R Certificate may be subject to additional taxes if a disqualified organization is a record holder therein.

In addition, no transfer of record or beneficial ownership of an R Certificate (whether pursuant to a purchase, a default under a secured lending agreement or otherwise) will be allowed to any person that is not a "U.S. Person" without the written consent of Fannie Mae. The term "U.S. Person" means a citizen or resident of the United States, a corporation, partnership or other entity created or organized in or under the laws of the United States or any political subdivision thereof, or an estate or trust that is subject to U.S. federal income tax regardless of the source of its income.

Under regulations issued by the Treasury Department on December 23, 1992 (the "Regulations"), a transfer of a "noneconomic residual interest" to a U.S. Person will be disregarded for all federal tax purposes unless no significant purpose of the transfer is to impede the assessment or collection of tax. The R Class will constitute a noneconomic residual interest under the Regulations. See "Certain Federal Income Tax Consequences—Taxation of Beneficial Owners of Regular Certificates—*Original Issue Discount*" and "—Taxation of Beneficial Owners of the Residual Certificate—*Excess Inclusions*."

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

The Holder of the R Class will be considered to be the Holder of the "residual interest" in the Trust. See "Certain Federal Income Tax Consequences—REMIC Election." Fannie Mae will provide to such Holder (i) such information as is necessary to enable it to prepare its federal income tax returns and (ii) any reports regarding the R Class that may be required under the Code.

## YIELD AND PREPAYMENT CONSIDERATIONS

### Yield Generally

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 and the actual characteristics of such Mortgage Loans. 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 on the Mortgage Loans.

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 until the 25th 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 Class 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.

Provided that timely information is available, principal prepayments (including liquidation proceeds) allocable to the Certificates will be passed through to Certificateholders in the month following the month of receipt. In the event that timely information is not available, such principal payments will be distributed on the Distribution Date in the next month.

Prior to the Distribution Date in July 2000, the Subordinate Certificates will be, and thereafter the Subordinate Certificates may be (based on certain criteria regarding delinquency and losses, among other things, as provided herein), entitled to receive distributions allocable to principal based on a disproportionately small percentage (which may be 0%) of principal prepayments on the Mortgage Loans and the Certificates will be entitled to receive distributions allocable to principal based on a disproportionately large percentage (which may be 100%) of principal prepayments. To the extent that no principal prepayments or a disproportionately small percentage of such prepayments are distributed on the Subordinate Certificates, the subordination afforded to the Certificates by the Subordinate Certificates is preserved, in the absence of offsetting Realized Losses allocated thereto. As a result, the average lives of the Certificates will likely be shorter than otherwise would be the case, and the performance characteristics of the Certificates will be different from other mortgage pass-through certificates that do not disproportionately allocate principal prepayments on the Mortgage Loans according to certificate class.

***The PO Class.*** The PO Class will not bear interest. As indicated in the table below, a low rate of principal payments (including prepayments) on the Group I Mortgage Loans will have a negative effect on the yield to investors in the PO Class.

The information set forth in the following table was prepared on the basis of the Pricing Assumptions and the assumption that the aggregate purchase price of the PO Class (expressed as a percentage of the original principal balance) is as follows:

<u>Class</u>	<u>Price</u>
PO .....	70%

**Sensitivity of the PO Class to Prepayments\***  
(Pre-Tax Yields to Maturity)

<u>Class</u>	<u>PSA Prepayment Assumption</u>					
	<u>0%</u>	<u>150%</u>	<u>250%</u>	<u>350%</u>	<u>450%</u>	<u>550%</u>
PO .....	1.8%	4.5%	6.8%	9.1%	11.5%	14.0%

\* Applies only to Group I Mortgage Loans.

*The XS Class.* The table set forth below indicates the sensitivity of the pre-tax corporate bond equivalent yield to maturity of the XS Class to prepayments on the Mortgage Loans occurring in accordance with the Pricing Assumptions at various constant percentages of PSA. The yields set forth in the table were calculated by determining the monthly discount rates that, when applied to the assumed streams of cash flows to be paid on such Class, would cause the discounted present value of such assumed streams of cash flows to equal the assumed aggregate purchase price of such Class and converting such monthly rates to corporate bond equivalent rates. Such calculations do not take into account variations that may occur in the interest rates at which investors may be able to reinvest funds received by them as distributions on the XS Class Certificates and consequently do not purport to reflect the return on any investment in the XS Class Certificates when such reinvestment rates are considered.

As indicated in the table below, the yield to investors in the XS Class will be sensitive to the rate of principal payments (including prepayments) of the Mortgage Loans. The Mortgage Loans may be prepaid by the borrower without the payment of a prepayment penalty.

On the basis of the assumptions described below the yield to maturity on the XS Class would be 0% if prepayments were to occur at a constant rate of approximately 823% PSA. If the actual prepayment rate of the Mortgage Loans were to exceed the foregoing level for as little as one month while equaling such level for the remaining months, the investors in the XS Class would not fully recoup their initial investments. There can be no assurance that the Mortgage Loans will prepay at any of the rates assumed herein or at any other particular rate, that the pre-tax yields on the XS Class will correspond to any of the pre-tax yields shown herein or that the aggregate purchase price of the XS Class will be as assumed below.

The information set forth in the following table was prepared on the basis of the Pricing Assumptions and the assumption that the aggregate purchase price of the XS Class (expressed as a percentage of original notional principal balance) is as follows:

<u>Class</u>	<u>Price*</u>
XS .....	0.8%

\* The price does not include accrued interest. Accrued interest has been added to such price in calculating the yields set forth in the table below.

### Sensitivity of the XS Class to Prepayments (Pre-Tax Yields to Maturity)

Class	PSA Prepayment Assumption					
	0%	150%	250%	350%	450%	550%
XS .....	49.6%	41.2%	35.5%	29.7%	23.7%	17.5%

### Reinvestment Risk

Because the Mortgage Loans underlying the Certificates may be prepaid at any time, it is not possible to predict the rate at which distributions of principal of the Certificates will be received. Accordingly, 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 such Certificates. It is possible that yields on such reinvestments will be lower, and may be significantly lower, than the yields on such Certificates. Prospective investors in the Certificates should carefully consider the related reinvestment risks in light of other investments that may be available to such investors.

### Prepayment Considerations and Risks

#### *General*

The rate of principal payments of the Certificates is related directly to the rate of payments of principal of the Mortgage Loans which may be in the form of scheduled amortization or prepayments (for this purpose, the term “prepayment” includes prepayments and liquidations resulting from default, casualty or condemnation and payments made pursuant to any guaranty of payment by, or option to repurchase of, Fannie Mae). Generally, if the actual rate of payments on the Mortgage Loans is slower than the rate anticipated by an investor who purchased a related 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 related Certificate at a premium, the actual yield to such investor will also be greater than such investor’s anticipated yield.

