

\$332,601,229 (Approximate)



**FannieMae**

**Guaranteed REMIC Pass-Through Certificates  
Fannie Mae Multifamily REMIC Trust 1997-M2**

The Guaranteed REMIC Pass-Through Certificates offered hereby (the "Certificates") will represent beneficial ownership interests in Fannie Mae Multifamily REMIC Trust 1997-M2 (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. Certain information with respect to the Mortgage Loans and the Mortgaged Properties is set forth on Exhibit A hereto.

The Certificates will be issued and guaranteed as to timely distribution of principal and interest by Fannie Mae and offered by Fannie Mae pursuant to its Prospectus for Guaranteed Multifamily REMIC Pass-Through Certificates (the "Multifamily REMIC Prospectus"), accompanying this Prospectus Supplement. **Fannie Mae will not guarantee the payment to Certificateholders of any prepayment penalties.** See "Description of the Certificates—General—Fannie Mae Guarantee" herein.

Investors should not purchase the Certificates before reading this Prospectus Supplement and the additional Disclosure Documents listed at the bottom of page S-2.

See "Risk Factors" beginning on page S-6 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 CERTIFICATES UNLESS SUCH INVESTOR UNDERSTANDS AND IS ABLE TO BEAR THE PREPAYMENT, YIELD, LIQUIDITY AND OTHER RISKS ASSOCIATED WITH SUCH CERTIFICATES. PROSPECTIVE INVESTORS IN ANY CLASS OF CERTIFICATES SHOULD CAREFULLY CONSIDER WHETHER SUCH AN INVESTMENT IS APPROPRIATE FOR THEIR INVESTMENT OBJECTIVES. SEE "DESCRIPTION OF THE CERTIFICATES" HEREIN.

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

Class	Original Principal Balance(1)	Principal Type(2)	Interest Rate	Interest Type(2)	CUSIP Number	Final Distribution Date
A.....	\$ 35,613,285	AD/SEQ	(3)	WAC	31359PDE3	September 2003
B.....	36,967,000	AD/SEQ	(3)	WAC	31359PDF0	February 2008
C.....	118,564,000	AD/SEQ	(3)	WAC	31359PDG8	October 2016
D.....	109,240,105	AD/SEQ	(3)	WAC	31359PDH6	August 2021
Z.....	32,216,839	SEQ	(3)	WAC/Z	31359PDJ2	January 2037
R.....	0	NPR	0%	NPR	31359PDK9	January 2037

- (1) Subject to a permitted variance of plus or minus 5%.  
(2) See "Description of the Certificates—Class Definitions and Abbreviations" in the Multifamily REMIC Prospectus and "Description of the Certificates—Distributions of Interest" and "—Distributions of Principal" herein.  
(3) The A, B, C, D and Z Classes will bear interest during each Interest Accrual Period at a variable rate per annum equal to 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") (the "Weighted Average Pass-Through Rate").

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

The Certificates are offered by the Dealer, subject to issuance by Fannie Mae, 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, except for the R Class, will be available through the book-entry system of The Depository Trust Company on or about April 21, 1997 (the "Settlement Date"). It is expected that the R Class in registered, certificated form will be available for delivery at the offices of the Dealer, Three World Financial Center, New York, New York 10285 on or about the Settlement Date.

**LEHMAN BROTHERS**

February 24, 1997

(Cover continued from previous page)

The yield to investors in each Class of Certificates will be sensitive in varying degrees to, among other things, the rate of principal payments of the related Mortgage Loans, the actual characteristics of such Mortgage Loans and the purchase price paid for the related Classes. The yield to investors in the A, B, C, D and Z Classes will also be sensitive to fluctuations in the Weighted Average Pass-Through Rate 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 lives and yields of some or all of the Classes.
- In the case of any Certificates purchased at a discount to their principal amounts, a slower than anticipated rate of principal payments is likely to result in a lower than anticipated yield.
- In the case of any Certificates purchased at a premium to their principal amounts, a faster than anticipated rate of principal payments is likely to result in a lower than anticipated yield.
- The allocation to a Class of any prepayment penalties may be insufficient to offset fully the adverse effects on the anticipated yield that may arise out of the corresponding principal prepayment. Fannie Mae, however, does not guarantee that any prepayment penalties due under any Mortgage Loan will in fact be collected from mortgagors or GNMA or paid to holders of the GNMA Certificates and therefore to the Holders of such Classes.
- 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 "Description of the Certificates—Yield Considerations" herein.

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

- The actual final payment of any Class may occur earlier, and could occur much earlier, than the Final Distribution Date for such Class specified on the cover page. In particular, exercise of the right of optional liquidation of the Trust by the Holder of the R Class as described herein will effect the early retirement of the Classes outstanding at the time of such exercise. See "Description of the Certificates—Weighted Average Lives of the Certificates" herein and "Maturity and Prepayment Considerations and Risks—Weighted Average Life and Final Distribution Dates" in the Multifamily REMIC Prospectus.
- The rate of principal distributions of the Certificates is uncertain and investors may be unable to reinvest the distributions thereon at yields equaling the yields on the Certificates. See "Yield Considerations—Reinvestment Risk" in the Multifamily REMIC Prospectus and "Description of the Certificates—Yield Considerations" herein.
- Investors whose investment activities are subject to legal investment laws and regulations or to review by regulatory authorities may be subject to restrictions on investment in certain Classes of the Certificates. Investors should consult their legal advisors to determine whether and to what extent the Certificates constitute legal investments or are subject to restrictions on investment. See "Legal Investment Considerations" in the Multifamily REMIC Prospectus.
- The Dealer intends to make a market for the Certificates but is not obligated to do so. There can be no assurance that a secondary market will develop for the Certificates or, if developed, that it will continue. Thus, investors may not be able to sell their Certificates readily or at prices that will enable them to realize their anticipated yield. No investor should purchase Certificates unless such investor understands and is able to bear the risk that the value of the Certificates will fluctuate over time and that the Certificates may not be readily salable.

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

An election will be made to treat the Trust as a "real estate mortgage investment conduit" ("REMIC") pursuant to the Internal Revenue Code of 1986, as amended (the "Code"). The R Class will be subject to transfer restrictions. See "Description of the Certificates—Additional Characteristics of Residual Certificates" and "Certain Federal Income Tax Consequences" in the Multifamily REMIC Prospectus, and "Description of the Certificates—Characteristics of the R Class" and "Certain Additional Federal Income Tax Consequences" herein.

Investors should purchase the Certificates only if they have read and understood this Prospectus Supplement and the following documents (collectively, the "Disclosure Documents"):

- Fannie Mae's Prospectus for Guaranteed Multifamily REMIC Pass-Through Certificates dated November 1, 1995 (the "Multifamily REMIC Prospectus"); and
- Fannie Mae's Information Statement dated March 31, 1997 and any supplements thereto (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 202-752-7547). The Information Statement may also be obtained from Lehman Brothers Inc. by writing or calling its Prospectus Department at 536 Broadhollow Road, Melville, New York 11747 (telephone 516-254-7106). 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> .....	S- 4	Weighted Average Lives of the Certificates .....	S-13
<b>Risk Factors</b> .....	S- 6	Decrement Tables .....	S-14
Yield Considerations .....	S- 6	Characteristics of the R Class .....	S-19
Reinvestment Risk .....	S- 6	<b>Description of the GNMA</b>	
Prepayment Considerations and Risks .....	S- 6	<b>Certificates and the Mortgage</b>	
<b>Description of the Certificates</b> .....	S- 8	<b>Loans</b> .....	S-19
General .....	S- 8	General .....	S-19
Structure .....	S- 8	FHA Insurance Programs .....	S-20
Fannie Mae Guaranty .....	S- 8	Section 221(d) (Low and Moderate Income Multifamily Housing Mortgage Insurance) ...	S-20
Characteristics of Certificates .....	S- 8	Section 223(a)(7) (Refinancing of FHA-Insured Mortgages) .....	S-21
Authorized Denominations .....	S- 9	Section 223(f) (Refinancing of Existing Mortgages) .....	S-21
Distribution Dates .....	S- 9	Section 232 (Mortgage Insurance for Nursing Homes and Other Care Facilities) .....	S-22
Record Date .....	S- 9	Section 241 (Supplemental Financing and Equity Take Out Loans) .....	S-22
REMIC Trust Factors .....	S- 9	Certain Additional Characteristics of the Mortgage Loans .....	S-23
Optional Liquidation .....	S- 9	Lockouts .....	S-23
Book-Entry Procedures .....	S- 9	Mortgage Prepayment Penalties ...	S-23
General .....	S- 9	Coinsurance .....	S-23
Method of Distribution .....	S-10	<b>Certain Additional Federal Income</b>	
Distributions of Interest .....	S-10	<b>Tax Consequences</b> .....	S-24
Categories of Classes .....	S-10	REMIC Election and Special Tax Attributes .....	S-24
General .....	S-10	Taxation of Beneficial Owners of Regular Certificates .....	S-24
Interest Accrual Period .....	S-10	Taxation of Beneficial Owners of Residual Certificates .....	S-25
Accrual Class .....	S-11	<b>Plan of Distribution</b> .....	S-25
Weighted Average Coupon Classes .....	S-11	<b>Legal Matters</b> .....	S-25
Distributions of Principal .....	S-11	<b>Exhibit A</b> .....	A- 1
Categories of Classes .....	S-11		
Principal Distribution Amount ....	S-11		
Accrual Amount .....	S-12		
Cash Flow Distribution Amount ...	S-12		
Structuring Assumptions .....	S-12		
Pricing Assumptions .....	S-12		
CPR Assumptions .....	S-12		
Yield Considerations .....	S-12		
General .....	S-12		
Prepayment Provisions .....	S-13		

## REFERENCE SHEET

This reference sheet is not a summary of the REMIC transaction and it does not contain complete information about the Certificates. Investors should purchase the Certificates only after reading this Prospectus Supplement and each of the additional Disclosure Documents described herein in their entirety.

