

**\$86,162,550 (Approximate)**  
**Federal National Mortgage Association**



**Guaranteed Grantor Trust Pass-Through Certificates**  
**Fannie Mae Grantor Trust 1996-T3**

The Guaranteed Grantor Trust Pass-Through Certificates (the "Certificates") will represent beneficial ownership interests in Fannie Mae Grantor Trust 1996-T3 (the "Trust"). The assets of the Trust will consist of certain "fully modified pass-through" mortgage-backed securities (the "GNMA Certificates") guaranteed as to timely payment of principal and interest by the Government National Mortgage Association ("GNMA"). Each of the GNMA Certificates represents an ownership interest in a multifamily mortgage loan (a "Mortgage Loan") that is insured by the Federal Housing Administration (the "FHA"). The Mortgage Loans are fixed-rate and generally are level-pay and fully amortizing. See "Description of the GNMA Certificates and the Mortgage Loans" herein. The Certificates will be issued and guaranteed as to timely distribution of principal and interest by Fannie Mae.

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

See "Risk Factors" beginning on page 6 hereof for a discussion of certain risks that should be considered in connection with an investment in the Certificates.

*(Cover continued on next page)*

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

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

Class	Original Principal Balance(1)	Principal Type(2)	Interest Rate	Interest Type(2)	CUSIP Number	Final Distribution Date(3)
A .....	\$86,162,550	PT	7.75%	FIX	31359L7H2	April 2032
B .....	(4)	NTL	(5)	W/IO	31359L7J8	April 2032

- (1) Subject to a permitted variance of plus or minus 5%.
- (2) See "Description of the Certificates—Certain Definitions and Abbreviations," "—Distributions of Interest" and "—Distributions of Principal" herein.
- (3) Calculated as described herein under "Description of the Certificates—Maturity Considerations and Final Distribution Date."
- (4) The B Class will be a Notional Class, will not have a principal balance and will bear interest on its notional principal balance (initially equal to approximately \$86,162,550). The notional principal balance of the B Class will at all times be equal to the principal balance of the A Class. See "Description of the Certificates—Distributions of Interest—Notional Class" herein.
- (5) The B Class will bear interest during each Interest Accrual Period (as defined herein) at a variable rate per annum equal to the excess of the weighted average of the pass-through rates on the GNMA Certificates, weighted on the basis of the respective principal balances of the GNMA Certificates (determined as described herein under "Description of the Certificates—Distributions of Principal—Principal Distribution Amount"), over 7.75% (such excess, the "Net Weighted Average Pass-Through Rate"). The Net Weighted Average Pass-Through Rate for the initial Interest Accrual Period is 0.9199%. See "Description of the Certificates—Distributions of Interest" herein.

The Certificates offered hereby will be offered by Donaldson, Lufkin & Jenrette Securities Corporation (the "Dealer") from time to time in negotiated transactions, at varying prices to be determined at the time of sale.

The Certificates offered hereby will be offered by the 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, and subject to approval of certain legal matters by counsel. It is expected that the Certificates offered hereby will be available through the book-entry system of The Depository Trust Company on or about May 31, 1996 (the "Settlement Date").

**Donaldson, Lufkin & Jenrette**  
**Securities Corporation**

The date of this Prospectus is May 9, 1996.

*(Cover continued from previous page)*

The yield to investors in the Certificates will be sensitive in varying degrees to the rate of principal payments of the Mortgage Loans, the actual characteristics of such Mortgage Loans and the purchase price paid for the Certificates. The yield to investors in the B Class will also be sensitive to fluctuations in the weighted average of the pass-through rates of the GNMA Certificates. Accordingly, investors should consider the following risks:

- Subject to the effect of applicable lockouts and mortgage prepayment penalties, the Mortgage Loans may be prepaid by the related borrowers at any time and, accordingly, the rate of principal payments thereon is likely to vary considerably from time to time. Depending on other factors present at the time, Mortgage Loans having prepayment penalties may be less likely to prepay than Mortgage Loans that do not have such penalties. In addition, the full principal balance of a GNMA Certificate may be distributed upon a default of the underlying Mortgage Loan, which could take place during an otherwise applicable lockout or prepayment penalty period.
- Slight variations in Mortgage Loan characteristics could substantially affect the weighted average life and yield of the Certificates.
- In the case of any Certificates of the A Class 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 of the A Class 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 the B 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.
- There will be no reimbursement to investors for any premium paid by such investors, or for any loss in an investor's yield, if such investors receive early payments of principal.

See "Risk Factors" and "Description of the Certificates—Additional Yield Characteristics of the B Class" herein.

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

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

The Dealer intends to make a secondary 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 marketable.

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

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

Investors should purchase the Certificates only if they have read and understood this Prospectus and Fannie Mae's Information Statement dated February 22, 1996 and any supplements thereto (collectively, the "Information Statement").

The Information Statement is incorporated herein by reference and may be obtained from Fannie Mae by writing or calling its MBS helpline at 3900 Wisconsin Avenue, N.W., Area 2H-3S, Washington, D.C. 20016 (telephone 1-800-BEST-MBS or 202-752-6547). Such document may also be obtained from Donaldson, Lufkin & Jenrette Securities Corporation by writing or calling its Prospectus Department at 277 Park Avenue, 7th Floor, New York, New York 10172 (telephone 212-892-4525). Other data specific to the Certificates is available in electronic form by calling Fannie Mae at 1-800-752-6440 or 202-752-6000.