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 resultant prepayments, if they involve the Mortgage Loans, will result in the distribution to Certificateholders of the principal balances of the prepaid Mortgage Loans and their removal from the Trust. Lenders servicing the Mortgage Loans are not prohibited from advertising their availability to handle refinancings. Fannie Mae does not, however, permit the removal of Mortgage Loans from the Trust for the purpose of modifications.

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. Additionally, certain rights of Fannie Mae, such as its option, after the Subordinate Class Termination Date, to purchase delinquent Mortgage Loans, may affect the rate of prepayment of the Mortgage Loans in the Trust. Accordingly, Fannie Mae is unable to estimate what the prepayment experience for the Mortgage Loans in the Trust will be. The Information Statement contains the most recent mortgage loan prepayment experience of Fannie Mae’s portfolio. However, Fannie Mae has had limited experience with loans containing the types of underwriting exceptions permitted with respect to the Mortgage Loans and is unable to predict whether the experience with

respect to its portfolio will have any applicability to the Mortgage Loans. Moreover, it is likely that the Mortgage Loans will experience rates of delinquency, foreclosure and bankruptcy that are higher than those experienced by comparable Mortgage Loans underwritten in a more traditional manner.

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

### **Weighted Average Lives 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 each Class of Certificates will be influenced by, among other factors, the rate at which principal payments (including scheduled payments, principal prepayments, liquidations due to default, casualty and condemnation and payments made pursuant to any guaranty of payment by, or option to repurchase of, Fannie Mae) are made on the Mortgage Loans. Prepayments on the Mortgage Loans will be applied to principal distributions on the Certificates. The interaction of the foregoing factors may have different effects on various Classes and the effects on any Class may vary at different times during the life of such Class. Accordingly, no assurance can be given as to the weighted average life of any Class.

### **Maturity Considerations and Final Distribution Dates**

The original maturities of substantially all of the Mortgage Loans are expected to be between 20 and 30 years. All of the Mortgage Loans will provide for amortization of principal according to a schedule that, in the absence of prepayments, would result in repayment of the Mortgage Loan by its maturity date.

The Final Distribution Date for a particular Class is the date by which the principal balance is required to be fully paid and is specified on the cover page hereof. The Final Distribution Dates of the respective Classes have been determined so that scheduled payments on the Mortgage Loans will be sufficient to retire each such Class on or before its Final Distribution Date without the necessity of any call on Fannie Mae under its guaranty.

### **Prepayment Assumption and Decrement Tables**

*Prepayment Assumption.* Prepayments of mortgage loans commonly are measured relative to a prepayment standard or model. The model used herein is the Public Securities Association’s standard prepayment model (“PSA”), which represents an assumed rate of prepayment each month of the then outstanding principal balance of a pool of new mortgage loans. 100% PSA assumes prepayment rates of 0.2% per annum of the then unpaid principal balance of such pool of mortgage loans in the first month of the life of such mortgage loans and an additional 0.2% per annum in each month thereafter (for example, 0.4% per annum in the second month) until the 30th month. Beginning in the 30th month and in each month thereafter during the life of such mortgage loans, 100% PSA assumes a constant prepayment rate of 6% per annum. Multiples may be calculated from this



prepayment rate sequence. For example, 150% PSA assumes prepayment rates will be 0.3% per annum in month one, 0.6% per annum in month two, and increasing by 0.3% in each succeeding month until reaching a rate of 9% per annum in month 30 and remaining constant at 9% per annum thereafter. Similarly, 350% PSA assumes prepayment rates will be 0.7% per annum in month one, 1.4% per annum in month two, and increasing by 0.7% in each succeeding month until reaching a rate of 21% per annum in month 30 and remaining constant at 21% per annum thereafter. 0% PSA assumes no prepayments.

*PSA 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 prepay at any constant percentage of PSA, or at any other constant rate.*

The following tables indicate the percentages of original principal balances of the specified Classes that would be outstanding after each of the dates shown at various *constant* percentages of the Prepayment Assumption and the corresponding weighted average lives of such Classes. The tables have been prepared on the basis of the Pricing Assumptions. However, it is not the case that all the Mortgage Loans will have the interest rates or remaining terms to maturity assumed or that the Mortgage Loans will prepay at a *constant* percentage of the related Prepayment Assumption. Moreover, the diverse remaining terms to maturity of the Mortgage Loans could produce slower or faster principal distributions than indicated in the tables at the specified *constant* percentages of the Prepayment Assumption, even if the distributions of the weighted average maturities of such Mortgage Loans are identical to the distributions of the weighted average maturities specified in the Pricing Assumptions.

