

\$171,977,923 (Approximate)



FannieMae

Guaranteed REMIC Pass-Through Certificates Fannie Mae REMIC Trust 1998-W3

The Guaranteed REMIC Pass-Through Certificates offered hereby (collectively, the “Offered Certificates”) will represent beneficial ownership interests in Fannie Mae REMIC Trust 1998-W3 (the “Trust”). The assets of the Trust will consist of first lien, single-family, fixed-rate, fully amortizing residential mortgage loans (the “Mortgage Loans”) having the characteristics described herein. Substantially all of the Mortgage Loans were originated under lending programs designed to meet the objectives of the Community Reinvestment Act of 1977 (the “CRA”).

The Offered Certificates will be issued and guaranteed by Fannie Mae as to the timely distribution of the Senior Interest Distribution Amount (which does not include Uncovered Prepayment Interest Shortfalls) and the Required Senior Principal Distribution Amount (each as defined herein), as well as the distribution in full of the principal balance of each Class of Offered Certificates not later than the Distribution Date occurring in July 2028 (the “Final Distribution Date”). The rights of the holders of the Offered Certificates will be senior to the rights of the holders of the remaining Classes of Certificates representing beneficial ownership interests in the Trust (collectively, the “Non-Offered Certificates”) to receive distributions thereon. **Fannie Mae will not guarantee the Non-Offered Certificates.** See “General—Fannie Mae Guaranty.”

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

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

(Cover continued on next page)

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

THE OFFERED CERTIFICATES, TOGETHER WITH ANY INTEREST THEREON, ARE NOT GUARANTEED BY THE UNITED STATES. THE OBLIGATIONS OF FANNIE MAE UNDER ITS GUARANTY OF THE OFFERED 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 OFFERED 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
A1	\$23,000,000	SEQ	6.50%	FIX	31359UPQ2
A2	66,582,000	SEQ	6.50	FIX	31359UPR0
A3	10,487,000	SEQ	6.50	FIX	31359UPS8
A4	27,688,000	SEQ	6.50	FIX	31359UPT6
A5	12,063,000	SEQ	6.50	FIX	31359UPU3
A6	31,310,000	SEQ	6.50	FIX	31359UPV1
PO	847,923	PT	(3)	PO	31359UQC2
IO	26,152,334 (4)	NTL	6.50	FIX/IO	31359UQD0
R	0	NPR	0	NPR	31359UQE8

- (1) Subject to a permitted variance of plus or minus 5% in the aggregate.
- (2) See “Description of the Offered Certificates—Class Definitions and Abbreviations,” “—Distributions of Interest” and “—Principal Distributions” herein.
- (3) The PO Class will be a Principal Only Class and will not bear interest.
- (4) The IO Class will be a Notional Class, will have no principal balance and will bear interest on its notional principal balance. The notional principal balance of the IO Class initially will be as set forth above and thereafter will be equal to the product of (i) the balance of the Non-Discount Mortgage Loans and (ii) a fraction, the numerator of which is equal to the weighted average net mortgage rate of the Non-Discount Mortgage Loans minus 6.56% and the denominator of which is 6.5% (as described herein).

The Offered Certificates will be offered by Lehman Brothers Inc. and Countrywide Securities Corporation (the “Dealers”) from time to time in negotiated transactions, at varying prices to be determined at the time of sale.

The Offered Certificates will be offered by the Dealers, subject to issuance by Fannie Mae and to prior sale or to withdrawal or modification of the offer without notice, when, as and if delivered to and accepted by the Dealers, subject to the right by the Dealers to reject any order in whole or in part and subject to approval of certain legal matters by counsel. It is expected that the Offered Certificates, except for the R Class, will be available through the book-entry facilities of The Depository Trust Company on or about July 30, 1998 (the “Settlement Date”). It is expected that the R Class in registered, certificated form will be available for delivery at the offices of Lehman Brothers Inc., New York, New York, on or about the Settlement Date.

LEHMAN BROTHERS

COUNTRYWIDE SECURITIES CORPORATION

KEY CAPITAL MARKETS INCORPORATED

June 26, 1998

(Cover continued from previous page)

The yields to investors in each Class of Offered Certificates will be sensitive to the rate of principal payments of the Mortgage Loans and, in the case of the PO and IO Classes, to the rates of principal payments of the Discount Mortgage Loans and Non-Discount Mortgage Loans, respectively. Such yields will also be sensitive to the actual characteristics of the related Mortgage Loans and the purchase price paid for the related Class. Accordingly, investors should consider the following risks:

- The Mortgage Loans generally may be prepaid at any time without penalty, and, accordingly, the rate of principal payments thereon is likely to vary considerably from time to time.
- Slight variations in Mortgage Loan characteristics could substantially affect the weighted average lives and yields of some or all of the Classes.
- In the case of any Offered Certificates purchased at a discount to their principal amounts (including the PO Class), a slower than anticipated rate of principal payments is likely to result in a lower than anticipated yield.
- In the case of any Offered Certificates purchased at a premium to their principal amounts, a faster than anticipated rate of principal payments is likely to result in a lower than anticipated yield.
- In the case of the IO Class, a faster than anticipated rate of principal payments is likely to result in a lower than anticipated yield and, in certain cases, an actual loss on the investment.
- The effective yields on the interest-bearing Offered Certificates will be reduced to the extent prepayments of the Mortgage Loans result in Uncovered Prepayment Interest Shortfalls, as described under “Description of the Offered Certificates—Distributions of Interest.” The Fannie Mae guaranty will not cover Uncovered Prepayment Interest Shortfalls.
- The yields and weighted average lives of the Offered Certificates will likely be affected by the disproportionate allocation of prepayments to the Offered Certificates relative to the Non-Offered Certificates. Further, investors should note that although Fannie Mae guarantees the timely payment of the Senior Principal Distribution Amount and the PO Class Principal Distribution Amount to the A Classes and the PO Class, respectively, such principal distributions may not include the entire Stated Principal Balance with respect to each Liquidated Loan at the time of such liquidation. See “Risk Factors—Yield Considerations” and “Description of the Offered Certificates—Principal Distributions—Application of Principal” herein.