## TABLE OF CONTENTS

	<u>Page</u>		<u>Page</u>
<b>Reference Sheet</b> .....	4	General .....	15
<b>Risk Factors</b> .....	6	FHA Insurance Programs .....	15
Yield Considerations.....	6	<i>Section 223(f)</i> .....	15
Reinvestment Risk .....	6	<i>Section 221(d)(4)</i> .....	16
Prepayment Considerations and Risks .....	7	<i>Section 241(f)</i> .....	16
<b>Description of the Certificates</b> .....	7	Certain Additional Characteristics of the Mortgage Loans .....	16
General .....	7	<i>Lockouts</i> .....	16
<i>Structure</i> .....	7	<i>Mortgage Prepayment Penalties</i> ...	16
<i>Authorized Denominations</i> .....	8	<i>Coinsurance</i> .....	17
<i>Characteristics of Certificates</i> .....	8	<b>The Trust Agreement</b> .....	17
<i>Fannie Mae Guaranty</i> .....	8	Reports to Certificateholders .....	17
<i>Dates of Distribution</i> .....	8	Certain Matters Regarding Fannie Mae .....	17
<i>Record Date</i> .....	8	Events of Default .....	18
<i>Trust Factors</i> .....	8	Rights Upon Event of Default .....	18
Book-Entry Procedures .....	8	Amendment .....	18
<i>General</i> .....	8	Termination .....	19
<i>Method of Distribution</i> .....	9	<b>Certain Federal Income Tax</b> <b>Consequences</b> .....	19
Distributions of Interest .....	9	General .....	19
<i>Categories of Classes</i> .....	9	Taxation of the A Class Certificates..	20
<i>General</i> .....	9	<i>Premium</i> .....	20
<i>Interest Accrual Period</i> .....	9	<i>Market Discount</i> .....	20
<i>Notional Class</i> .....	9	<i>Special Election</i> .....	21
Distributions of Principal .....	10	Taxation of the B Class Certificates..	21
<i>Categories of Classes</i> .....	10	Trust Expenses .....	22
<i>Principal Distribution Amount</i> ....	10	Sales of Certificates .....	22
Certain Definitions and Abbreviations	11	Special Tax Attributes .....	22
Structuring Assumptions .....	11	Information Reporting and Backup Withholding .....	23
<i>Pricing Assumptions</i> .....	11	Foreign Investors .....	23
<i>Prepayment Assumptions</i> .....	11	<b>Legal Investment Considerations</b> ...	23
Weighted Average Life of the Certificates .....	12	<b>Legal Opinion</b> .....	24
Maturity Considerations and Final Distribution Date .....	12	<b>ERISA Considerations</b> .....	24
Additional Yield Characteristics of the B Class .....	12	<b>Plan of Distribution</b> .....	24
Decrement Table .....	14	<b>Legal Matters</b> .....	24
<b>Description of the GNMA</b> <b>Certificates and the Mortgage</b> <b>Loans</b> .....	15	<b>Exhibit A</b> .....	A-1

## REFERENCE SHEET

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

### Certain Characteristics of the GNMA Certificates and Mortgage Loans (as of May 1, 1996)

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

FHA Insurance Program	Principal Balance	Number of GNMA Pools	Percent of Total Balance	Weighted Average Mortgage Loan Interest Rate	Weighted Average GNMA Certificate Interest Rate	Weighted Average Original Term to Maturity (in months)	Weighted Average Remaining Term to Maturity (in months)	Weighted Average Period from Issuance (in months)	Weighted Average Remaining Lockout Period (in months)	Weighted Average Term to End of Mortgage Loan Prepayment Penalty Period (in months)
223 (f)	\$47,213,848.39	5	54.80%	8.874%	8.518%	393	325	69	76	97
221 (d) (4)	36,440,598.77	3	42.29	9.299	8.878	477	393	84	30	30
241 (f)	2,508,103.23	1	2.91	8.750	8.500	480	431	49	70	70
	<u>\$86,162,550.39</u>		<u>100.00%</u>							

In addition, the table contained on Exhibit A hereto sets forth certain information regarding the characteristics of the individual GNMA Certificates and Mortgage Loans as of May 1, 1996 (the “Issue Date”), including information regarding the applicable FHA program, property location, approximate principal balance, GNMA Certificate interest rate, mortgage interest rate, maturity date, original and remaining terms to maturity, GNMA Certificate age and issue date, and additional information regarding prepayment lockout and prepayment penalty periods applicable to the Mortgage Loans. Certain additional information regarding the GNMA Certificates and the Mortgage Loans may be obtained from Fannie Mae as described under “Description of the GNMA Certificates and Mortgage Loans—General” herein.

For a description of the characteristics and assumptions on the basis of which certain tabular information herein has been prepared, see “Description of the Certificates—Structuring Assumptions” herein.

#### Interest Rates

The Certificates offered hereby will bear interest at the rate set forth or described on the cover hereof.

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

#### Notional Class

The notional principal balance of the B Class will be equal to 100% of the outstanding principal balance of the A Class immediately prior to the related Distribution Date. See “Description of the Certificates—Distributions of Interest—*Notional Class*” and “—Additional Yield Characteristics of the B Class” herein.

#### Distributions of Principal

Principal of the Certificates will be distributed monthly in an amount equal to the Principal Distribution Amount (as defined herein).