#### Percent of Original Principal Balances Outstanding \*\*\*\*

Date	A Class						PO Class						XS Class*****					
	% of PSA Prepayment Assumption						% of PSA Prepayment Assumption**						% of PSA Prepayment Assumption					
	0%	150%	250%	350%	450%	550%	0%	150%	250%	350%	450%	550%	0%	150%	250%	350%	450%	550%
Initial Percent.....	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100
June 1996.....	99	95	92	90	87	84	99	94	91	88	84	81	99	95	93	90	87	84
June 1997.....	99	87	80	73	66	60	98	86	78	70	63	56	99	87	80	73	67	60
June 1998.....	98	79	67	57	48	39	98	77	66	55	46	37	98	79	68	57	48	40
June 1999.....	97	71	57	44	34	26	97	70	55	43	33	25	97	71	57	45	35	27
June 2000.....	96	64	47	35	25	17	96	63	46	34	24	16	96	64	48	35	25	18
June 2001.....	95	57	40	27	18	11	95	57	39	26	17	11	95	58	40	28	18	12
June 2002.....	94	52	33	21	13	7	93	51	33	20	12	7	94	52	34	21	13	8
June 2003.....	93	46	28	16	9	5	92	45	27	16	9	5	93	47	28	17	9	5
June 2004.....	91	42	23	13	6	3	90	41	23	12	6	3	91	42	24	13	7	3
June 2005.....	90	37	20	10	5	2	89	36	19	10	5	2	90	37	20	10	5	2
June 2006.....	88	33	16	8	3	1	87	32	16	7	3	1	88	33	17	8	4	1
June 2007.....	86	30	14	6	2	1	85	29	13	6	2	1	86	30	14	6	3	1
June 2008.....	84	26	11	5	2	1	83	26	11	4	2	1	84	26	11	5	2	1
June 2009.....	82	23	9	3	1	*	81	23	9	3	1	*	82	23	10	4	1	*
June 2010.....	80	21	8	3	1	*	78	20	7	3	1	*	80	21	8	3	1	*
June 2011.....	77	18	6	2	1	*	75	17	6	2	1	*	77	18	6	2	1	*
June 2012.....	74	16	5	2	*	*	72	15	5	1	*	*	74	16	5	2	*	*
June 2013.....	71	14	4	1	*	*	69	13	4	1	*	*	71	14	4	1	*	*
June 2014.....	67	12	3	1	*	*	65	11	3	1	*	*	67	12	3	1	*	*
June 2015.....	63	10	3	1	*	*	61	10	3	1	*	*	63	10	3	1	*	*
June 2016.....	59	9	2	*	*	*	56	8	2	*	*	*	59	9	2	*	*	*
June 2017.....	54	7	2	*	*	*	51	7	2	*	*	*	54	7	2	*	*	*
June 2018.....	49	6	1	*	*	*	46	6	1	*	*	*	49	6	1	*	*	*
June 2019.....	43	5	1	*	*	*	40	4	1	*	*	*	43	5	1	*	*	*
June 2020.....	36	4	1	*	*	*	34	3	1	*	*	*	36	4	1	*	*	*
June 2021.....	29	3	*	*	*	*	27	2	*	*	*	*	29	3	*	*	*	*
June 2022.....	21	2	*	*	*	*	19	2	*	*	*	*	21	2	*	*	*	*
June 2023.....	12	1	*	*	*	*	11	1	*	*	*	*	12	1	*	*	*	*
June 2024.....	3	*	*	*	*	*	2	*	*	*	*	*	3	*	*	*	*	*
June 2025.....	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Weighted Average Life (years)***	20.8	9.2	6.3	4.7	3.7	3.1	20.4	9.0	6.1	4.6	3.6	3.0	20.8	9.3	6.3	4.7	3.8	3.2

\* Indicates an outstanding balance greater than 0% and less than 0.5% of the original principal balance.

\*\* Applies only to Group I Mortgage Loans.

\*\*\* Determined as specified under "Weighted Average Lives of the Certificates" herein.

\*\*\*\* For a description of the Prepayment Assumption utilized in these tables, see the discussion above.

\*\*\*\*\* The Decrement Table indicates the percentage of the original notional principal balance outstanding.

## THE TRUST AGREEMENT

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

### Transfer of Mortgage Loans to the Trust

The Mortgage Loans transferred to the Trust will be identified in a Fannie Mae Security Schedule appearing as an exhibit to the Trust Agreement. In addition, Fannie Mae, in its capacity as Trustee of the Trust, will hold on behalf of Certificateholders the original Mortgage Note, endorsed in blank, and a recorded assignment to Fannie Mae of the mortgage instrument. The document custody requirements described above are subject to change at any time; provided that any such change will not, in Fannie Mae's determination, materially or adversely affect the interests of Certificateholders.

At its option, Fannie Mae may choose to maintain the documents described above with one or more custodian institutions (which may include a Lender) supervised and regulated by the Comptroller of the Currency, the Board of Governors of the Federal Reserve System, the Office of Thrift Supervision, the FDIC or the NCUA. Fannie Mae will review the Mortgage Loan schedule delivered by the Lender prior to the issuance of the Certificates and will conduct random spot checks to confirm the sufficiency of the documents after issuance of the Certificates.

Although the above procedures are intended to protect the interests of the Holders of Certificates in the Mortgage Loans, the law applicable to a liquidation, reorganization, or similar proceeding involving the assets of a Lender or of Fannie Mae is unclear and as a result no opinion can be rendered as to the status of Certificateholders' interests in the event of any such proceeding. Fannie Mae's guaranty would, however, by its terms be available in the event of any such proceeding involving the assets of a Lender.

### Servicing Through Lenders

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

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

An amount will be retained by Fannie Mae on a monthly basis on account of Trust expenses, which amount will be calculated at the rate of .47% per annum of the Stated Principal Balance of each Mortgage Loan. Fannie Mae is also entitled to retain prepayment fees, late charges, assumption fees, and similar charges to the extent they are collected from borrowers. Fannie Mae will compensate Lenders in an amount up to, but never exceeding, the amount of interest retention described above, less a prescribed minimum amount to be retained by Fannie Mae for itself in consideration of its guaranty obligations and servicing responsibilities.

## **Distributions on Mortgage Loans; Deposits in the Certificate Account**

Fannie Mae will deposit or credit to one or more accounts (collectively, the “Certificate Account”) an amount equal to the sum of the distributions of the principal of and interest on the Mortgage Loans in the Trust as the same are received.

Amounts credited to the Certificate Account as of a Distribution Date will be available to be distributed to Holders on such date to the extent of interest accrued and distributable on the related Certificates and principal distributions reflected in the REMIC Trust Factors. Any reinvestment earnings on amounts so deposited will be used by Fannie Mae to pay the expenses of the Trust and will not be included in the calculation of amounts distributable to Certificateholders.

The Trust Agreement permits Fannie Mae as Trustee to maintain the Certificate Account either (i) as a trust account with an eligible depository institution (which account may contain other funds held by Fannie Mae in a trust capacity) or (ii) as part of Fannie Mae’s general assets, with appropriate entries being made on its books and records designating the funds and investments credited to the Trust.

As noted above, Fannie Mae, as Trustee, has the option to maintain the Certificate Account as part of its general assets by making appropriate entries on its books and records designating the funds and investments credited to the Trust. Although Fannie Mae is required to hold all such funds (and, upon deposit in the Certificate Account, the investment of such funds) for the account of Certificateholders in the Trust, the law applicable to a liquidation, reorganization or similar proceeding involving the assets of Fannie Mae is unclear and as a result no opinion can be rendered as to the status of Certificateholders’ interest in such funds and investments in the event of any such proceeding.

## **Reports to Certificateholders**

As soon as practicable following the 12th calendar day of each month, Fannie Mae will publish or otherwise make available the REMIC Trust Factor (carried to eight decimal places) for each Class of Certificates after giving effect to the distribution of principal to be made on the following Distribution Date. The principal balance of a Certificate of any Class after giving effect to such principal distribution will be the product of the applicable REMIC Trust Factor and the applicable denomination or initial principal balance of such Certificate. With respect to each distribution on Certificates of each Class, Fannie Mae will cause to be forwarded to each Holder thereof a statement setting forth the total principal and interest distributions on such Distribution Date with respect to the Certificates in each Class held by such Holder. 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.

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.