### Certain Characteristics of the GNMA Certificates and Mortgage Loans (as of April 1, 1997)

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	Approximate 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)
221(d)3	\$ 7,963,257	1	2.39%	8.00%	7.75%	479	471	8	53	112
221(d)4	22,846,718	3	6.87	7.78	7.53	476	453	23	72	92
221(d)4/223(a)7	17,285,424	1	5.20	7.75	7.50	421	406	15	45	105
223(a)7	11,894,275	3	3.58	7.54	7.29	425	420	5	48	107
223(f)	244,088,215	23	73.39	7.54	7.29	412	408	4	80	115
232	8,737,897	2	2.63	8.19	7.94	446	444	1	55	115
232/223(f)	10,191,909	1	3.06	7.38	7.13	420	417	3	33	69
241(f)	9,593,534	2	2.88	7.87	7.62	479	435	44	52	75
	<u>\$332,601,229</u>	<u>36</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 April 1, 1997 (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.

### Prepayment Penalties

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 Class currently receiving distributions in respect of principal on such Distribution Date will include an amount representing 100% of the prepayment penalties so received (or, if more than one Class is receiving principal distributions on such Distribution Date, an amount representing 100% of the prepayment penalties so received will be allocated among each Class receiving principal distributions on such Distribution Date, pro rata based on such Class’s principal distribution).

### Interest Rates

The Certificates will bear interest at the rates described herein. See “Description of the Certificates—Distributions of Interest—*Weighted Average Coupon Classes*” herein.

## Distribution of Principal

### *Principal Distribution Amount*

#### *Accrual Amount*

To the A, B, C and D Classes, in that order, to zero, and then to the Z Class.

#### *Cash Flow Distribution Amount*

To the A, B, C, D and Z Classes, in that order, to zero.

## Weighted Average Lives (years) \*

Class	Lockout**						
	CPR Prepayment Assumption						
	0%	5%	10%	20%	35%	50%	100%
A .....	3.5	3.1	3.0	2.9	2.7	2.6	2.3
B .....	8.7	6.3	5.5	5.0	4.7	4.4	3.7
C .....	15.6	10.6	8.8	7.1	6.0	5.5	4.6
D .....	22.0	16.2	13.3	10.8	9.3	8.4	6.9
Z .....	30.4	25.9	21.4	15.8	12.5	11.3	9.8

Class	Extended Protection**						
	CPR Prepayment Assumption						
	0%	5%	10%	20%	35%	50%	100%
A .....	3.5	3.4	3.4	3.4	3.4	3.4	3.3
B .....	8.7	8.3	8.0	7.7	7.4	7.2	6.7
C .....	15.6	12.4	11.2	10.3	9.8	9.6	8.9
D .....	22.0	17.4	15.0	12.7	11.3	10.7	9.8
Z .....	30.4	26.5	22.7	17.6	14.1	12.5	9.9

\* Determined as specified under “Description of the Certificates—Weighted Average Lives of the Certificates” herein.

\*\* “Lockout” assumes no prepayment through the applicable lockout end dates and “Extended Protection” assumes no prepayment through 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 A, B, C, D and Z Classes will be sensitive to fluctuations in the Weighted Average Pass-Through Rate 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, B, C, D or Z 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 A, B, C, D or Z Class at a premium, the actual yield to such investor will also be lower than such investor's anticipated yield.

The timing of changes in the rate of principal payments (including prepayments) or in the Weighted Average Pass-Through Rate may significantly affect the yield to an investor, even if the average rate of principal prepayments or the average 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 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 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 may not be offset by any subsequent equivalent reduction (or increase) in the rate of principal payments (including prepayments) or level of the 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 equaling or exceeding the yields on the Certificates. It is possible that yields on such reinvestments will be lower, and may be significantly lower, than the yields on the Certificates. Prospective investors in the Certificates should carefully consider the related reinvestment risks in light of other investments that may be available to such investors.

### **Prepayment Considerations and Risks**

The rate of distributions of principal of the A, B, C, D and Z Classes 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), as well as to the sequential order in which each such Class will receive distributions in respect of principal. Most of the Mortgage Loans prohibit voluntary prepayments during specified lockout periods. Such lockout periods have remaining lockout terms that range from approximately 25 to 119 months and with a weighted average remaining lockout term of approximately 73 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. A prepayment penalty, however, would not be paid in the event that a borrower defaults on payment of its Mortgage Loan and the proceeds of liquidation of such Mortgage Loan are insufficient to allow for allocation of an amount thereof to such prepayment penalty. The liquidation proceeds would be applied to the recovery of all principal, interest and liquidation expenses before any application to a prepayment penalty in respect of the related Mortgage Loan. In addition, certain state laws limit the amount of prepayment penalty payable in connection with the prepayment of a Mortgage Loan, and under the laws of a number of states it is unclear whether the imposition of a prepayment penalty in connection with an involuntary prepayment is enforceable. See “Maturity and Prepayment Considerations and Risks—Early Repayment of Mortgage Loans” in the Multifamily REMIC Prospectus.

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 Class currently receiving distributions in respect of principal on such Distribution Date will include an amount representing 100% of the prepayment penalties so received (or, if more than one Class is receiving principal distributions on such Distribution Date, an amount representing 100% of the prepayment penalties so received will be allocated among each Class receiving principal distributions on such Distribution Date, pro rata based on such Class’s principal distribution), in each case in addition to the interest otherwise distributable in respect of such Class. Fannie Mae, however, does not guarantee that any prepayment penalties due under any Mortgage Loan will in fact be collected from mortgagors or GNMA or paid to holders of the GNMA Certificates and therefore to applicable Certificateholders. Accordingly, Holders of the applicable Classes will receive them only to the extent actually received by Fannie Mae and, even if collected, allocation thereof to such Holders may be insufficient to offset fully the adverse effects on the anticipated yield thereon arising out of the corresponding payment.

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 the 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.

In addition, multifamily lending is generally viewed as exposing the lender to a greater risk of loss than one- to four-family residential lending. Mortgage Loan defaults may result in distributions of the full principal balance of the related GNMA Certificate, thereby affecting prepayment rates.

## DESCRIPTION OF THE CERTIFICATES

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 Supplement, the Multifamily REMIC Prospectus and the provisions of the Trust Agreement (as defined below). Capitalized terms used and not otherwise defined in this Prospectus Supplement have the respective meanings assigned to such terms in the Multifamily REMIC Prospectus (including the Glossary contained therein) or the Trust Agreement (as the context may require).

### General

*Structure.* The Trust will be created pursuant to a trust agreement dated as of April 1, 1997 (the “Trust Agreement”), executed by the Federal National Mortgage Association (“Fannie Mae”) in its corporate capacity and in its capacity as trustee (the “Trustee”), and the Certificates in the Classes and aggregate original principal balances 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 Certificates (other than the R Class) will be designated as the “regular interests,” and the R Class will be designated as the “residual interest,” in the REMIC constituted by the Trust. The assets of the Trust will consist 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.

*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 the 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.

*Characteristics of Certificates.* The Certificates, other than the R Certificate, 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.

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



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

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

*Distribution Dates.* 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 the month following the Settlement Date. See “Distributions of Interest—General” and “—Interest Accrual Period” and “Distributions of Principal—Principal Distribution Amount” herein.

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

*REMIC Trust Factors.* As soon as practicable following the thirteenth calendar day of each month, Fannie Mae will publish or otherwise make available for each Class of Certificates the factor (carried to eight decimal places) which in the case of each such Class, when multiplied by the original principal balance of a Certificate of such Class, will be equal to the amount of principal remaining to be distributed with respect to such Certificate after giving effect to the distribution of principal to be made on the following Distribution Date and any interest to be added as principal to the principal balance of the Accrual Class on such 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.