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

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

Class	Lockout**					
	CPR Prepayment Assumption					
	0%	10%	20%	30%	50%	100%
A and B .....	20.9	11.2	8.2	6.9	5.7	4.4

Class	Extended Protection**					
	CPR Prepayment Assumption					
	0%	10%	20%	30%	50%	100%
A and B .....	20.9	11.8	8.9	7.6	6.5	5.2

\* Determined as specified under “Description of the Certificates—Weighted Average Life of the Certificates” herein.  
 \*\* “Lockout” assumes no prepayment prior to the applicable lockout end dates and “Extended Protection” assumes no prepayment prior to any applicable prepayment penalty end dates.

## **RISK FACTORS**

### **Yield Considerations**

The effective yield to Certificateholders in the Trust will depend upon the purchase price of the related Certificates, the rate of principal payments, including prepayments, on the Mortgage Loans, and the actual characteristics of the Mortgage Loans. In addition, the yield to investors in the B Class will be sensitive to fluctuations in the weighted average of the pass-through rates of the GNMA Certificates. Generally, if the actual rate of payments on the Mortgage Loans is slower than the rate anticipated by an investor who purchased a Certificate of the A Class at a discount, the actual yield to such investor will be lower than such investor's anticipated yield. If the actual rate of payment on the Mortgage Loans is faster than the rate anticipated by an investor who purchased a Certificate of the B Class or who purchased a Certificate of the A Class at a premium, the actual yield to such investor will also be lower than such investor's anticipated yield. An investor should purchase Certificates only after performing an analysis of such Certificates based upon the investor's own assumptions as to future rates of prepayment.

The timing of changes in the rate of principal payments (including prepayments) or in the Net Weighted Average Pass-Through Rate may significantly affect the yield to an investor, even if the average rate of principal prepayments or the average Net Weighted Average Pass-Through Rate is consistent with such investor's expectations. In general, the earlier the payment of principal or change in the level of the Net Weighted Average Pass-Through Rate, the greater the effect on an investor's yield to maturity. As a result, the effect on an investor's yield of principal payments (including prepayments) or the level of the Net Weighted Average Pass-Through Rate occurring at a rate or level higher (or lower) than the rate or level 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) or level of the Net Weighted Average Pass-Through Rate.

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

There will be no reimbursement to investors for any premium paid by investors or for any loss in yield if such investors receive early payments of principal.

### **Reinvestment Risk**

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

## **Prepayment Considerations and Risks**

The rate of distributions of principal of the A Class is related directly to the rate of payments of principal of the Mortgage Loans, which may be in the form of scheduled amortization or prepayments (for this purpose, the term “prepayment” includes prepayments and liquidations resulting from default, casualty or condemnation). Most of the Mortgage Loans prohibit voluntary prepayments during specified lockout periods. Such lockout periods have remaining lockout terms that range from approximately 4 to 121 months and with a weighted average remaining lockout term of approximately 56 months. Certain of the Mortgage Loans also provide for payment of a mortgage prepayment penalty in connection with prepayments for a period extending beyond the lockout period. Depending on other factors present at the time, Mortgage Loans having prepayment penalties may be less likely to prepay than Mortgage Loans that do not have such penalties. Any collected prepayment penalties will be distributed in respect of the B Class in addition to the interest otherwise distributable in respect of such Class.

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

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

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

## **DESCRIPTION OF THE CERTIFICATES**

### **General**

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

*Structure.* The Certificates will be issued and guaranteed by the Federal National Mortgage Association (“Fannie Mae”), a corporation organized and existing under the laws of the United States, under the authority contained in Section 304(d) of the Federal National Mortgage Association Charter Act (12 U.S.C. 1716 et seq.). The Trust will be created pursuant to a trust agreement dated as of May 1, 1996 (the “Trust Agreement”), executed by Fannie Mae in its corporate capacity and in its capacity as Trustee (in such capacity, the “Trustee”), and the Certificates in the aggregate original principal balance set forth on the cover hereof will be issued by Fannie Mae pursuant thereto. A description of Fannie Mae and its business, together with certain financial statements and other financial information, is contained in the Information Statement.

The assets of the Trust will consist primarily of the GNMA Certificates. Each GNMA Certificate represents the entire beneficial ownership interest in a single Mortgage Loan. See “The GNMA Certificates and Mortgage Loans” herein.

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

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

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

*Fannie Mae Guaranty.* Pursuant to its guaranty of the Certificates, Fannie Mae will be obligated to distribute to the Holders of Certificates (i) all interest accrued and distributable on the Certificates as provided herein under “Description of the Certificates—Distributions of Interest” and (ii) the Principal Distribution Amount (as defined herein), whether or not sufficient funds are received with respect to the GNMA Certificates. If Fannie Mae were unable to perform these guaranty obligations, distributions to Certificateholders would consist solely of payments and other recoveries on the GNMA Certificates. *Fannie Mae will not guarantee the collection or the payment to Certificateholders of any prepayment penalties.* Accordingly, Certificateholders entitled to receive prepayment penalties will receive them only to the extent actually received in respect of the GNMA Certificates. The guaranty of Fannie Mae is not backed by the full faith and credit of the United States.

*Dates of Distribution.* Distributions on the Certificates will be made on the 17th day of each month (or, if such 17th day is not a business day, on the first business day next succeeding such 17th day) (each a “Distribution Date”), commencing in June 1996.

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

*Trust Factors.* As soon as practicable following the thirteenth day of each month, Fannie Mae will publish or otherwise make available for the Certificates the factor (carried to eight decimal places) (the “Trust Factor”) which, when multiplied by the original principal balance of a Certificate, will equal the remaining principal balance of such Certificate after giving effect to the distribution of principal, if any, to be made on the following Distribution Date. In the event an adjustment to the Trust Factor is necessary with respect to any Distribution Date, Fannie Mae will publish or otherwise make available an adjusted Trust Factor as soon as practicable following any such adjustment.