## **Servicing Compensation and Payment of Certain Expenses by Fannie Mae**

As compensation for its activities and obligations under the Trust Agreement, Fannie Mae will be entitled to retain the amounts applicable to interest that are described under “Servicing Through Lenders” above. In addition, Fannie Mae is entitled to retain any amounts by which the proceeds of the liquidation of a Mortgage Loan exceed (i) the Stated Principal Balance of that Mortgage Loan and (ii) interest thereon at the mortgage interest rate from the month in which the servicer retained by Fannie Mae determined that any amount advanced by it would no longer be recoverable through the end of the month of such liquidation, but only to the extent such amounts are not otherwise distributable to the Subordinate Certificateholders to offset previously allocated Realized Losses. Fannie Mae will pay all expenses incurred by it in connection with its servicing activities, including, without limitation, the fees to Lenders, and is not entitled to reimbursement therefor (other than Servicing Advances) out of the assets of the Trust.

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

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

Fannie Mae is responsible for servicing the Mortgage Loans and may, as set forth above, conduct such servicing through Lenders or through other Fannie Mae approved mortgage servicers. In connection with its servicing activities, Fannie Mae has full power and authority to do or cause to be done any and all things as it may deem necessary or appropriate in its sole discretion, including the foreclosure or comparable conversion of a defaulted Mortgage Loan. Following the Distribution Date on which the B Class principal balance is reduced to zero (the “Subordinate Class Termination Date”), in lieu of undertaking any such foreclosure, Fannie Mae may, in its discretion and without obligation, repurchase from the Trust any Mortgage Loan that is delinquent, in whole or in part, as to at least three consecutive installments of principal and interest. If Fannie Mae exercises such option, the purchase price will be equal to the Stated Principal Balance of the delinquent Mortgage Loan together with accrued interest at the Net Mortgage Rate and will be distributed to Certificateholders in the manner described herein. See “Description of Certificates—Principal Distributions.”

Fannie Mae is required to make advances to the Trust in respect of delinquent payments of principal of and interest on the Mortgage Loans until the servicer retained by Fannie Mae determines that any such advances would no longer be recoverable from late collections, insurance proceeds or liquidation proceeds on the related Mortgage Loans. All such advances will be reimbursable to Fannie Mae from late collections, insurance proceeds and liquidation proceeds from the related Mortgage Loans prior to any distributions being made with respect to the Subordinate Certificates. In addition any such advances previously made in respect of any Mortgage Loan that are deemed by Fannie Mae to be nonrecoverable from the related late collections, insurance proceeds or liquidation proceeds may be reimbursed to Fannie Mae out of funds in the Certificate Account allocable to any of the Mortgage Loans.

Fannie Mae will be required to pay all “out of pocket” costs and expenses incurred in the performance of its servicing obligations, to the extent deemed by Fannie Mae or the servicer retained by Fannie Mae to be recoverable, including, but not limited to, (i) expenditures in connection with a foreclosed Mortgage Loan prior to the liquidation thereof, including, without limitation, expenditures for real estate property taxes, hazard insurance premiums, property restoration or preservation, (ii) the cost of enforcement or judicial proceedings, including foreclosures and (iii) the cost of the management and liquidation of a Mortgaged Property acquired in satisfaction of the related Mortgage Loan. Such costs will constitute “Servicing Advances.” Fannie Mae may recover a Servicing Advance to the extent permitted by the related Mortgage Loans or, if not theretofore recovered from the borrower on whose behalf such Servicing Advance was made, from Liquidation Proceeds realized upon the liquidation of the related Mortgage Loan or from funds otherwise distributable on the Subordinate Certificates.

With respect to each Mortgage Loan, the Lender makes certain warranties to Fannie Mae concerning such matters as the recordation of the original Mortgage, the validity of the Mortgage Loan as a first lien on the Mortgaged Property, and compliance by such Mortgage Loans with applicable state and federal laws. In the event of a material breach of any such warranty or a material defect in the Mortgage Loan documentation, Fannie Mae may withdraw such Mortgage Loan from the Trust at a price equal to its Stated Principal Balance together with interest thereon at the Net Mortgage Rate. Alternatively, Fannie Mae may, at its option, substitute a new Mortgage Loan for a defective Mortgage Loan; provided, however, that no such substitution may take place more than two years subsequent to the date of the original issue of the Certificates, and any such substitute Mortgage Loan must satisfy certain eligibility criteria designed to assure that the nature of the Mortgage Loans generally will not be altered by any such substitution. Any “Substitution Adjustment Amount” (*i.e.*, the amount by which the Stated Principal Balance of the defective Mortgage Loan exceeds the

principal balance of the substitute Mortgage Loan (the substitute Mortgage Loan may not be larger than the Mortgage Loan it is replacing)) will be passed through to Certificateholders.

Subject to the following paragraphs, Fannie Mae in its discretion may enforce or waive enforcement of any of the terms of any Mortgage Loan or enter into an agreement for the modification of any of the terms of any Mortgage Loan, or take any action or refrain from taking any action in servicing any Mortgage Loan. However, certain modifications are prohibited by the Trust Agreement, *e.g.*, reducing the mortgage interest rate or extending the term of a Mortgage Loan (except as may be required by the terms of the Mortgage Note) or any other modification that would (i) cause the Trust to fail to qualify as a REMIC under the Code, (ii) cause any Mortgage Loan to cease to be a “qualified mortgage” within the meaning of section 860G(a) (3) of the Code, or (iii) result in the imposition of any tax on “prohibited transactions” or “contributions” as discussed under “Certain Federal Income Tax Consequences—Taxes on the Trust” herein. In such connection, Fannie Mae may waive any prepayment charge, assumption fee, or late payment charge or may exercise or refrain from exercising any “call option rider.” Notwithstanding the foregoing, the decision by Fannie Mae to take or refrain from taking any such action must be consistent with then-current policies or practices employed by Fannie Mae respecting comparable mortgage loans held in its own portfolio and must be without consideration of the ownership status of the related Mortgage Loan.

In connection with the transfer or prospective transfer of title to a Mortgaged Property securing any Mortgage Loan, Fannie Mae is obligated to accelerate the maturity of the related Mortgage Loan where that Mortgage Loan contains a “due-on sale” clause permitting acceleration under those conditions unless Fannie Mae is restricted by law from enforcing the “due-on-sale” clause.

In the event that, for any reason, Fannie Mae is not obligated to accelerate the maturity of a Mortgage Loan upon the transfer, or prospective transfer, of title to the underlying Mortgaged Property, Fannie Mae may enter into a transaction by which the obligor is released from liability on the related Mortgage Loan and the transferee assumes such liability; provided, however, that no such transaction shall provide for reduction of the mortgage interest rate.