*Optional Liquidation.* At the option of the Holder of the R Class, the REMIC may adopt a plan of complete liquidation pursuant to which the Holder of the R Class, or its designee, will purchase the GNMA Certificates remaining in the Trust at such time. The Holder of the R Class, however, may not exercise this option unless (i) the aggregate outstanding principal balance of the Classes is less than or equal to 5% of the aggregate original principal balance thereof, (ii) the proceeds of such liquidation are at least equal to the sum of (x) the aggregate outstanding principal balance of the Classes and (y) any accrued and unpaid interest thereon and (iii) Fannie Mae has received an opinion of counsel, satisfactory to it, that such purchase will be part of a “qualified liquidation” of the Trust within the meaning of Section 860F(a)(4)(A) of the Code. Upon such liquidation (i) each Class will then be redeemed for an amount equal to the sum of (x) the outstanding principal balance thereof at the time of such redemption and (y) any accrued and unpaid interest thereon and (ii) the R Class will be redeemed for an amount equal to the excess of (x) the aggregate liquidation proceeds over (y) the aggregate amount distributable to the other Classes in redemption thereof. Such liquidation will effect an early retirement of all Classes then outstanding.

## **Book-Entry Procedures**

### *General*

The DTC Certificates will 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 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. 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>Classes</u>
Weighted Average Coupon	A, B, C, D and Z
Accrual	Z
No Payment Residual	R

\* See “Description of the Certificates—Class Definitions and Abbreviations” in the Multifamily REMIC Prospectus.

*General.* The interest-bearing Certificates will bear interest at the respective per annum interest rates described herein. Interest on the interest-bearing Certificates is calculated on the basis of a 360-day year consisting of twelve 30-day months and is distributable monthly on each Distribution Date, commencing in the month after the Settlement Date. Interest to be distributed on each interest-bearing 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 Class currently receiving distributions in respect of principal on such Distribution Date will include an amount representing 100% of the prepayment penalties so received (or, if more than one Class is receiving principal distributions on such Distribution Date, an amount representing 100% of the prepayment penalties so received will be allocated among each Class receiving principal distributions on such Distribution Date, pro rata based on such Class’s principal distribution).

*Interest Accrual Period.* Interest to be distributed on each Distribution Date will accrue on the interest-bearing Certificates during the one-month period set forth below (an “Interest Accrual Period”).

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

See “Description of the Certificates—Yield Considerations” herein.

*Accrual Class.* The Z Class will be an Accrual Class. Interest will accrue on the Accrual Class at the per annum rate described herein; however, such interest will not be distributed thereon until the Distribution Date following the Distribution Date on which the principal balance of the D Class is reduced to zero. Interest so accrued and unpaid on the Accrual Class will be added as principal to the principal balance thereof on each Distribution Date. Distributions of principal of the Accrual Class will be made as described herein.

*Weighted Average Coupon Classes.* The A, B, C, D and Z Classes will be Weighted Average Coupon Classes. The A, B, C, D and Z Classes will each bear interest for each Interest Accrual Period at the rate per annum equal to the Weighted Average Pass-Through Rate of GNMA Certificates. Each of the A, B, C, D and Z Classes will bear interest during the initial Interest Accrual Period at the initial interest rate of 7.34963%, subject to the permitted variance of plus or minus 5% in the original principal balance of each Class of Certificates.

## 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>Classes</u>
Sequential Pay	A, B, C, D and Z
Accretion Directed	A, B, C and D
No Payment Residual	R

\* See “Description of the Certificates—Class Definitions and Abbreviations” in the Multifamily REMIC Prospectus.

### *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 (together with the amount specified in clause (i), the “Cash Flow Distribution Amount”), and (iii) any interest accrued and added on such Distribution Date to the principal balance of the Accrual Class (the “Accrual Amount” and, together with the Cash Flow Distribution Amount, the “Principal Distribution Amount”). See “General—*REMIC 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, however, 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 Certificates 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.

### *Accrual Amount*

On each Distribution Date, the Accrual Amount, if any, will be distributed, sequentially, as principal of the A, B, C and D Classes, in that order, until the respective principal balances thereof are reduced to zero, and thereafter to the Z Class. } Accretion Directed and Accrual Classes

### *Cash Flow Distribution Amount*

On each Distribution Date, the Cash Flow Distribution Amount will be distributed, sequentially, as principal of the A, B, C, D and Z Classes, in that order, until the respective outstanding principal balances thereof are reduced to zero. } Sequential Pay Classes

## **Structuring Assumptions**

*Pricing Assumptions.* Unless otherwise specified, the information in the tables under “Yield Considerations” and “Decrement Tables” has been prepared on the basis of the actual characteristics of the GNMA Certificates (as described in Exhibit A hereto) and the following assumptions (the “Pricing Assumptions”):

- (i) the Settlement Date for the Certificates is April 21, 1997;
- (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 through the applicable lockout end dates or prepayment penalty end dates, as applicable;
- (iv) distributions on the Certificates are always received on the 17th of the month, whether or not a business day;
- (v) the right to cause the optional liquidation of the Trust described herein is exercised by the Holder of the R Class when the aggregate outstanding principal balance of the Classes is reduced to an amount equal to 5% of the aggregate original principal balance thereof; and
- (vi) no prepayment penalties are received on the GNMA Certificates.

*CPR Assumptions.* Prepayments on mortgage loans may be measured by 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. *CPR does not purport to be either 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 underlying the GNMA Certificates backing the Certificates.* See “—Yield Considerations” and “—Decrement Tables” herein and “Yield Considerations” and “Maturity and Prepayment Considerations and Risks” in the Multifamily REMIC Prospectus.

## **Yield Considerations**

*General.* The yield to maturity for each Certificate will depend upon the purchase price thereof, the rate of principal payments (including prepayments resulting from liquidations of Mortgage Loans due to defaults, casualties or condemnations affecting the Mortgaged Properties) and the actual characteristics of the Mortgage Loans. There can be no assurance that the Mortgage Loans will prepay at any of the rates assumed herein or at any other particular rate. 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. It is not likely that the Mortgage Loans will prepay at

the indicated CPR levels until maturity or that all of such Mortgage Loans will prepay at the same rate.

The timing of changes in the rate of principal prepayments or in the Weighted Average Pass-Through Rate of the GNMA Certificates may significantly affect the actual yield to maturity to an investor, even if the average rate of principal prepayments or the average Weighted Average Pass-Through Rate is consistent with the expectations of such investor. In general, the earlier the payment of principal of the Mortgage Loans or change in the level of the 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 prepayments or the level of the 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 issuance of the related Certificates may not be offset by a subsequent like reduction (or increase) in the rate of principal prepayments or the level of the Weighted Average Pass-Through Rate. For a description of the prepayment provisions of the Mortgage Loans, see Exhibit A hereto.

The effective yield on the interest bearing Classes will be reduced below the yield otherwise produced because principal and interest payable on a Distribution Date will not be distributed until the 17th day following the end of the related Interest Accrual Period and will not bear interest during such delay. No interest will be paid on any Class after its principal balance has been reduced to zero. As a result of the foregoing, the market value of the interest bearing Classes 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.

*Prepayment Provisions.* The rate of prepayment on the Mortgage Loans will depend on a variety of factors, including the characteristics of such Mortgage Loans, the level of prevailing interest rates or the assessment of prepayment penalties and other economic, geographic and social factors. See "Risk Factors—Prepayment Considerations and Risks" herein.

### **Weighted Average Lives of the Certificates**

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 a Certificate will be influenced by, among other things, whether and when (if ever) the Holder of the R Class exercises its option to liquidate the Trust when the aggregate outstanding principal balance of the Classes is less than or equal to 5% of the aggregate original principal balance thereof. The weighted average life of a Certificate will depend, in varying degrees, on the rate of payment of principal of the related Mortgage Loans (including the timing of changes in such rate) which, in turn will depend on the characteristics of such Mortgage Loans, the level of prevailing interest rates or the assessment of prepayment penalties and other economic, geographic and social factors. For a description of the factors which may influence the weighted average life of a Certificate, see "Maturity and Prepayment Considerations and Risks—Weighted Average Life and Final Distribution Dates" in the Multifamily REMIC Prospectus.

The interaction of the foregoing factors may have an effect on the Certificates at different times during the lives of the Certificates. Accordingly, no assurance can be given as to the weighted average life of any Class. Further, to the extent the price of a Certificate represents a discount or premium to its respective original principal balance, any variability in the weighted average life of a Certificate in combination with such discount or premium could result in variability in its yield to maturity. For an example of how the weighted average life of a Certificate may be affected at various constant prepayment rates, see the Decrement Tables below.



## Decrement Tables

The following tables indicate the percentages of the original principal balances of the specified Classes that would be outstanding after each of the dates shown at the *constant* percentages of CPR and the corresponding weighted average lives of such Classes. The tables have been prepared on the basis of the Pricing Assumptions including the assumption that the right to cause the optional liquidation of the Trust described herein is exercised by the Holder of the R Class when the aggregate outstanding principal balance of the Classes is reduced to an amount equal to 5% of the aggregate original principal balance thereof, except that with respect to the information set forth for each such Class under 0% CPR it has been assumed that such right is not exercised by the Holder of the R Class. It is unlikely, however, that prepayments of the Mortgage Loans will conform to any level of CPR, and no representation is made that the Mortgage Loans will prepay at the CPRs shown or at any other constant prepayment rate.