## **Book-Entry Procedures**

### *General*

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

No person acquiring a beneficial ownership interest in the DTC Certificates (a “beneficial owner” or an “investor”) will be entitled to receive a physical certificate representing such ownership interest. An investor’s interest in the DTC Certificates will be recorded on the records of the brokerage firm, bank, thrift institution or other financial intermediary (a “financial intermediary”) that maintains such investor’s account for such purpose. In turn, the financial intermediary’s record ownership of such interest will be recorded on the records of the Depository (or of a Depository Participant that

acts as an agent for the financial intermediary if such intermediary is not a Depository Participant). Accordingly, an investor will not be recognized by the Trustee or the Depository as a Certificateholder and must rely on the foregoing arrangements to evidence its interest in the DTC Certificates. Beneficial ownership of an investor's interest in the DTC Certificates may be transferred only by compliance with the procedures of an investor's financial intermediary and of Depository Participants. In general, beneficial ownership of an investor's interest in the DTC Certificates will be subject to the rules, regulations and procedures governing the Depository and Depository Participants as in effect from time to time.

*Method of Distribution*

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

**Distributions of Interest**

*Categories of Classes*

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

<u>Interest Type*</u>	<u>Class</u>
Fixed Rate	A
Weighted Average Coupon	B
Interest Only	B

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

*General.* The Certificates will bear interest at the respective per annum interest rates set forth or described on the cover. Distributions of interest will be calculated on the basis of a 360-day year consisting of twelve 30-day months and will be made on each Distribution Date, commencing in June 1996. The 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.

In addition, in the event that any prepayment penalties are included in the distributions received on the GNMA Certificates with respect to any Distribution Date, the distribution to be made on the B Class on such Distribution Date will include an amount representing the prepayment penalties so received.

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

*Notional Class.* The B Class will be a Notional Class. The Notional Class will have no principal balance and will bear interest at the per annum interest rate described on the cover during each Interest Accrual Period on the related notional principal balance. The notional principal balance of the Notional Class will be equal to 100% of the outstanding principal balance of the A Class immediately prior to the related Distribution Date.

The notional principal balance of a Notional Class is used for purposes of the determination of interest distributions thereon and does not represent an interest in the principal distributions of the GNMA Certificates or the underlying Mortgage Loans. Although the Notional Class will not have a principal balance, a Trust Factor 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.

See “Risk Factors—Yield Considerations” herein.

## **Distributions of Principal**

### *Categories of Classes*

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

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

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

### *Principal Distribution Amount*

On each Distribution Date, principal will be distributed on the Certificates in an amount (the “Principal Distribution Amount”) equal to the sum of (i) the principal distributions reported by GNMA to be receivable on the GNMA Certificates during the month of such Distribution Date and (ii) the amount, if any, of principal distributions received on the GNMA Certificates during the month of the preceding Distribution Date that were not distributed on the Certificates on such preceding Distribution Date. See “General—Trust Factors” herein.

Fannie Mae will calculate the amount specified in clause (i) above for each Distribution Date based in part on preliminary GNMA Certificate factors reported on or about the seventh business day of the month of such Distribution Date. In some months, distributions of principal may be received on the GNMA Certificates in amounts that exceed the amounts reported in such GNMA Certificate factors. In such event, Fannie Mae may at its option include such amounts in the distribution of principal to be made on the A Class on the applicable Distribution Date. Further, in some months, the factors for some GNMA Certificates may not be reported. In such event, Fannie Mae will calculate the remaining principal balance to which such GNMA Certificate would be reduced on the basis of assumed amortization schedules. Fannie Mae will create those schedules by using available remaining term to maturity and interest rate information and adjusting such remaining term to maturity to the current month. Such calculations will reflect payment factor information previously reported to Fannie Mae and calculated subsequent scheduled amortization (but not prepayments) on the related Mortgage Loans. Fannie Mae’s determination of the principal payments by the methodology described above will be final.

## Certain Definitions and Abbreviations

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

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

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

(i) the Settlement Date for the Certificates is May 31, 1996;

(ii) all principal payments (including prepayments) on the Mortgage Loans are distributed on the Certificates on the Distribution Date relating to the month in which such payments are received;

(iii) the Mortgage Loans prepay at the percentages of CPR specified in the related table, provided that no prepayments occur prior to the applicable lockout end dates or prepayment penalty end dates; and

(iv) distributions on the Certificates are always received on the 17th of the month, whether or not a business day.

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

*CPR does not purport to be an historical description of the prepayment experience of any pool of mortgage loans or a prediction of the anticipated rate of prepayment of any pool of mortgage loans,*

*including the Mortgage Loans. It is highly unlikely that the Mortgage Loans will repay at any particular percentage of CPR or at any other constant rate.*

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

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

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

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

The original maturities of the Mortgage Loans are expected to be between 30.25 and 40 years. Each Mortgage Loan will provide for amortization of principal according to a schedule that, in the absence of prepayments, would result in repayment of such Mortgage Loan by its maturity date.

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

### **Additional Yield Characteristics of the B Class**

The tables below indicate the sensitivity of the pre-tax corporate bond equivalent yield to maturity of the B Class to various CPR levels. The yields set forth in the tables were calculated by determining the monthly discount rates that, when applied to the assumed streams of cash flows to be paid on the B 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 B Class and consequently do not purport to reflect the return on any investment in the B Class when such reinvestment rates are considered.