### **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. In the event that Fannie Mae is unable to fulfill its continuing guaranty obligations, the Trust Agreement may be modified to provide for monthly distributions to be made from then-available Mortgage Loan payments and other recoveries in a manner similar to practices and procedures followed in the servicing of whole loans for institutional investors. See “Rights Upon Event of Default” below.

The Trust Agreement also provides that neither Fannie Mae nor any director, officer, employee, or agent of Fannie Mae will be under any liability to the 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 Holders of Certificates of any Class any required distribution that continues unremedied for 15 days after the giving of written notice of such failure to Fannie Mae by the Holders of Certificates representing principal balances aggregating not less than five percent of the aggregate principal balances of all Certificates of such Class; (ii) any failure by Fannie Mae duly to observe or perform in any material respect any other of its covenants or agreements in the Trust Agreement, which failure continues unremedied for 60 days after the giving of written notice of such failure to Fannie Mae by the Holders of Certificates of any Class representing principal balances aggregating not less than 25 percent of the aggregate principal balances of all of the Certificates of such Class; and (iii) certain events of insolvency, readjustment of debt, marshalling of assets and liabilities or similar proceedings and certain actions by or against Fannie Mae indicating its insolvency, reorganization or inability to pay its obligations.

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

As long as an Event of Default under the Trust Agreement remains unremedied, the Holders of Certificates of any Class representing principal balances aggregating not less than 25 percent of the aggregate of the principal balances of all Certificates of such Class may, in writing, terminate all the obligations and duties of Fannie Mae as Trustee and in its corporate capacity under the Trust Agreement in respect of such Trust (other than its guaranty obligations described above, which continue notwithstanding any such termination) and name and appoint, in writing, a successor 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 Mortgage Loans and other assets held in the Trust. The holders of the Subordinate Certificates will have no rights to terminate the obligations and duties of Fannie Mae unless and until the Certificates have been paid in full.

### **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 or supplementing any provision in the Trust Agreement, provided, in the case of any such supplementing, that such provisions do not adversely affect the interest of any Certificateholder; or (v) to modify the Trust Agreement to maintain the qualification of the Trust as a REMIC.

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

percentages of the Certificates the Holders of which are required to consent to any waiver or amendments. Holders of the Subordinate Certificates will have no consent rights with respect to any such amendment unless and until the Certificates have been paid in full. In addition, no waiver or amendment shall, without the consent of each Certificateholder or holders of the Subordinate Certificates affected thereby, reduce in any manner the amount of, or delay the timing of, payments received on Mortgage Loans or other assets in the Trust that are required to be distributed on any Certificate or Subordinate Certificate, or without the consent of all Holders of any residual interest in the Trust, adversely affect the rights of the Holders of such residual interest.

## **Termination**

The Trust Agreement terminates upon the final payment or liquidation of the last Mortgage Loan remaining in the Trust and distribution of all proceeds thereof. The Trust Agreement will terminate also upon repurchase by Fannie Mae, at its option, of all remaining Mortgage Loans in the Trust at a price equal to 100 percent of the Stated Principal Balance of each such Mortgage Loan together with one month's interest thereon at the Net Mortgage Rate, provided that Fannie Mae will not exercise such option unless the aggregate Stated Principal Balance of the remaining Mortgage Loans at the time of repurchase is less than one percent of the aggregate Stated Principal Balance of all the Mortgage Loans as of the Issue Date. The exercise of such option will effect retirement of the Certificates and the Subordinate Certificates. In addition, Fannie Mae does not intend to exercise such option in respect of the Trust if (i) it has knowledge that any related Certificate has been pledged to secure an issue of cash flow obligations or is included in assets underlying an issue of cash flow obligations and (ii) the exercise of such option would take place prior to the earliest date upon which the issuer of such cash flow obligations can exercise an option to redeem such obligations or purchase such Certificates without premium. 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 discussion of the material anticipated federal income tax consequences to beneficial owners of the purchase, ownership and disposition of the Certificates offered hereby. The discussion is based upon laws, regulations, rulings and decisions now in effect, all of which are subject to change. The discussion below does not purport to deal with all federal tax consequences applicable to all categories of investors, some of which may be subject to special rules. Investors should consult their own tax advisors in determining the federal, state, local and any other tax consequences to them of the purchase, ownership and disposition of the Certificates.

The Regulations provide some guidance regarding the federal income tax consequences associated with the purchase, ownership and disposition of the Certificates. While certain material provisions of the Regulations are discussed below, investors should consult their own tax advisors regarding the possible application of the Regulations in their specific circumstances.

### **REMIC Election**

An election will be made to treat the Trust as a REMIC under the Code. Qualification as a REMIC requires ongoing compliance with certain conditions. Dewey Ballantine, special tax counsel to Fannie Mae, will deliver its opinion to Fannie Mae that, assuming compliance with the Trust Agreement, the Trust will be treated as a REMIC for federal income tax purposes. The Certificates (other than the R Class) will be designated as "regular interests" in the Trust (each a "Regular

Certificate” and, together, the “Regular Certificates”), and the R Class will be designated as the “residual interest” in the Trust (the “Residual Certificate”).

The Trust will not be subject to federal income tax except with respect to income from prohibited transactions and in certain other instances described below. See “Taxes on the Trust” below. Generally, the total income of the Mortgage Loans in the Trust will be taxable to the beneficial owners of the Certificates, as described below.

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

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

#### *Original Issue Discount*

The PO and XS Classes will be, and the A Class may be, issued with “original issue discount” within the meaning of section 1273(a) of the Code. Regular 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 IRS, to Holders of Regular Certificates, brokers and middlemen information with respect to the original issue discount accruing on the Regular Certificates.

In general, a Regular Certificate will be considered to be issued with original issue discount equal to the excess, if any, of its “stated redemption price at maturity” over its “issue price.” The issue price of a Regular Certificate is the initial offering price to the public (excluding bond houses and brokers) at which a substantial amount of the Regular Certificates was sold. The issue price also includes any accrued interest attributable to the period between the beginning of the first Interest Accrual Period and the Settlement Date. The stated redemption price at maturity of a Regular Certificate from a Notional Class is equal to the sum of all distributions to be made under such Regular Certificate. The stated redemption price at maturity of any other Regular Certificate is its stated principal amount, plus an amount equal to the excess (if any) of the interest payable on the first Distribution Date over the interest that accrues for the period from the Settlement Date to the first Distribution Date. The stated redemption price at maturity of a Regular Certificate does not include any qualified stated interest which is defined in the OID Regulations (as defined herein) as stated interest that is unconditionally payable at least annually at a single fixed rate.