### Percent of Original Principal Balances Outstanding for the A Class

Date	CPR Prepayment Assumption													
	Lockout††							Extended Protection††						
	0%	5%	10%	20%	35%	50%	100%	0%	5%	10%	20%	35%	50%	100%
Initial Percent .....	100	100	100	100	100	100	100	100	100	100	100	100	100	100
April 1998 .....	87	87	87	87	87	87	87	87	87	87	87	87	87	87
April 1999 .....	73	73	73	73	73	73	73	73	73	73	73	73	73	73
April 2000 .....	59	58	57	55	51	48	9	59	59	59	59	59	59	59
April 2001 .....	43	37	31	20	3	0	0	43	43	43	43	43	43	43
April 2002 .....	25	5	0	0	0	0	0	25	25	25	24	24	23	9
April 2003 .....	7	0	0	0	0	0	0	7	5	4	1	0	0	0
April 2004 .....	0	0	0	0	0	0	0	0	0	0	0	0	0	0
April 2005 .....	0	0	0	0	0	0	0	0	0	0	0	0	0	0
April 2006 .....	0	0	0	0	0	0	0	0	0	0	0	0	0	0
April 2007 .....	0	0	0	0	0	0	0	0	0	0	0	0	0	0
April 2008 .....	0	0	0	0	0	0	0	0	0	0	0	0	0	0
April 2009 .....	0	0	0	0	0	0	0	0	0	0	0	0	0	0
April 2010 .....	0	0	0	0	0	0	0	0	0	0	0	0	0	0
April 2011 .....	0	0	0	0	0	0	0	0	0	0	0	0	0	0
April 2012 .....	0	0	0	0	0	0	0	0	0	0	0	0	0	0
April 2013 .....	0	0	0	0	0	0	0	0	0	0	0	0	0	0
April 2014 .....	0	0	0	0	0	0	0	0	0	0	0	0	0	0
April 2015 .....	0	0	0	0	0	0	0	0	0	0	0	0	0	0
April 2016 .....	0	0	0	0	0	0	0	0	0	0	0	0	0	0
April 2017 .....	0	0	0	0	0	0	0	0	0	0	0	0	0	0
April 2018 .....	0	0	0	0	0	0	0	0	0	0	0	0	0	0
April 2019 .....	0	0	0	0	0	0	0	0	0	0	0	0	0	0
April 2020 .....	0	0	0	0	0	0	0	0	0	0	0	0	0	0
April 2021 .....	0	0	0	0	0	0	0	0	0	0	0	0	0	0
April 2022 .....	0	0	0	0	0	0	0	0	0	0	0	0	0	0
April 2023 .....	0	0	0	0	0	0	0	0	0	0	0	0	0	0
April 2024 .....	0	0	0	0	0	0	0	0	0	0	0	0	0	0
April 2025 .....	0	0	0	0	0	0	0	0	0	0	0	0	0	0
April 2026 .....	0	0	0	0	0	0	0	0	0	0	0	0	0	0
April 2027 .....	0	0	0	0	0	0	0	0	0	0	0	0	0	0
April 2028 .....	0	0	0	0	0	0	0	0	0	0	0	0	0	0
April 2029 .....	0	0	0	0	0	0	0	0	0	0	0	0	0	0
April 2030 .....	0	0	0	0	0	0	0	0	0	0	0	0	0	0
April 2031 .....	0	0	0	0	0	0	0	0	0	0	0	0	0	0
April 2032 .....	0	0	0	0	0	0	0	0	0	0	0	0	0	0
April 2033 .....	0	0	0	0	0	0	0	0	0	0	0	0	0	0
April 2034 .....	0	0	0	0	0	0	0	0	0	0	0	0	0	0
April 2035 .....	0	0	0	0	0	0	0	0	0	0	0	0	0	0
April 2036 .....	0	0	0	0	0	0	0	0	0	0	0	0	0	0
April 2037 .....	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Weighted Average Life (years)** .....	3.5	3.1	3.0	2.9	2.7	2.6	2.3	3.5	3.4	3.4	3.4	3.4	3.4	3.3

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

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

## Percent of Original Principal Balances Outstanding for the B Class

Date	CPR Prepayment Assumption													
	Lockout††							Extended Protection††						
	0%	5%	10%	20%	35%	50%	100%	0%	5%	10%	20%	35%	50%	100%
Initial Percent .....	100	100	100	100	100	100	100	100	100	100	100	100	100	100
April 1998 .....	100	100	100	100	100	100	100	100	100	100	100	100	100	100
April 1999 .....	100	100	100	100	100	100	100	100	100	100	100	100	100	100
April 2000 .....	100	100	100	100	100	100	100	100	100	100	100	100	100	100
April 2001 .....	100	100	100	100	100	87	0	100	100	100	100	100	100	100
April 2002 .....	100	100	86	49	0	0	0	100	100	100	100	100	100	100
April 2003 .....	100	60	16	0	0	0	0	100	100	100	100	97	93	65
April 2004 .....	87	16	0	0	0	0	0	87	84	81	75	67	60	46
April 2005 .....	67	0	0	0	0	0	0	67	60	54	44	30	19	0
April 2006 .....	44	0	0	0	0	0	0	44	30	17	0	0	0	0
April 2007 .....	20	0	0	0	0	0	0	20	0	0	0	0	0	0
April 2008 .....	0	0	0	0	0	0	0	0	0	0	0	0	0	0
April 2009 .....	0	0	0	0	0	0	0	0	0	0	0	0	0	0
April 2010 .....	0	0	0	0	0	0	0	0	0	0	0	0	0	0
April 2011 .....	0	0	0	0	0	0	0	0	0	0	0	0	0	0
April 2012 .....	0	0	0	0	0	0	0	0	0	0	0	0	0	0
April 2013 .....	0	0	0	0	0	0	0	0	0	0	0	0	0	0
April 2014 .....	0	0	0	0	0	0	0	0	0	0	0	0	0	0
April 2015 .....	0	0	0	0	0	0	0	0	0	0	0	0	0	0
April 2016 .....	0	0	0	0	0	0	0	0	0	0	0	0	0	0
April 2017 .....	0	0	0	0	0	0	0	0	0	0	0	0	0	0
April 2018 .....	0	0	0	0	0	0	0	0	0	0	0	0	0	0
April 2019 .....	0	0	0	0	0	0	0	0	0	0	0	0	0	0
April 2020 .....	0	0	0	0	0	0	0	0	0	0	0	0	0	0
April 2021 .....	0	0	0	0	0	0	0	0	0	0	0	0	0	0
April 2022 .....	0	0	0	0	0	0	0	0	0	0	0	0	0	0
April 2023 .....	0	0	0	0	0	0	0	0	0	0	0	0	0	0
April 2024 .....	0	0	0	0	0	0	0	0	0	0	0	0	0	0
April 2025 .....	0	0	0	0	0	0	0	0	0	0	0	0	0	0
April 2026 .....	0	0	0	0	0	0	0	0	0	0	0	0	0	0
April 2027 .....	0	0	0	0	0	0	0	0	0	0	0	0	0	0
April 2028 .....	0	0	0	0	0	0	0	0	0	0	0	0	0	0
April 2029 .....	0	0	0	0	0	0	0	0	0	0	0	0	0	0
April 2030 .....	0	0	0	0	0	0	0	0	0	0	0	0	0	0
April 2031 .....	0	0	0	0	0	0	0	0	0	0	0	0	0	0
April 2032 .....	0	0	0	0	0	0	0	0	0	0	0	0	0	0
April 2033 .....	0	0	0	0	0	0	0	0	0	0	0	0	0	0
April 2034 .....	0	0	0	0	0	0	0	0	0	0	0	0	0	0
April 2035 .....	0	0	0	0	0	0	0	0	0	0	0	0	0	0
April 2036 .....	0	0	0	0	0	0	0	0	0	0	0	0	0	0
April 2037 .....	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Weighted Average Life (years)** .....	8.7	6.3	5.5	5.0	4.7	4.4	3.7	8.7	8.3	8.0	7.7	7.4	7.2	6.7