**The yield to investors in the B Class will be sensitive to the Net Weighted Average Pass-Through Rate and the rate of principal payments (including prepayments) of the Mortgage Loans. Subject to the effect of applicable lockouts and prepayment penalties, the Mortgage Loans generally can be prepaid at any time. As indicated in the table below, it is possible that, under certain interest rate and prepayment scenarios, investors in the B Class would not fully recoup their initial investment.**

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 B Class (expressed as a percentage of original notional principal balance) is 5.5%.\*

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

### Sensitivity of the B Class to Prepayments

	<b>Lockout*</b>					
	<b>CPR Prepayment Assumption</b>					
	<b>0%</b>	<b>10%</b>	<b>20%</b>	<b>30%</b>	<b>50%</b>	<b>100%</b>
Pre-Tax Yields to Maturity .....	15.7%	10.2%	5.4%	1.6%	(3.8)%	(12.3)%

	<b>Extended Protection*</b>					
	<b>CPR Prepayment Assumption</b>					
	<b>0%</b>	<b>10%</b>	<b>20%</b>	<b>30%</b>	<b>50%</b>	<b>100%</b>
Pre-Tax Yields to Maturity .....	15.7%	10.9%	7.2%	4.6%	1.5%	(2.2)%

\* "Lockout" assumes no prepayment prior to the applicable lockout end dates and "Extended Protection" assumes no prepayment prior to any applicable prepayment penalty end dates.

## Decrement Table

The following table indicates the percentages of original principal balance of the Certificates that would be outstanding after each of the dates shown at various percentages of CPR and the corresponding weighted average lives of such Certificates. The table has been prepared on the basis of the Pricing Assumptions. However, it is not the case that all of the Mortgage Loans will prepay at a particular percentage of CPR.

### Percent of Original Principal Balance Outstanding for the A and B† Classes

Date	CPR Prepayment Assumption											
	Lockout††						Extended Protection††					
	0%	10%	20%	30%	50%	100%	0%	10%	20%	30%	50%	100%
Initial Percent	100	100	100	100	100	100	100	100	100	100	100	100
May 1997	99	99	98	98	97	93	99	99	99	99	99	99
May 1998	98	96	94	92	88	71	98	97	96	95	92	78
May 1999	98	93	89	85	79	71	98	95	92	89	84	77
May 2000	97	86	78	70	57	29	97	89	82	75	63	37
May 2001	95	80	67	57	42	29	95	83	72	63	50	37
May 2002	94	74	58	48	35	25	94	76	63	52	39	27
May 2003	93	68	51	40	29	25	93	70	55	44	33	26
May 2004	92	62	45	35	27	24	92	65	48	38	29	26
May 2005	90	58	40	31	25	24	90	60	43	33	26	24
May 2006	88	53	35	27	22	19	88	55	38	29	24	23
May 2007	87	46	27	18	11	0	87	49	30	21	14	4
May 2008	85	41	21	12	5	0	85	43	24	16	9	4
May 2009	82	35	16	8	2	0	82	38	20	12	6	4
May 2010	80	31	13	6	1	0	80	33	16	9	5	4
May 2011	77	27	10	4	1	0	77	29	13	7	4	4
May 2012	75	23	7	2	*	0	75	26	10	6	4	3
May 2013	71	20	6	2	*	0	71	22	9	5	3	3
May 2014	68	17	4	1	*	0	68	19	7	4	3	3
May 2015	64	14	3	1	*	0	64	17	6	4	3	3
May 2016	60	12	2	*	*	0	60	14	5	3	3	3
May 2017	56	10	2	*	*	0	56	12	4	3	2	2
May 2018	51	8	1	*	*	0	51	9	3	2	1	0
May 2019	46	6	1	*	*	0	46	7	2	1	1	0
May 2020	40	5	*	*	*	0	40	6	1	1	*	0
May 2021	35	3	*	*	*	0	35	4	1	*	*	0
May 2022	30	3	*	*	*	0	30	3	*	*	*	0
May 2023	25	2	*	*	*	0	25	2	*	*	*	0
May 2024	20	1	*	*	0	0	20	1	*	*	*	0
May 2025	16	1	*	*	0	0	16	1	*	*	0	0
May 2026	12	1	*	*	0	0	12	1	*	*	0	0
May 2027	8	*	*	*	0	0	8	*	*	*	0	0
May 2028	4	*	*	*	0	0	4	*	*	*	0	0
May 2029	2	*	*	*	0	0	2	*	*	*	0	0
May 2030	*	*	*	*	0	0	*	*	*	*	0	0
May 2031	*	*	*	*	0	0	*	*	*	*	0	0
Weighted Average Life (years)**	20.9	11.2	8.2	6.9	5.7	4.4	20.9	11.8	8.9	7.6	6.5	5.2

\*\* Determined as specified under “Weighted Average Life of the Certificates” herein.

† In the case of the B Class, the Decrement Table indicates the percentage of the original notional principal balance outstanding.

†† “Lockout” assumes no prepayment prior to the applicable lockout end dates and “Extended Protection” assumes no prepayment prior to any applicable prepayment penalty end dates.