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

350 percent of the PSA model (the “Prepayment Assumption”). See “Yield and Prepayment Considerations—Prepayment Assumptions and Decrement Tables” herein.

Section 1272(a)(6) of the Code contains special original issue discount rules applicable to the Regular Certificates. Under these rules, (i) it is anticipated that the amount and rate of accrual of original issue discount on a Regular Certificate will be based on the Prepayment Assumption, and (ii) adjustments will be made in the amount of discount accruing in each taxable year in which the actual prepayment rate differs from the Prepayment Assumption.

Section 1272(a)(6)(B)(iii) of the Code requires that the prepayment assumption used to calculate original issue discount be determined in the manner prescribed in Treasury regulations. To date, no such regulations have been promulgated. The legislative history of this Code provision indicates that the regulations will provide that the assumed prepayment rate must be the rate used by the parties in pricing the particular transaction. The Prepayment Assumption would satisfy such a requirement. Fannie Mae makes no representation, however, that the Mortgage Loans underlying the Certificates will prepay at the rate reflected in the Prepayment Assumption or at any other rate. Each investor must make its own decision as to the appropriate prepayment assumption to be used in deciding whether or not to purchase any of the Certificates.

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

The OID Regulations define and provide special rules to determine the amount and accrual of original issue discount and qualified stated interest on variable rate debt instruments (“VRDIs”). Fannie Mae intends to apply these rules to the accrual of original issue discount on the Regular Certificates. If a VRDI is issued with original issue discount, the rate of accrual of the original issue discount is determined by first substituting an equivalent fixed rate for the variable rate. The portion of original issue discount treated as accruing for any accrual period will equal the excess, if any, of (i) the sum of (A) the present values of all the distributions remaining to be made on the Regular Certificate, if any, as of the end of the accrual period and (B) the distribution made on such Certificate during the accrual period of amounts included in the stated redemption price at maturity, over (ii) the adjusted issue price of such Certificate at the beginning of the accrual period. The present value of the remaining distributions referred to in the preceding sentence will be calculated based on (i) the yield to maturity of the Regular Certificate, calculated as of the Settlement Date, giving effect to the Prepayment Assumption, (ii) events (including actual prepayments) that have occurred prior to the end of the accrual period, (iii) the Prepayment Assumption and (iv) an assumption that the equivalent fixed rate for each Regular Certificate is the rate of interest borne by such Regular Certificate during its initial Interest Accrual Period. The adjusted issue price of a Regular Certificate at any time will equal the issue price of such Certificate, increased by the aggregate amount of previously accrued original issue discount with respect to such Certificate, and reduced by the amount of any distributions made on such Certificate as of that time of amounts included in the stated redemption price at maturity. The original issue discount accruing during any accrual period will then be allocated ratably to each day during the period to determine the daily portion of original issue discount.

A subsequent purchaser of a Regular Certificate that purchases such Certificate 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 such Certificate (but reduced, if the cost of such Certificate to such purchaser exceeds its adjusted issue price, by an amount equal to the product of (i) such daily portion and (ii) a constant fraction, the numerator of which is such excess and the denominator of which is the sum of the daily portions of original issue discount on such Certificate for all days on or after the day of purchase).

#### *Certificates Purchased at a Premium*

A purchaser of a Regular Certificate that purchases such Certificate at a cost greater than its remaining stated redemption price at maturity will be considered to have purchased such Certificate (a “Premium Certificate”) at a premium. Such a purchaser need not include in income any remaining original issue discount and may elect, under section 171(c)(2) of the Code, to treat such premium as “amortizable bond premium.” If a Regular Owner makes such an election, the amount of any interest payment that must be included in such Regular Owner’s income for each period ending on a Distribution Date will be reduced by the portion of the premium allocable to such period based on the Premium Certificate’s yield to maturity. The legislative history of the Tax Reform Act of 1986 states that such premium amortization should be made under principles analogous to those governing the accrual of market discount (as discussed below under “*Market Discount*”). If such election is made by the Regular Owner, the election will also apply to all bonds (as well as all REMIC regular interests) the interest on which is not excludible from gross income (“Fully Taxable Bonds”) held by the Regular Owner at the beginning of the first taxable year to which the election applies and to all such Fully Taxable Bonds thereafter acquired by it, and is irrevocable without the consent of the IRS. If such an election is not made, (i) such a Regular Owner must include the full amount of each interest payment in income as it accrues, and (ii) the premium must be allocated to the principal distributions on the Premium Certificate and, when each such distribution is received, a loss equal to the premium allocated to such distribution will be recognized. Any tax benefit from the premium not previously recognized will be taken into account in computing gain or loss upon the sale or disposition of the Premium Certificate.

#### *Market Discount*

A Regular Owner that purchases a Regular Certificate at a market discount, that is, at a purchase price less than the remaining stated redemption price at maturity of such Certificate, or in the case of a Regular Certificate issued with original issue discount, less than the adjusted issue price of such Certificate, will be required to allocate each principal distribution first to accrued market discount on the Regular Certificate, and recognize ordinary income to the extent such distribution does not exceed the aggregate amount of accrued market discount on such Certificate that was not previously included in income. With respect to Regular Certificates that have 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*.” A Regular Owner that incurs or continues indebtedness to acquire a Regular Certificate 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 Regular Certificate 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 Regular Certificate. Fannie Mae will make available, as required by the IRS, to Holders of Regular Certificates information necessary to compute the accrual of market discount.

Notwithstanding the above rules, market discount on a Regular Certificate will be considered to be zero if such discount is less than 0.25 percent of the remaining stated redemption price at maturity of such Certificate multiplied by its weighted average remaining life. Weighted average remaining life



presumably would be calculated in a manner similar to weighted average life, taking into account payments (including prepayments) prior to the date of acquisition of the Regular Certificate by the subsequent purchaser. If market discount on a Regular Certificate is treated as zero under this rule, the actual amount of market discount must be allocated to the remaining principal distributions on the Regular Certificate and, when each such distribution is received, gain equal to the discount allocated to such distribution will be recognized.

#### *Special Election*

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

### **Taxation of Beneficial Owners of the Residual Certificate**

#### *Daily Portions*

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

The requirement that each Residual Owner report its daily portion of the taxable income or net loss of the Trust will continue until there are no Certificates of any Class outstanding, even though the Residual Owner is not entitled to receive any distributions of principal or interest on its Residual Certificate.