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

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

## Percent of Original Principal Balances Outstanding for the C Class

Date	CPR Prepayment Assumption													
	Lockout††							Extended Protection††						
	0%	5%	10%	20%	35%	50%	100%	0%	5%	10%	20%	35%	50%	100%
Initial Percent .....	100	100	100	100	100	100	100	100	100	100	100	100	100	100
April 1998 .....	100	100	100	100	100	100	100	100	100	100	100	100	100	100
April 1999 .....	100	100	100	100	100	100	100	100	100	100	100	100	100	100
April 2000 .....	100	100	100	100	100	100	100	100	100	100	100	100	100	100
April 2001 .....	100	100	100	100	100	100	89	100	100	100	100	100	100	100
April 2002 .....	100	100	100	100	98	82	0	100	100	100	100	100	100	100
April 2003 .....	100	100	100	79	46	17	0	100	100	100	100	100	100	100
April 2004 .....	100	100	85	50	10	0	0	100	100	100	100	100	100	100
April 2005 .....	100	91	66	25	0	0	0	100	100	100	100	100	100	85
April 2006 .....	100	77	46	1	0	0	0	100	100	100	98	88	80	35
April 2007 .....	100	61	26	0	0	0	0	100	96	85	67	41	17	0
April 2008 .....	98	43	2	0	0	0	0	98	76	55	17	0	0	0
April 2009 .....	90	26	0	0	0	0	0	90	56	26	0	0	0	0
April 2010 .....	80	9	0	0	0	0	0	80	37	0	0	0	0	0
April 2011 .....	70	0	0	0	0	0	0	70	18	0	0	0	0	0
April 2012 .....	59	0	0	0	0	0	0	59	0	0	0	0	0	0
April 2013 .....	47	0	0	0	0	0	0	47	0	0	0	0	0	0
April 2014 .....	35	0	0	0	0	0	0	35	0	0	0	0	0	0
April 2015 .....	21	0	0	0	0	0	0	21	0	0	0	0	0	0
April 2016 .....	7	0	0	0	0	0	0	7	0	0	0	0	0	0
April 2017 .....	0	0	0	0	0	0	0	0	0	0	0	0	0	0
April 2018 .....	0	0	0	0	0	0	0	0	0	0	0	0	0	0
April 2019 .....	0	0	0	0	0	0	0	0	0	0	0	0	0	0
April 2020 .....	0	0	0	0	0	0	0	0	0	0	0	0	0	0
April 2021 .....	0	0	0	0	0	0	0	0	0	0	0	0	0	0
April 2022 .....	0	0	0	0	0	0	0	0	0	0	0	0	0	0
April 2023 .....	0	0	0	0	0	0	0	0	0	0	0	0	0	0
April 2024 .....	0	0	0	0	0	0	0	0	0	0	0	0	0	0
April 2025 .....	0	0	0	0	0	0	0	0	0	0	0	0	0	0
April 2026 .....	0	0	0	0	0	0	0	0	0	0	0	0	0	0
April 2027 .....	0	0	0	0	0	0	0	0	0	0	0	0	0	0
April 2028 .....	0	0	0	0	0	0	0	0	0	0	0	0	0	0
April 2029 .....	0	0	0	0	0	0	0	0	0	0	0	0	0	0
April 2030 .....	0	0	0	0	0	0	0	0	0	0	0	0	0	0
April 2031 .....	0	0	0	0	0	0	0	0	0	0	0	0	0	0
April 2032 .....	0	0	0	0	0	0	0	0	0	0	0	0	0	0
April 2033 .....	0	0	0	0	0	0	0	0	0	0	0	0	0	0
April 2034 .....	0	0	0	0	0	0	0	0	0	0	0	0	0	0
April 2035 .....	0	0	0	0	0	0	0	0	0	0	0	0	0	0
April 2036 .....	0	0	0	0	0	0	0	0	0	0	0	0	0	0
April 2037 .....	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Weighted Average Life (years)** .....	15.6	10.6	8.8	7.1	6.0	5.5	4.6	15.6	12.4	11.2	10.3	9.8	9.6	8.9

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

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

## Percent of Original Principal Balances Outstanding for the D Class

Date	CPR Prepayment Assumption													
	Lockout††							Extended Protection††						
	0%	5%	10%	20%	35%	50%	100%	0%	5%	10%	20%	35%	50%	100%
Initial Percent .....	100	100	100	100	100	100	100	100	100	100	100	100	100	100
April 1998 .....	100	100	100	100	100	100	100	100	100	100	100	100	100	100
April 1999 .....	100	100	100	100	100	100	100	100	100	100	100	100	100	100
April 2000 .....	100	100	100	100	100	100	100	100	100	100	100	100	100	100
April 2001 .....	100	100	100	100	100	100	100	100	100	100	100	100	100	100
April 2002 .....	100	100	100	100	100	100	58	100	100	100	100	100	100	100
April 2003 .....	100	100	100	100	100	100	54	100	100	100	100	100	100	100
April 2004 .....	100	100	100	100	100	82	49	100	100	100	100	100	100	100
April 2005 .....	100	100	100	100	83	59	31	100	100	100	100	100	100	100
April 2006 .....	100	100	100	100	59	39	20	100	100	100	100	100	100	100
April 2007 .....	100	100	100	74	30	9	0	100	100	100	100	100	100	0
April 2008 .....	100	100	100	40	0	0	0	100	100	100	100	66	23	0
April 2009 .....	100	100	77	13	0	0	0	100	100	100	74	13	0	0
April 2010 .....	100	100	55	0	0	0	0	100	100	100	37	0	0	0
April 2011 .....	100	91	33	0	0	0	0	100	100	73	7	0	0	0
April 2012 .....	100	72	13	0	0	0	0	100	99	48	0	0	0	0
April 2013 .....	100	54	0	0	0	0	0	100	78	25	0	0	0	0
April 2014 .....	100	35	0	0	0	0	0	100	58	3	0	0	0	0
April 2015 .....	100	17	0	0	0	0	0	100	38	0	0	0	0	0
April 2016 .....	100	0	0	0	0	0	0	100	18	0	0	0	0	0
April 2017 .....	90	0	0	0	0	0	0	90	0	0	0	0	0	0
April 2018 .....	71	0	0	0	0	0	0	71	0	0	0	0	0	0
April 2019 .....	52	0	0	0	0	0	0	52	0	0	0	0	0	0
April 2020 .....	30	0	0	0	0	0	0	30	0	0	0	0	0	0
April 2021 .....	7	0	0	0	0	0	0	7	0	0	0	0	0	0
April 2022 .....	0	0	0	0	0	0	0	0	0	0	0	0	0	0
April 2023 .....	0	0	0	0	0	0	0	0	0	0	0	0	0	0
April 2024 .....	0	0	0	0	0	0	0	0	0	0	0	0	0	0
April 2025 .....	0	0	0	0	0	0	0	0	0	0	0	0	0	0
April 2026 .....	0	0	0	0	0	0	0	0	0	0	0	0	0	0
April 2027 .....	0	0	0	0	0	0	0	0	0	0	0	0	0	0
April 2028 .....	0	0	0	0	0	0	0	0	0	0	0	0	0	0
April 2029 .....	0	0	0	0	0	0	0	0	0	0	0	0	0	0
April 2030 .....	0	0	0	0	0	0	0	0	0	0	0	0	0	0
April 2031 .....	0	0	0	0	0	0	0	0	0	0	0	0	0	0
April 2032 .....	0	0	0	0	0	0	0	0	0	0	0	0	0	0
April 2033 .....	0	0	0	0	0	0	0	0	0	0	0	0	0	0
April 2034 .....	0	0	0	0	0	0	0	0	0	0	0	0	0	0
April 2035 .....	0	0	0	0	0	0	0	0	0	0	0	0	0	0
April 2036 .....	0	0	0	0	0	0	0	0	0	0	0	0	0	0
April 2037 .....	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Weighted Average Life (years)** .....	22.0	16.2	13.3	10.8	9.3	8.4	6.9	22.0	17.4	15.0	12.7	11.3	10.7	9.8

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

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

## Percent of Original Principal Balances Outstanding for the Z Class

Date	CPR Prepayment Assumption													
	Lockout††							Extended Protection††						
	0% (1)	5%	10%	20%	35%	50%	100%	0% (1)	5%	10%	20%	35%	50%	100%
Initial Percent .....	100	100	100	100	100	100	100	100	100	100	100	100	100	100
April 1998 .....	108	108	108	108	108	108	108	108	108	108	108	108	108	108
April 1999 .....	116	116	116	116	116	116	116	116	116	116	116	116	116	116
April 2000 .....	125	125	125	125	125	125	125	125	125	125	125	125	125	125
April 2001 .....	134	134	134	134	134	134	134	134	134	134	134	134	134	134
April 2002 .....	144	144	144	144	144	144	144	144	144	144	144	144	144	144
April 2003 .....	155	155	155	155	155	155	155	155	155	155	155	155	155	155
April 2004 .....	167	167	167	167	167	167	168	167	167	167	167	167	167	167
April 2005 .....	180	180	180	180	180	180	180	180	180	180	180	180	180	180
April 2006 .....	193	193	193	194	194	194	194	193	193	193	193	193	193	193
April 2007 .....	208	208	208	208	209	209	0	208	208	208	208	208	208	0
April 2008 .....	224	224	224	224	199	118	0	224	224	224	224	224	224	0
April 2009 .....	241	241	241	242	127	58	0	241	241	241	241	241	148	0
April 2010 .....	259	259	260	223	81	0	0	259	259	259	259	182	73	0
April 2011 .....	279	279	279	175	52	0	0	279	279	279	279	116	0	0
April 2012 .....	300	300	301	137	0	0	0	300	300	300	237	74	0	0
April 2013 .....	323	323	304	107	0	0	0	323	323	323	185	0	0	0
April 2014 .....	348	348	266	83	0	0	0	348	348	347	144	0	0	0
April 2015 .....	374	374	232	64	0	0	0	374	374	312	112	0	0	0
April 2016 .....	402	397	202	0	0	0	0	402	402	272	87	0	0	0
April 2017 .....	433	363	175	0	0	0	0	433	423	236	67	0	0	0
April 2018 .....	466	331	151	0	0	0	0	466	386	204	51	0	0	0
April 2019 .....	502	300	130	0	0	0	0	502	350	175	0	0	0	0
April 2020 .....	540	271	111	0	0	0	0	540	315	149	0	0	0	0
April 2021 .....	581	242	94	0	0	0	0	581	282	127	0	0	0	0
April 2022 .....	565	214	79	0	0	0	0	565	250	106	0	0	0	0
April 2023 .....	522	188	65	0	0	0	0	522	220	88	0	0	0	0
April 2024 .....	476	163	53	0	0	0	0	476	190	73	0	0	0	0
April 2025 .....	427	138	0	0	0	0	0	427	162	59	0	0	0	0
April 2026 .....	374	115	0	0	0	0	0	374	135	0	0	0	0	0
April 2027 .....	320	93	0	0	0	0	0	320	109	0	0	0	0	0
April 2028 .....	267	74	0	0	0	0	0	267	87	0	0	0	0	0
April 2029 .....	210	55	0	0	0	0	0	210	65	0	0	0	0	0
April 2030 .....	148	0	0	0	0	0	0	148	0	0	0	0	0	0
April 2031 .....	84	0	0	0	0	0	0	84	0	0	0	0	0	0
April 2032 .....	35	0	0	0	0	0	0	35	0	0	0	0	0	0
April 2033 .....	26	0	0	0	0	0	0	26	0	0	0	0	0	0
April 2034 .....	16	0	0	0	0	0	0	16	0	0	0	0	0	0
April 2035 .....	7	0	0	0	0	0	0	7	0	0	0	0	0	0
April 2036 .....	2	0	0	0	0	0	0	2	0	0	0	0	0	0
April 2037 .....	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Weighted Average Life (years)** .....	30.4	25.9	21.4	15.8	12.5	11.3	9.8	30.4	26.5	22.7	17.6	14.1	12.5	9.9