## DESCRIPTION OF THE GNMA CERTIFICATES AND THE MORTGAGE LOANS

### General

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

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

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

It is expected that 9 Mortgage Loans will underlie the GNMA Certificates. The Mortgage Loans are expected to have an aggregate balance of approximately \$86,162,550 (subject to a permitted variance of plus or minus 5%) as of the Issue Date, after giving effect to all payments of principal due on or before that date. The Mortgage Loans are fixed-rate and generally are level-pay and fully amortizing. Each Mortgage Loan is secured by a mortgage, deed of trust or deed to secure debt that creates a first lien on the applicable borrower’s fee simple estate in a multifamily property consisting of five or more dwelling units (a “Mortgaged Property”).

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

### FHA Insurance Programs

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

#### *Section 223(f)*

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

If the related mortgage loan is in connection with the acquisition of an existing project, the maximum mortgage loan amount under Section 223(f) is 85% (90% for a cooperative multifamily project or a project financed with state or local assistance and meeting certain eligibility requirements) of the cost of acquisition, as determined by the FHA. If, on the other hand, the property is to be refinanced without a change in ownership, then the maximum mortgage loan amount shall not exceed (a) for rental projects, the greater of 70% of the FHA’s estimate of the value of the property or the cost to refinance the existing indebtedness or (b) for cooperative projects, the cost to refinance the existing indebtedness. In addition to the above limitations, a mortgage loan which is insured under Section 223(f) shall not have a principal amount in excess of the lesser of (a) 85% of

the FHA's estimate of the value of the project and (b) the statutory amount per family dwelling unit depending on the number of bedrooms.

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

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

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

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

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

#### *Section 241(f)*

Section 241(f) provides for federal insurance of private supplemental loans (subordinate liens) to owners and prospective purchasers of eligible low-income housing to maintain and generally improve the related properties for low-income occupancy. Based on a plan of action approved by the FHA, an owner may receive an equity take-out loan to enable it to receive an adequate return on its investment and a purchaser may receive an acquisition loan to assist in its purchase of the related property.

The maximum insurable loan amount for an equity take-out loan or acquisition loan is prescribed by the FHA based on the projected value of the related property and costs of implementing the plan of action. Equity take-out loans will have terms not to exceed 40 years and acquisition loans will have terms of 40 years.

### **Certain Additional Characteristics of the Mortgage Loans**

*Lockouts.* Except as described below, most of the Mortgage Loans have provisions that prohibit voluntary prepayment for a number of years following origination ("lockout provisions"). The lockout periods on such Mortgage Loans have remaining terms that range from approximately 4 to 121 months and have a weighted average remaining term of approximately 56 months. The enforceability of these lockout provisions under certain state laws is unclear.

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

penalty and the period during which the mortgage prepayment penalty applies as well as the last day of any applicable lockout provision.

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

*Coinsurance.* Based on information provided to Fannie Mae by HUD and the current servicers of the Mortgage Loans, 2 of the Mortgage Loans (representing approximately 39% of the Mortgage Loans underlying the GNMA Certificates by outstanding principal balance) are federally insured under FHA coinsurance programs that provide for the retention by the mortgage lender of a portion of the mortgage insurance risk that otherwise would be assumed by FHA under the applicable FHA insurance program. As part of such coinsurance programs, FHA delegated to mortgage lenders approved by FHA for participation in such coinsurance programs certain underwriting functions generally performed by FHA. Accordingly, there can be no assurance that such mortgage loans were underwritten in conformity with FHA underwriting guidelines applicable to mortgage loans that were solely federally insured or that the default risk with respect to coinsured mortgage loans is comparable to that of FHA-insured mortgage loans generally. As a result, there can be no assurance as to the likelihood of future default or as to the rate of prepayment on the coinsured Mortgage Loans underlying the GNMA Certificates.

## **THE TRUST AGREEMENT**

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

### **Reports to Certificateholders**

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

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

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

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

The Trust Agreement also provides that neither Fannie Mae nor any director, officer, employee, or agent of Fannie Mae will be under any liability to the Trust or to Certificateholders for any action taken, or for refraining from the taking of any action, in good faith pursuant to the Trust Agreement or for errors in judgment; provided, however, that neither Fannie Mae nor any such person will be

protected against any liability that would otherwise be imposed by reason of willful misfeasance, bad faith or gross negligence or by reason of willful disregard of obligations and duties.

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

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

### **Events of Default**

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

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

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

### **Amendment**

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

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

percentages of the Certificates the Holders of which are required to consent to any waiver or amendments. In addition, no waiver or amendment shall, without the consent of each Certificateholder affected thereby, reduce in any manner the amount of, or delay the timing of, payments received on the GNMA Certificates or other assets in the Trust that are required to be distributed on the Certificates.

### **Termination**

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

## **CERTAIN FEDERAL INCOME TAX CONSEQUENCES**

### **General**

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

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

Pursuant to Revenue Ruling 70-545, 1970-2 C.B. 7, the arrangement pursuant to which the GNMA Certificates are issued also has been classified as a grantor trust and not as an association taxable as a corporation. Each Owner of an A Class Certificate, therefore, will be treated as the owner of an undivided interest in all the principal of the Mortgage Loans and interest payable at a rate of 7.75 percent on the unpaid principal balance of each Mortgage Loan and each Owner of a B Class Certificate will be treated as the owner of an undivided interest in the excess of the interest paid on each Mortgage Loan over 7.75 percent.

Pursuant to section 1286 of the Code, the separation of ownership of the right to receive some or all of the interest payments on an obligation from ownership of the right to receive some or all of the principal payments results in the creation of “stripped bonds” with respect to principal payments and “stripped coupons” with respect to interest payments. For purposes of sections 1271 through 1288 of the Code, section 1286 of the Code treats a stripped bond or a stripped coupon as an obligation issued on the date that such stripped interest is created.