#### *Taxable Income or Net Loss of the Trust*

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

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

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

#### *Basis Rules and Distributions*

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

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

#### *Excess Inclusions*

Any excess inclusions with respect to a Residual Certificate are subject to certain special tax rules. With respect to a Residual Owner, the excess inclusion for any calendar quarter is defined as the excess (if any) of the daily portions of taxable income over the sum of the “daily accruals” for each day during such quarter that such Residual Certificate was held by such Residual Owner. The daily accruals are determined by allocating to each day during a calendar quarter its ratable portion of the product of the “adjusted issue price” of the Residual Certificate at the beginning of the calendar quarter and 120 percent of the “Federal long-term rate” in effect on the Settlement Date, based on quarterly compounding, and properly adjusted for the length of such quarter. For this purpose, the adjusted issue price of a Residual Certificate as of the beginning of any calendar quarter is equal to the issue price of the Residual Certificate, increased by the amount of daily accruals for all prior quarters and decreased by any distributions made with respect to such Residual Certificate before the

beginning of such quarter. The issue price of a Residual Certificate is the initial offering price to the public (excluding bond houses and brokers) at which a substantial amount of the Residual Certificates was sold. The Federal long term rate is a blend of current yields on Treasury securities having a maturity of more than nine years, computed and published monthly by the IRS. The rate will be published on or about May 20, 1995.

For Residual Owners that are thrift institutions described in section 593 of the Code, income from a Residual Certificate generally may be offset by losses from other activities. Under the Regulations, such an organization is treated as having applied its allowable deductions for the year first to offset income that is not an excess inclusion and then to offset that portion of its income that is an excess inclusion. For other Residual Owners, any excess inclusions cannot be offset by losses from other activities. For Residual Owners that are subject to tax only on unrelated business taxable income (as defined in section 511 of the Code), any excess inclusion of such Residual Owner is treated as unrelated business taxable income. With respect to variable contracts (within the meaning of section 817 of the Code), a life insurance company cannot adjust its reserve to the extent of any excess inclusion, except as provided in regulations. The Regulations indicate that if a Residual Owner is a member of an affiliated group filing a consolidated income tax return, the taxable income of the affiliated group cannot be less than the sum of the excess inclusions attributable to all residual interests in REMICs held by members of the affiliated group. For a discussion of the effect of excess inclusions on certain foreign investors that own Residual Certificates, see “Foreign Investors—Residual Certificates” below.

The Regulations provide that an organization to which section 593 of the Code applies and which is the beneficial owner of a Residual Certificate may not use its allowable deductions to offset any excess inclusions with respect to such Certificate if such Certificate does not have “significant value.” For this purpose, a Residual Certificate has significant value under the Regulations if (i) its issue price is at least 2% of the aggregate of the issue prices of all the Regular and Residual Certificates in the Trust and (ii) its “anticipated weighted average life” is at least 20% of the “anticipated weighted average life” of the Trust. Because the R Class will not have significant value under the Regulations, an organization to which section 593 of the Code applies and which is a Residual Owner may not use its allowable deductions to offset any “excess inclusions” with respect to such Certificate.

In determining whether a Residual Certificate has significant value, the anticipated weighted average life of such Certificate is based on the Prepayment Assumption and is determined as described in “Yield and Prepayment Considerations—Weighted Average Lives of the Certificates” herein, except that all anticipated payments on such Certificate are taken into account, regardless of their designation as principal or interest. The anticipated weighted average life of the Trust will be the weighted average of the anticipated weighted average lives of the Certificates. Such weighted average is determined under the formula described in “Yield and Prepayment Considerations—Weighted Average Lives of the Certificates” herein, with two distinctions. First, the formula is applied by treating all payments taken into account in computing the anticipated weighted average lives of the Regular and Residual Certificates in the Trust as principal payments on a single Regular Certificate. Second, for any Residual Certificate or for a Regular Certificate that is an Interest Only Class or for which the issue price of the Regular Certificate is greater than 125% of its specified principal amount, all anticipated payments on that Residual or Regular Certificate, regardless of their designation as principal or interest, are taken into account in computing the anticipated weighted average life of the Certificate.

The Treasury Department also has the authority to issue regulations that would treat all taxable income of the Trust as excess inclusions if the Residual Certificate does not have “significant value.” Although the Treasury Department did not exercise this authority in the Regulations, further regulations may contain such a rule. If such a rule were adopted, it is unclear whether the test for significant value that is contained in the Regulations and discussed in the two preceding paragraphs would be applicable. If no such rule is applicable, excess inclusions should be calculated as discussed above. The federal income tax consequences of any consideration paid to a transferee on the transfer

of an R Certificate are unclear; any transferee receiving such consideration should consult its own tax advisors.

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

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

A Residual Owner who is an individual will be required to include in income a share of the administrative fees of the Trust. A deduction for such fees will be allowed to such Owner only to the extent that such fees, along with certain of such Owner's other miscellaneous itemized deductions exceed 2 percent of such Owner's adjusted gross income. In addition, a Residual Owner may not be able to deduct any portion of such fees in computing such Residual Owner's alternative minimum tax liability. A Residual Owner's share of such fees will generally be determined by (i) allocating the amount of such expenses for each calendar quarter on a pro rata basis to each day in the calendar quarter, and (ii) allocating the daily amount among the Owners in proportion to their respective holdings on such day.

### **Special Tax Attributes**

As a consequence of the qualification of the Trust as a REMIC, the Certificates generally will be treated as "qualifying real property loans" (within the meaning of section 593(d) of the Code) for mutual savings banks and domestic building and loan associations, "regular or residual interests in a REMIC" (within the meaning of section 7701(a)(19)(C)(xi) of the Code) for domestic building and loan associations "real estate assets" (within the meaning of section 856(c)(5)(A) of the Code) for real estate investment trusts, and, except for the R Class, as "qualified mortgages" (within the meaning of section 860G(a)(3) of the Code) for other REMICs. If at any time during a calendar year less than 95 percent of the assets of the Trust consist of qualified mortgages, then the portion of the Regular and Residual Certificates that are qualifying assets under these Code sections during such calendar year may be limited to the portion of the assets of the Trust that are qualified mortgages.

Similarly, income on the Regular and Residual Certificates will be treated as "interest on obligations secured by mortgages on real property" within the meaning of section 856(c)(3)(B) of the Code, subject to the same limitation as set forth in the preceding sentence. For purposes of applying this limitation, the Trust should be treated as owning the assets represented by the qualified mortgages. The assets of the Trust will include, in addition to the Mortgage Loans, payments on the Mortgage Loans held pending distribution on the Regular and Residual Certificates and any reinvestment income thereon. Regular and Residual Certificates held by a financial institution to which section 585, 586 or 593 of the Code applies will be treated as evidences of indebtedness for purposes of section 582(c)(1) of the Code.