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

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

- (1) It has been assumed that the right to cause the optional liquidation of the Trust described herein is not exercised by the Holder of the R Class.



## **Characteristics of the R Class**

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

The R Class will be subject to certain transfer restrictions. No transfer of record or beneficial ownership of an R Certificate will be allowed to a “disqualified organization.” In addition, no transfer of record or beneficial ownership of an R Certificate will be allowed to any person that is not a “U.S. Person” without the written consent of Fannie Mae. Under regulations issued by the Treasury Department on December 23, 1992 (the “Regulations”), a transfer of a “noneconomic residual interest” to a U.S. Person will be disregarded for all federal tax purposes unless no significant purpose of the transfer is to impede the assessment or collection of tax. The R Class will constitute a noneconomic residual interest under the Regulations. Any transferee of an R Certificate must execute and deliver an affidavit and an Internal Revenue Service Form W-9 on which the transferee provides its taxpayer identification number. See “Description of the Certificates—Additional Characteristics of Residual Certificates” and “Certain Federal Income Tax Consequences—Taxation of Beneficial Owners of Residual Certificates” in the Multifamily REMIC Prospectus. Transferors of an R Certificate should consult with their own tax advisors for further information regarding such transfers.

The Holder of the R Class will be considered to be the holder of the “residual interest” in the REMIC constituted by the Trust. Such holder may be required to recognize taxable income without being entitled to receive a corresponding amount of cash. See “Certain Federal Income Tax Consequences” in the Multifamily REMIC Prospectus. Pursuant to the Trust Agreement, Fannie Mae will be obligated to provide to such Holders (i) such information as is necessary to enable them to prepare their federal income tax returns and (ii) any reports regarding the R Class that may be required under the Code.

## **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 36 Mortgage Loans will underlie the GNMA Certificates. The Mortgage Loans are expected to have an aggregate balance of approximately \$332,601,229 (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**

FHA multifamily insurance programs generally are designed to assist private and public mortgagors in obtaining insured financing for the construction, purchase or rehabilitation of rental housing pursuant to the Housing Act. Mortgages are provided by FHA-approved institutions, which include mortgage bankers, commercial banks, savings and loan associations, trust companies, insurance companies, pension funds, state and local housing finance agencies and certain other approved entities.

Mortgages for multifamily projects must not exceed either the statutory dollar amount or loan ratio limitations established by the particular section of the Housing Act under which the mortgage is being insured, except that the FHA may increase the dollar amount limitations by up to 110 percent in certain high cost areas and by up to 140 percent on a project-by-project basis. References herein to estimated values and costs associated with maximum mortgage amounts represent estimates made by the FHA.

Mortgages insured under the programs described below will have such maturities and amortization features as the FHA may approve, provided that generally the minimum mortgage term will be at least ten years and the maximum mortgage term will not exceed the lesser of 40 years and 75 percent of the estimated remaining economic life of the improvements on the mortgaged property.

Tenant eligibility for FHA-insured projects generally is not restricted by income, except for projects as to which rental subsidies are made available with respect to some or all of the units therein or to specified tenants.

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

### *Section 221(d) (Low and Moderate Income Multifamily Housing Mortgage Insurance)*

Sections 221(d)(3) and 221(d)(4) of the Housing Act provide for mortgage insurance to assist private industry in the construction or substantial rehabilitation of rental and cooperative housing for low- and moderate-income families and families that have been displaced as a result of urban renewal, governmental actions or disaster. Nonprofit sponsors may receive an insured mortgage for the full estimated value of the project under Section 221(d)(3), whereas profit-motivated sponsors under Section 221(d)(3) and all types of mortgagors under Section 221(d)(4) may receive only a maximum mortgage amount of 90 percent of such estimated value.

The maximum mortgage amounts under Section 221(d)(3) are as follows: (i) the statutory maximum per dwelling unit amount (which is higher for nonprofit mortgagors); (ii) in the case of new construction, the estimated replacement cost of the property or project with improvements for nonprofit mortgagors (90 percent of such replacement cost in the case of a profit-motivated mortgagor); (iii) in the case of repair or rehabilitation, the sum of the estimated cost of the repair or rehabilitation of the project plus the estimated value of the property before repair or rehabilitation (90 percent of such sum in the case of a profit-motivated mortgagor); and (iv) if the mortgage

involves financing of the purchase of property that has been rehabilitated by a local public agency with federal assistance pursuant to Section 110(c)(8) of the Housing Act of 1949, the lesser of the appraised value of the property at the time the mortgage is approved for insurance and the actual cost of acquisition (90 percent of such amounts in the case of a profit-motivated mortgagor).

The maximum mortgage amounts under Section 221(d)(4) for both nonprofit and profit-motivated mortgagors are the same as the maximum amounts under Section 221(d)(3) for profit-motivated mortgagors listed above, with the exception that the statutory per dwelling unit amounts are slightly lower under Section 221(d)(4).

#### *Section 223(a)(7) (Refinancing of FHA-Insured Mortgages)*

Section 223(a)(7) permits the FHA to refinance existing mortgage loans under any section or title of the Housing Act. Such refinancing results in prepayment of the existing insured mortgage. The principal amount of the new, refinanced mortgage loan generally is limited to the lesser of the original principal amount of the existing mortgage loan and the unpaid balance of the existing mortgage loan. The maximum amount for loans previously refinanced under Section 223(f) (described below) is based on the amount that can be amortized by 90 percent of the project's net operating income, which amount can be increased to 95 percent if the borrower is a nonprofit organization.

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

#### *Section 223(f) (Refinancing of Existing Mortgages)*

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 that do not require substantial rehabilitation. The principal objective of the Section 223(f) program is to permit the refinancing of mortgages to provide for a lower debt service in order to preserve an adequate supply of affordable rental housing. Such projects may have been financed originally with conventional or FHA-insured mortgages.

To be eligible for insurance under Section 223(f), a project must have rental income sufficient to pay operating expenses and annual debt service, and must have a reserve fund for replacements or provide an operating deficit fund on terms approved by the FHA. The cost of repairs, replacements and improvements may not exceed the greater of 15 percent of the property's value after the improvements and \$6,500 per dwelling unit (adjusted for high-cost areas); and no more than one major building component may be replaced. The project must have been completed at least three years prior to the application for mortgage insurance, and its remaining economic life must be at least ten years.

If the project is to be acquired by the mortgagor and financed in part with the insured mortgage, the maximum mortgage loan amount under Section 223(f) is 85 percent of the cost of acquisition as determined by the FHA (90 percent of such amount for a cooperative multifamily project and for projects financed with state or local assistance or located in older, declining urban areas that meet certain eligibility requirements). If, on the other hand, the property is to be refinanced without a change in ownership, then the maximum mortgage loan amount may not exceed: (a) for rental projects, the greater of 70 percent of the estimated value of the property and the cost of refinancing the existing indebtedness and (b) for cooperative projects, the cost of refinancing the existing indebtedness. In addition to the above limitations, a mortgage loan insured under Section 223(f) may

not have a principal amount in excess of the lesser of 85 percent of the estimated value of the project and the statutory per dwelling unit amount.

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 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 percent of the lesser of the estimated 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 7.5 percent of the estimated value of the project and 50 percent of the difference between the cost of refinancing the project and the maximum mortgage loan amount determined by the FHA.

#### *Section 232 (Mortgage Insurance for Nursing Homes and Other Care Facilities)*

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

The maximum mortgage amount that is insurable under Section 232 for new construction and substantial rehabilitation is, for profit-motivated mortgagors, 90 percent of the estimated value of the project, including the equipment to be used in the operation, when the proposed improvements are completed and the equipment is installed, and 95 percent of such value for private nonprofit mortgagors.