Under Treasury Regulation section 1.1286-1(a), a stripped bond may be treated as a “market discount bond” if the amount of original issue discount determined under section 1286(a) with respect to the purchase of a stripped bond is *de minimis*. Based on an assumed aggregate purchase price for the A Class Certificates of not less than 98.7725 percent of their original principal balance, Fannie Mae intends to treat the A Class as constituting an interest in Mortgage Loans that are market discount bonds. An Owner should consult its own tax advisor regarding the proper characterization of an A Class Certificate in its particular circumstances.

In addition, Fannie Mae intends to treat each B Class Certificate as an installment obligation representing rights to future interest cash flows from the stripped Mortgage Loans. Accordingly, Fannie Mae intends to perform computations for federal income tax purposes, as described under “Taxation of the B Class Certificates,” and to provide information to Owners by aggregating all interest payments on the Mortgage Loans that constitute each payment on the B Class Certificates.

Owners of Certificates also will be entitled to deduct their pro rata share of the GNMA guaranty fee and any compensation paid to service the Mortgage Loans (together, “Administrative Expenses”), as provided in section 162 or section 212 of the Code, consistent with their methods of accounting and subject to the discussion under “Trust Expenses.” Administrative Expenses will be allocated to each Class of Certificates in proportion to the percentage interest of each such Class in the interest payments on the Mortgage Loans.

### **Taxation of the A Class Certificates**

Owners of the A Class will be required to report as income on their federal income tax returns, consistent with their methods of accounting, interest at the rate of 7.75 percent on the unpaid principal balance of the Mortgage Loans.

#### *Premium*

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

#### *Market Discount*

An Owner that is treated as purchasing an interest in the Mortgage Loans at a market discount, that is, at a purchase price less than their aggregate adjusted issue price, will be required to allocate each principal distribution first to accrued market discount, and recognize ordinary income to the extent such distribution does not exceed the aggregate amount of accrued market discount that was not previously included in income. An Owner that incurs or continues indebtedness to acquire an interest in the Mortgage Loans 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 may be treated as accruing either (i) under a constant yield method, taking into account the Prepayment Assumption (as defined under “Taxation of the B Class Certificates”), 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 Mortgage Loans.

Notwithstanding the above rules, market discount on a Mortgage Loan will be considered to be zero if such discount is less than 0.25 percent of its remaining stated redemption price at maturity multiplied by its weighted average remaining life. Weighted average remaining life presumably would be calculated in a manner similar to weighted average life, taking into account payments (including

prepayments) prior to the date of acquisition of the Mortgage Loan by the subsequent purchaser. If market discount is treated as zero under this rule, the actual amount of market discount must be allocated to the remaining principal distributions on the Mortgage Loan and, when each such distribution is received, gain equal to the discount allocated to such distribution will be recognized.

### *Special Election*

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

### **Taxation of the B Class Certificates**

Original issue discount on a B Class Certificate must be included in the Owner’s income for federal income tax purposes as it accrues, under a method that takes into account the compounding of interest, generally in advance of receipt of the cash attributable to such income. The amount of original issue discount on a B Class Certificate will be equal to the excess of such Certificate’s stated redemption price at maturity over its issue price. The issue price of a B Class Certificate generally is equal to the amount paid by an Owner to acquire such Certificate. The stated redemption price of a B Class Certificate is the sum of all payments to be made under such Certificate.

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

Under the special rules of section 1272(a)(6) of the Code, the portion of original issue discount treated as accruing for any accrual period will equal the *excess*, if any, of (i) the sum of (A) the present values of all the distributions remaining to be made on the Certificate, if any, as of the end of the accrual period and (B) the distribution made on the Certificate during the accrual period of amounts included in the stated redemption price at maturity, *over* (ii) the adjusted issue price of the 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 original yield to maturity of the Certificate, calculated as of the Settlement Date and based on the assumption that the Mortgage Loans backing the GNMA Certificates prepay at the rate specified herein (the “Prepayment Assumption”), (ii) events (including prepayments) that have occurred prior to the end of the accrual period and (iii) the Prepayment Assumption. The adjusted issue price of the Certificate at any time will equal the issue price, increased by the aggregate amount of previously accrued original issue discount with respect to the Certificate, and reduced by the amount of any distributions made on the Certificate as of that time of amounts included in the stated redemption price at maturity. The original issue discount accruing during any accrual period will then be allocated ratably to each day during the period to determine the daily portion of original issue discount.

The Prepayment Assumption with respect to the Mortgage Loans will be 100% CPR. Fannie Mae makes no representation, however, that the Mortgage Loans backing the GNMA Certificates will prepay at that or at any other rate. Each investor must make its own decision as to the appropriate prepayment assumption to be used in deciding whether to purchase any of the Certificates.

### **Trust Expenses**

If an Owner is an individual, estate or trust, the deduction for such Owner's share of Administrative Expenses will be allowed only to the extent that all of such Owner's miscellaneous itemized deductions, including such Owner's share of Administrative Expenses, exceed 2 percent of such Owner's adjusted gross income. In addition, in the case of an Owner who is an individual, certain otherwise allowable itemized deductions will be reduced by an amount equal to 3 percent of such Owner's adjusted gross income in excess of a statutorily defined threshold, but not by more than 80 percent of such itemized deductions.