### **Taxes on the Trust**

#### *Prohibited Transactions*

The Code imposes a tax on a REMIC equal to 100 percent of the net income derived from "prohibited transactions." In general, a prohibited transaction means the disposition of a qualified mortgage other than pursuant to certain specified exceptions, the receipt of investment income from a source other than a Mortgage Loan or certain other permitted investments, the receipt of compensa-

tion for services, or the disposition of an asset purchased with the payments on the qualified mortgages for temporary investment pending distribution on the regular and residual interests.

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

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

#### *Net Income from Foreclosure Property*

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

#### *Application to the Trust*

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

### **Sales of Certificates**

#### *In General*

Except as provided below, if a Regular or Residual Certificate is sold, the seller will recognize gain or loss equal to the difference between the amount realized in the sale and its adjusted basis in the Certificate. The adjusted basis of a Regular Certificate generally will equal the cost of such Certificate to the seller, increased by any original issue discount or market discount included in the seller’s gross income with respect to such Certificate and reduced by distributions on such Certificate 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 such Certificate. The adjusted basis of a Residual Certificate is determined as described above under “Taxation of Beneficial Owners of Residual Certificates—*Basis Rules and Distributions*.” Except as provided in the following paragraph or under section 582(c) of the Code, any such gain or loss will be capital gain or loss, provided such Certificate is held as a “capital asset” (generally, property held for investment) within the meaning of section 1221 of the Code.

Gain from the sale of a Regular Certificate that might otherwise be capital gain will be treated as ordinary income to the extent that such gain does not exceed the excess, if any, of (i) the amount that would have been includible in the income of the Regular Owner had income accrued at a rate equal to 110 percent of the “applicable Federal rate” (generally, an average of current yields on Treasury securities) as of the date of purchase over (ii) the amount actually includible in such Regular Owner’s income. In addition, gain recognized on such a sale by a Regular Owner who purchased a Regular Certificate at a market discount would also be taxable as ordinary income in an amount not exceeding the portion of such discount that accrued during the period such Certificate was held by such Regular



Owner, reduced by any market discount includible in income under the rules described above under “Taxation of Beneficial Owners of Regular Certificates—*Market Discount*.”

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

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

Section 860E(e) of the Code imposes a substantial tax, payable by the transferor (or, if a transfer is through a broker, nominee, or other middleman as the transferee’s agent, payable by that agent) upon any transfer of a Residual Certificate to a disqualified organization and upon a pass-through entity (including regulated investment companies, real estate investment trusts, common trust funds, partnerships, trusts, estates, certain cooperatives, and nominees) that owns a Residual Certificate if such pass-through entity has a disqualified organization as a record holder. For purposes of the preceding sentence, a transfer includes any transfer of record or beneficial ownership, whether pursuant to a purchase, a default under a secured lending agreement or otherwise. The term “disqualified organization” is defined above under “Description of the Certificates—Certain Characteristics of the R Class.”

A transferor of a Residual Certificate (or an agent of a transferee of a Residual Certificate, as the case may be) will be relieved of such tax liability if (i) the transferee furnishes to the transferor (or the transferee’s agent) an affidavit that the transferee is not a disqualified organization, and (ii) the transferor (or the transferee’s agent) does not have actual knowledge that the affidavit is false at the time of the transfer. Similarly, no such tax will be imposed on a pass-through entity for a period with respect to an interest therein owned by a disqualified organization if (i) the record holder of such interest furnishes to the pass-through entity an affidavit that it is not a disqualified organization, and (ii) during such period, the pass-through entity has no actual knowledge that the affidavit is false.

#### **Termination**

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

#### **Reporting and Other Administrative Matters**

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

Owner, by the acceptance of the Residual Certificate, agrees that Fannie Mae will act as its fiduciary in the performance of any duties required of it in the event that it is the tax matters partner.

The Residual Owner is required to treat items on its return consistently with the treatment on the return of the Trust, unless the Residual Owner either files a statement identifying the inconsistency or establishes that the inconsistency resulted from incorrect information received from the Trust. The IRS may assert a deficiency resulting from a failure to comply with the consistency requirement without instituting an administrative proceeding at the Trust level. Fannie Mae does not intend to register the Trust as a tax shelter pursuant to section 6111 of the Code.

### **Backup Withholding**

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

### **Foreign Investors**

#### *Regular Certificates*

Distributions made on a Regular Certificate to, or on behalf of, a Regular Owner that is not a U.S. Person (a “Non-U.S. Person”) generally will be exempt from U.S. federal income and withholding taxes, provided (a) the Regular Owner is not subject to U.S. tax as a result of a connection to the United States other than ownership of the Certificate, (b) the Regular Owner signs a statement under penalties of perjury that certifies that such Regular Owner is a Non-U.S. Person, and provides the name and address of such Regular Owner, and (c) the last U.S. Person in the chain of payment to the Regular Owner receives such statement from such Regular Owner or a financial institution holding on its behalf and does not have actual knowledge that such statement is false. Regular Owners should be aware that the IRS might take the position that this exemption does not apply to a Regular Owner that also owns 10 percent or more of the Residual Certificates or of the voting stock of Fannie Mae, or to a Regular Owner that is a “controlled foreign corporation” described in section 881(c)(3)(C) of the Code.

#### *Residual Certificates*

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

## **LEGAL INVESTMENT CONSIDERATIONS**

Institutions whose investment activities are subject to legal investment laws and regulations or to review by certain regulatory authorities may be subject to restrictions on investment in certain Classes

of the Certificates. 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.

## **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, 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 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, Arter & Hadden, 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 Mortgages underlying the Certificates.

## **PLAN OF DISTRIBUTION**

Fannie Mae will acquire the Mortgage Loans from a Fannie Mae-approved seller in exchange for the Certificates and the Subordinate Certificates pursuant to the Sale and Servicing Agreement. The Dealer, who has been retained by the seller, proposes to offer the Certificates directly to the public from time to time in negotiated transactions at varying prices to be determined at the time of sale. The Dealer may effect such transactions to or through dealers.

## **LEGAL MATTERS**

Certain legal matters will be passed upon for the Dealer by Cleary, Gottlieb, Steen & Hamilton.

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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 representation must not be relied upon as having been authorized. This Prospectus and the aforementioned document 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 in such state. The delivery of this Prospectus and the aforementioned document 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.

**\$98,148,804**  
(Approximate)

**Federal National  
Mortgage Association**



**Guaranteed REMIC  
Pass-Through Certificates**

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**Fannie Mae REMIC Trust 1995-W3**

**Salomon Brothers Inc**

**Prospectus**  
**Dated May 16, 1995**