A mortgage executed in connection with the purchase or refinancing of existing projects under Section 232 pursuant to Section 223(f) of the Housing Act must have a principal amount no greater than 85 percent for a profit-motivated mortgagor (90 percent for a private nonprofit mortgagor) of the estimated value of the project, including major equipment and any repairs and improvements. Such mortgage also may not exceed the amount that could be amortized by 85 percent for profit-motivated mortgagors (90 percent for nonprofit) of the net projected project income available for payment of debt service. If the project is to be refinanced by the insured mortgage without a change in ownership, the maximum mortgage may not exceed the cost to refinance the existing indebtedness, as determined by the FHA. If the mortgage insured pursuant to Section 223(f) is to be used in part to finance the acquisition of the project by the mortgagor, in addition to the above-mentioned limits, the maximum loan amount is 85 percent of the cost of acquisition for profit-motivated mortgagors and 90 percent for nonprofit mortgagors.

#### *Section 241 (Supplemental Financing and Equity Take Out Loans)*

Section 241, which includes Section 241(a), provides for FHA insurance to finance property improvements, energy-conserving improvements or additions to any FHA-insured multifamily loan. Pursuant to legislation enacted in 1987, Section 241(f) provides, as a specific element of a “plan of action” approved by the FHA, insurance for second mortgage financing and for loans to facilitate the take out of accumulated equity. The overall purpose of the Section 241 loan program is to provide a project with a means to remain competitive, extend its economic life and finance the replacement of obsolete equipment without the refinancing of the existing mortgage.

Supplemental loans that are insured under Section 241 may be in an amount of up to 90 percent of the value of improvements, additions or equipment financed by the loan; provided that such amount, when added to any outstanding balance of the mortgage covering the project, may not exceed the maximum mortgage amount insurable under the section or title pursuant to which the mortgage covering such project is insured. For supplemental loans relating to the purchase and installation of

energy conserving improvements on a property not previously insured by the FHA, the maximum insurable amount is the least of (a) the cost of the improvements, (b) an amount which can be supported by residual income, as determined by FHA, and (c) an amount which when added to the existing indebtedness does not exceed the estimate of the value of the project after installation of the energy-conserving improvements.

An equity loan insured under Section 241(f) may not exceed 90 percent of the owner's equity in the project, nor may it exceed an amount which, when added to the existing indebtedness on the property, can be supported by 90 percent of the projected net operating income of the project. An equity loan made to an owner who agrees to extend the low-income affordability restrictions on the related housing pursuant to a plan of action may not exceed an amount equal to the amount of rehabilitation costs required by the plan and the lesser of (i) 70 percent of the preservation equity in the project and (ii) an amount determined to be supported by the project on the basis of an eight percent return on the extension preservation equity, assuming normal debt service coverages. Such an equity loan must also provide for the lender to deposit ten percent of the loan in an escrow account for five years.

An acquisition loan insured under Section 241(f) may not exceed the amount of rehabilitation costs as determined under an approved plan of action and related charges, plus 95 percent of the transfer preservation equity of the project. If the purchaser is a qualified priority purchaser as defined under FHA regulations, the loan may include any expenses associated with obtaining the loan implementing the plan of action, as approved by the FHA. Acquisition loans have a term of up to 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"). Such lockout periods have remaining lockout terms that range from approximately 25 to 119 months and with a weighted average remaining lockout term of approximately 73 months. In the case of mortgage loans insured under Section 232, full or partial prepayments by nonprofit mortgagors cannot be effected without prior written consent from the FHA. The enforceability of these lockout provisions under certain state laws is unclear.

*Mortgage Prepayment Penalties.* Certain of the Mortgage Loans have a period (a "prepayment penalty period") during which voluntary and involuntary prepayments (except for prepayments resulting from condemnation or casualty losses) must be accompanied by a mortgage prepayment 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 Supplement 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 month 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.* Certain of the Mortgage Loans may be 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 delegates 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 (or any other Mortgage Loans) underlying the GNMA Certificates.

## **CERTAIN ADDITIONAL FEDERAL INCOME TAX CONSEQUENCES**

The following tax discussion, when read in conjunction with the discussion of “Certain Federal Income Tax Consequences” in the Multifamily REMIC Prospectus, describes the current federal income tax treatment of investors in the Certificates. These two tax discussions do 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.

### **REMIC Election and Special Tax Attributes**

An election will be made to treat the Trust as a REMIC for federal income tax purposes. The Certificates, other than the R Class, will be designated as the “regular interests,” and the R Class will be designated as the “residual interest,” in the REMIC constituted by the Trust.

As a consequence of the qualification of the Trust as a REMIC, the Certificates generally will be treated as “regular or residual interests in a REMIC” for domestic building and loan associations, “real estate assets” for real estate investment trusts, and, except for the R Class, as “qualified mortgages” for other REMICs. The Small Business Job Protection Act of 1996 repeals the bad debt reserve method of accounting for mutual savings banks and domestic building and loan associations for tax years beginning after December 31, 1995. As a result, section 593(d) of the Code is no longer applicable to treat the Certificates as “qualifying real property loans.” See “Certain Federal Income Tax Consequences—Special Tax Attributes” in the Multifamily REMIC Prospectus.

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

The OID Regulations do not adequately address the taxation of Regular Certificates such as the Weighted Average Coupon Classes. In addition, final Treasury regulations governing contingent payment debt instruments (published in the Federal Register on June 14, 1996) provide specifically that they do not apply to debt instruments, such as the Regular Certificates, to which section 1272(a)(6) of the Code applies. Section 1272(a)(6) of the Code contains special original issue discount rules applicable to Regular Certificates, although no regulations have been issued under this section and the treatment of the Weighted Average Coupon Classes under section 1272(a)(6) remains unclear. In the absence of other guidance, Fannie Mae intends to refer to the principles of the OID Regulations in preparing information reports to Holders of the Weighted Average Coupon Classes. Investors are urged to consult their own tax advisors regarding the tax treatment of the Weighted Average Coupon Classes in their specific circumstances.

For information reporting purposes, the Weighted Average Coupon Classes will be treated as issued with original issue discount (“OID”) for federal income tax purposes, which generally will result in recognition of some taxable income in advance of the receipt of the cash attributable to such income. In addition, all interest payments on such Classes will be treated as included in the stated redemption price at maturity of each such Class. Accruals of OID will be determined as for Regular Certificates calling for a variable rate of interest, as described under “Certain Federal Income Tax Consequences—Taxation of Beneficial Owners of Regular Certificates—*Original Issue Discount*” in the Multifamily REMIC Prospectus.

The Prepayment Assumption that will be used in determining the rate of accrual of OID is described below. No representation is made as to whether the Mortgage Loans underlying the GNMA Certificates will prepay at that or any other rate. See “Description of the Certificates—Weighted

Average Life” herein and “Maturity and Prepayment Considerations and Risks—Weighted Average Life and Final Distribution Dates” in the Multifamily REMIC Prospectus.

The Prepayment Assumption will be applied on a loan-by-loan basis. The Prepayment Assumption that will be used for the Mortgage Loans will be 0% CPR until the prepayment penalty end date for each such Mortgage Loan and 20% CPR thereafter. The prepayment penalty end dates for the Mortgage Loans are provided on Exhibit A hereto. Because the prepayment penalty end date for each Mortgage Loan is not the same, during the period beginning on the earliest prepayment penalty end date of the Mortgage Loans and ending on the last prepayment penalty end date of the Mortgage Loans, the effective Prepayment Assumption will increase, from 0% CPR to 20% CPR, in proportion to the percentage of Mortgage Loan prepayment penalty end dates that have passed. Such increase in the effective Prepayment Assumption will result in an acceleration in the rate of accrual of original issue discount with respect to the Certificates as each Mortgage Loan reaches its prepayment penalty end date.

### **Taxation of Beneficial Owners of Residual Certificates**

Under the Regulations, the R Class will not have significant value. Special rules regarding the treatment of “excess inclusions” by certain thrift institutions no longer apply because of the amendment of section 593 of the Code by the Small Business Job Protection Act of 1996. See “Certain Federal Income Tax Consequences—Taxation of Beneficial Owners of Residual Certificates—*Excess Inclusions*” in the Multifamily REMIC Prospectus.

For purposes of determining the portion of the taxable income of the Trust that generally will not be treated as excess inclusions, the rate to be used is 120% of the “federal long-term rate.” The rate will be published on or about March 20, 1997. See “Certain Federal Income Tax Consequences—Taxation of Beneficial Owners of Residual Certificates—*Excess Inclusions*” and “—Foreign Investors—*Residual Certificates*” in the Multifamily REMIC Prospectus. The federal income tax consequences of any consideration paid to a transferee on the transfer of an R Certificate are unclear; any transferee receiving such consideration should consult its own tax advisors.