### **Sales of Certificates**

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

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

### **Special Tax Attributes**

The IRS also ruled in Revenue Ruling 70-545, as modified by Revenue Ruling 74-169, 1974-1 C.B. 147, as follows:

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

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

3. A GNMA Certificate owned by a real estate investment trust is considered as representing "real estate assets" within the meaning of section 856(c)(5)(A) of the Code, and the interest

income is considered “interest on obligations secured by mortgages on real property” within the meaning of section 856(c)(3)(B) of the Code.

No specific legal authority exists regarding whether the character of the Certificates for federal income tax purposes will be the same as that of the GNMA Certificates.

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

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

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

### **Foreign Investors**

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

## **LEGAL INVESTMENT CONSIDERATIONS**

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

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

states have adopted such legislation prior to the October 4, 1991 deadline. Investors should consult their own legal advisors in determining whether and to what extent the Certificates constitute legal investments or are subject to restrictions on investment.

### **LEGAL OPINION**

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

### **ERISA CONSIDERATIONS**

The Employee Retirement Income Security Act of 1974, as amended (“ERISA”) and the Code impose certain requirements on employee benefit plans and certain other retirement plans and arrangements, as well as on collective investment funds and separate accounts in which such plans or arrangements are invested (all of which are hereinafter referred to as a “Plan”) and on persons who are fiduciaries with respect to such Plans. Any Plan fiduciary which proposes to cause a Plan to acquire any Certificates would be required to determine whether such an investment is permitted under the governing Plan instruments and is prudent and appropriate for the Plan in view of its overall investment policy and the composition and diversification of its portfolio. In addition, ERISA and the Code prohibit certain transactions involving the assets of a Plan and “disqualified persons” (within the meaning of the Code) and “parties in interest” (within the meaning of ERISA) who have certain specified relationships to the Plan. Therefore, a Plan fiduciary considering an investment in Certificates should also consider whether such an investment might constitute or give rise to a prohibited transaction under ERISA or the Code.

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

### **PLAN OF DISTRIBUTION**

Fannie Mae will acquire the GNMA Certificates from the Dealer in exchange for the Certificates. The Dealer 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.

GNMA Certificates and Mortgage Loans

GNMA Pool Number	FHA Program	City	State	Approximate Principal Balance as of Issue Date	GNMA Certificate Interest Rate	Mortgage Interest Rate	Maturity Date	GNMA Original Term to Maturity (mos.)	GNMA Remaining Term to Maturity (mos.)	GNMA Certificate Age (mos.)	GNMA Issue Date	Lockout End Date*	Prepayment Penalty End Date*	Lockout / Prepayment Penalty Code**
215566	221(d)(4)	Alexandria	VA	\$17,857,982	8.625%	9.125%	August 2028	476	387	89	December 1988	December 1997	December 1997	1
250678***	221(d)(4)	Chicago	IL	11,544,988	9.500	9.750	February 2030	476	405	71	June 1990	June 1999	June 1999	1
260866	223(f)	Los Angeles	CA	16,070,493	8.750	9.250	August 2024	420	339	81	August 1989	August 1999	August 1999	1
278875	223(f)	Du Page County	IL	20,155,191	8.000	8.250	November 2020	363	294	69	August 1990	June 2006	June 2006	1
364011	223(f)	Oklahoma City	OK	1,320,804	8.750	9.000	October 2029	420	401	19	October 1994	September 2004	September 2004	2
268168***	223(f)	Nashville	TN	3,830,043	10.250	10.750	February 2024	420	333	87	February 1989	December 2005	July 2017	3
213327	221(d)(4)	Anderson	IN	7,037,629	8.500	9.000	October 2028	480	389	91	September 1988	January 2000	January 2000	1
299848***	241(f)	Chicago	IL	2,508,103	8.500	8.750	April 2032	480	431	49	March 1992	March 2002	March 2002	1
291126	223(f)	Denton	TX	5,737,317	8.450	8.700	January 2027	400	368	32	September 1983	September 1996	September 2001	4
Total/Weighted Average				\$86,162,550	8.6699%	9.0502%		431	357	74				

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

\*\* Lockout/Prepayment Penalty Codes:

- (1) Lockout through the lockout end date.
- (2) Lockout through the lockout end date; thereafter prepayment penalty of 5% of the prepaid amount until September 2000, declining thereafter by 1% annually.
- (3) Lockout through the lockout end date; thereafter prepayment penalty of 5% of the prepaid amount until July 2017.
- (4) Lockout through the lockout end date; thereafter prepayment penalty of 5% of the prepaid amount until September 1997, declining thereafter by 1% annually.

\*\*\* Based solely on information provided by HUD, 100% of the units included in these Mortgaged Properties receive project-based Section 8 rent subsidies from HUD.

NOTE:

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

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

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**\$86,162,550**  
**(Approximate)**

**Federal National  
Mortgage Association**



**Guaranteed Grantor Trust  
Pass-Through Certificates**

**Fannie Mae Grantor Trust 1996-T3**

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**PROSPECTUS**

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**TABLE OF CONTENTS**

	<u>Page</u>
Table of Contents .....	3
Reference Sheet .....	4
Risk Factors .....	6
Description of the Certificates .....	7
Description of the GNMA Certificates and the Mortgage Loans .....	15
The Trust Agreement .....	17
Certain Federal Income Tax Consequences .....	19
Legal Investment Considerations .....	23
Legal Opinion .....	24
ERISA Considerations .....	24
Plan of Distribution .....	24
Legal Matters .....	24
Exhibit A .....	A-1

**Donaldson, Lufkin & Jenrette**  
Securities Corporation

May 9, 1996

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