### **PLAN OF DISTRIBUTION**

The Dealer will receive the Certificates in exchange for the GNMA Certificates pursuant to a Fannie Mae commitment. 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 Fannie Mae by Brown & Wood LLP; and an opinion with respect to certain tax matters will be delivered to Fannie Mae by Dewey Ballantine, Washington, D.C. Certain legal matters will be passed upon for the Dealer by Sidley & Austin, New York, New York.

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# Exhibit A

## GNMA Certificates and Mortgage Loans

GNMA Pool Number	FHA Program†	City	State	Approximate Principal Balance as of Issue Date	Mortgage Interest Rate	GNMA Certificate 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**	Remaining Lockout Term	Remaining Prepayment Penalty Term
165044	223 (f)	Pickerington	OH	\$ 7,446,377.83	7.875%	7.625%	December 2030	420	404	16	December 1995	December 2005	December 2005	1	104	104
222265	223 (f)	San Ysidro	CA	13,047,750.48	7.750	7.500	March 2032	420	419	1	March 1997	February 2007	February 2007	1	118	118
304853	241 (f)	Long Beach	CA	5,985,993.88	8.250	8.000	January 2032	479	417	62	February 1992	January 2002	January 2002	1	57	57
355992	221 (d) 4	Bremerton	WA	15,034,085.69	8.050	7.800	November 2034	476	451	25	March 1995	February 2005	February 2005	1	94	94
355996	221 (d) 4	Seattle	WA	3,290,073.48	7.250	7.000	March 2035	478	455	23	May 1995	March 2000	March 2005	3	35	95
355998	221 (d) 4	Lacey	WA	4,522,558.58	7.250	7.000	May 2035	475	457	18	October 1995	May 1999	May 2004	3	25	85
378403	232	Deerfield Beach	FL	4,047,897.04	8.400	8.150	August 2036	474	472	2	February 1997	August 2001	August 2006	3	52	112
391990	221 (d) 3	Burnsville	MN	7,963,257.29	8.000	7.750	July 2036	479	471	8	August 1996	September 2001	August 2006	3	53	112
413933	223 (f)	Tucson	AZ	9,314,653.99	7.750	7.500	October 2030	420	402	18	October 1995	September 2000	September 2005	3	41	101
413944	241 (f)	Ventura	CA	3,607,540.73	7.250	7.000	January 2036	480	465	15	January 1996	December 2000	December 2005	3	44	104
414386	223 (a) 7	Bowling Green	KY	2,934,646.31	7.875	7.625	May 2022	303	301	2	February 1997	January 2002	January 2007	3	57	117
416716	221 (d) 4/223 (a) 7	San Jose	CA	17,285,424.19	7.750	7.500	February 2031	421	406	15	January 1996	January 2001	January 2006	3	45	105
419384	223 (f)	Norfolk	VA	4,056,763.77	7.250	7.000	February 2031	420	406	14	February 1996	January 2001	January 2006	3	45	105
419432	223 (f)	Radford	VA	4,192,138.69	7.750	7.500	December 2031	421	416	5	November 1996	October 2001	October 2006	3	54	114
419442	223 (f)	Richmond	VA	50,057,596.64	7.625	7.375	January 2032	420	417	3	January 1997	December 2006	December 2006	1	116	116
419445	223 (f)	Charlottesville	VA	2,078,300.00	7.750	7.500	April 2032	421	420	1	March 1997	February 2002	February 2007	3	58	118
419446	223 (f)	Charlottesville	VA	850,400.00	7.750	7.500	April 2032	421	420	1	March 1997	February 2002	February 2007	3	58	118
420985	223 (a) 7	Memphis	TN	2,341,742.27	7.250	7.000	February 2031	420	406	14	February 1996	February 2001	February 2006	3	46	106
420986	223 (f)	Richfield	MN	5,645,109.45	7.250	7.000	January 2026	360	345	15	January 1996	January 2001	January 2006	3	45	105
421022	223 (f)	Goose Creek	SC	3,485,961.86	7.750	7.500	January 2032	421	417	4	December 1996	January 2002	January 2007	3	57	117
421023	232/223 (f)	Scottsdale	AZ	10,191,909.02	7.375	7.125	January 2032	420	417	3	January 1997	January 2000	January 2003	2	33	69
421029	223 (f)	Ponca City	OK	2,803,216.07	7.750	7.500	March 2032	420	419	1	March 1997	March 2007	March 2007	1	119	119
425675	223 (f)	Glendale	AZ	4,351,097.17	7.500	7.250	February 2032	421	418	3	January 1997	January 2002	December 2006	3	57	116
425676	223 (a) 7	Orlando	FL	6,617,886.63	7.500	7.250	January 2037	481	477	4	December 1996	December 2000	November 2005	3	44	103
425684	223 (f)	Las Vegas	NV	4,472,926.15	7.750	7.500	March 2032	420	419	1	March 1997	February 2002	February 2007	3	58	118
428642	223 (f)	Dallas	TX	1,798,315.70	8.000	7.750	March 2032	420	419	1	March 1997	February 2002	January 2007	3	58	117
429331	223 (f)	Lafayette	IN	12,862,029.11	7.750	7.500	February 2032	420	418	2	February 1997	January 2002	January 2007	3	57	117
430556	223 (f)	Kent	WA	27,300,826.72	7.500	7.250	February 2032	421	418	3	January 1997	February 2002	February 2007	3	58	118
439901	232	Princess Anne	MD	4,690,000.00	8.000	7.750	April 2032	421	420	1	March 1997	February 2002	February 2007	3	58	118
441764	223 (f)	Lexington Park	MD	5,844,598.78	7.500	7.250	January 2032	420	417	3	January 1997	December 2001	December 2004	2	56	92
443157	223 (f)	Richfield	MN	16,887,523.64	7.680	7.430	January 2027	360	357	3	January 1997	December 2006	December 2006	1	116	116
443158	223 (f)	Richfield	MN	6,488,446.73	7.680	7.430	January 2027	360	357	3	January 1997	December 2006	December 2006	1	116	116
443159	223 (f)	Richfield	MN	2,883,754.13	7.680	7.430	January 2027	360	357	3	January 1997	December 2006	December 2006	1	116	116
445157	223 (f)	Gurnee	IL	16,841,926.70	7.500	7.250	January 2032	421	417	4	December 1996	December 2001	November 2006	3	56	115
445370	223 (f)	Crystal Lake	IL	9,731,612.13	7.500	7.250	January 2032	421	417	4	December 1996	December 2001	November 2006	3	56	115
445620	223 (f)	Las Vegas	NV	31,646,888.87	7.000	6.750	January 2032	420	417	3	January 1997	January 2002	January 2007	4	57	117
Total/Weighted Average				\$332,601,229.73	7.59963%	7.34963%		422	415	7					73	110

† Certain of the units included in the Mortgaged Properties may receive project-based Section 8 rent subsidies from HUD.

\* 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; thereafter no prepayment penalty is imposed.

(2) Lockout through the lockout end date; thereafter prepayment penalty of 3% of prepaid amount until the twelfth loan payment date beyond the lockout end date disclosed above, declining thereafter by 1% annually.

(3) Lockout through the lockout end date; thereafter prepayment penalty of 5% of prepaid amount until the twelfth loan payment date beyond the lockout end date disclosed above, declining thereafter by 1% annually.

(4) Lockout through the lockout end date; thereafter prepayment penalty of 6% of prepaid amount until the twelfth loan payment date beyond the lockout end date disclosed above, declining thereafter by 1% annually until January 2006. Commencing in February 2006, prepayment penalty of 1% of prepaid amount until January 2007. Thereafter, no prepayment penalty is imposed.

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 Lehman Brothers Inc. 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 representations in connection with this offering other than those contained in this Prospectus Supplement, the Multifamily REMIC 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 Supplement and the aforementioned documents 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 Supplement and the aforementioned documents 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.

## TABLE OF CONTENTS

	<u>Page</u>
<b>Prospectus Supplement</b>	
Table of Contents . . . . .	S- 3
Reference Sheet . . . . .	S- 4
Risk Factors . . . . .	S- 6
Description of the Certificates . . . . .	S- 8
Description of the GNMA Certificates and the Mortgage Loans . . . . .	S-19
Certain Additional Federal Income Tax Consequences . . . . .	S-24
Plan of Distribution . . . . .	S-25
Legal Matters . . . . .	S-25
Exhibit A . . . . .	A-1

## **Multifamily REMIC Prospectus**

Prospectus Supplement . . . . .	2
Summary of Prospectus . . . . .	3
The Series Trust . . . . .	10
Yield Considerations . . . . .	11
Maturity and Prepayment Considerations and Risks . . . . .	15
Purchase Program . . . . .	18
Description of the Certificates . . . . .	19
The Trust Agreement . . . . .	30
Certain Federal Income Tax Consequences	35
Legal Investment Considerations . . . . .	45
Legal Opinion . . . . .	45
ERISA Considerations . . . . .	45
Glossary . . . . .	47

**\$332,601,229**  
**(Approximate)**



**FannieMae**

**Guaranteed REMIC  
Pass-Through Certificates  
Fannie Mae Multifamily  
REMIC Trust 1997-M2**

**PROSPECTUS SUPPLEMENT**  
**February 24, 1997**

**LEHMAN BROTHERS**