See “Risk Factors—Yield Considerations” herein.

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

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

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

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

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

Investors should purchase the Offered Certificates only if they have read and understood this Prospectus and Fannie Mae’s Information Statement dated March 31, 1998 and any supplements thereto (as so supplemented, the “Information Statement”).

The Information Statement is incorporated herein by reference and may be obtained from Fannie Mae by writing or calling its MBS Helpline at 3900 Wisconsin Avenue, N.W., Area 2H-3S, Washington, D.C. 20016 (telephone 1-800-BEST-MBS or 202-752-6547). Such document may also be obtained from Lehman Brothers Inc. by writing or calling its Prospectus Department at ADP Services, 536 Broadhollow Road, Melville, New York 11747 (telephone 516-254-7106) and from Countrywide Securities Corporation by writing or calling its Prospectus Department at 4500 Park Granada Avenue, Calabasas, California 91302 (telephone 818-225-3288).

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REFERENCE SHEET

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

Assumed Characteristics of the Mortgage Loans

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

General

The REMIC Pass-Through Certificates for Fannie Mae REMIC Trust 1998-W3 will consist of eight classes of guaranteed senior certificates designated as the A1, A2, A3, A4, A5 and A6 Classes (collectively, the “A Classes”), the PO Class and the IO Class (together with the A Classes and the PO Class, the “Senior Classes”), three classes of mezzanine certificates designated as the B1, B2 and B3 Classes (collectively, the “Mezzanine Classes”), three classes of subordinate certificates designated as the B4, B5 and B6 Classes (collectively, the “Subordinate Classes” and, together with the Mezzanine Classes, the “Non-Offered Classes”), and one residual class designated as the R Class (the “Residual Class” and, together with the Senior Classes, the “Offered Classes”). Fannie Mae will not guarantee the Non-Offered Classes. The Offered Classes and the Non-Offered Classes in the aggregate represent the entire beneficial ownership interest in the Trust.

It is expected that the Trust will consist of Mortgage Loans having an initial aggregate Stated Principal Balance of approximately \$199,398,569 (subject to a permitted variance of plus or minus 5% in the aggregate). The Offered Certificates initially evidence an undivided ownership interest of approximately 86.2% in the Mortgage Loans. The initial aggregate principal balance of the Non-Offered Classes will be approximately \$27,420,646 and will initially evidence an undivided ownership interest of approximately 13.8% in the Mortgage Loans. Only the Offered Certificates are offered hereby. The Non-Offered Classes, which are not being offered hereby, will be issued to the Dealers on the Settlement Date and may be sold at any time thereafter either publicly (in the case of the Mezzanine Classes) or in limited private offerings (in the case of the Subordinate Classes).

Interest Rates

The Offered Certificates (other than the PO Class) will bear interest at the respective per annum interest rates set forth or described on the cover hereof.

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

Notional Class

The IO Class is a notional class and will bear interest at the per annum rate set forth on the cover on the notional balance calculated as follows:

$$\frac{(\text{Weighted Average Net Mortgage Rate of Non-Discount Mortgage Loans}) - 6.56\%}{6.5\%} \times \text{Balance of the Non-Discount Mortgage Loans}$$

See “Description of the Offered Certificates—Distributions of Interest—*Notional Class*” and “Yield Tables—*The IO Class*.”

Principal Distributions

Senior Principal Distribution Amount

To the A1, A2, A3, A4, A5 and A6 Classes, in that order, to zero.

PO Class Principal Distribution Amount

To the PO Class, to zero.

For a description of the “Senior Principal Distribution Amount” and the “PO Class Principal Distribution Amount,” see “Description of the Offered Certificates—Principal Distributions—*Application of Principal*” herein.

Weighted Average Lives (years) *

Class	PSA Prepayment Assumption**				
	0%	100%	175%	350%	500%
A1	5.0	1.3	0.9	0.5	0.4
A2	15.8	5.3	3.4	2.0	1.5
A3	21.4	9.7	6.0	3.2	2.4
A4	23.4	12.9	8.0	4.1	3.0
A5	25.2	16.9	11.0	5.2	3.7
A6	27.0	22.7	17.6	8.6	5.0
PO	14.1	8.8	6.6	3.8	2.7
IO	18.9	10.9	7.8	4.5	3.2

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

** For a description of the PSA Prepayment Assumption, see “Description of the Offered Certificates—Structuring Assumptions” herein.

RISK FACTORS

Suitability. Investors in the Offered Certificates should have sufficient knowledge and experience in financial and business matters to evaluate the Offered Certificates, the merits and risks of investing in the Offered Certificates and the information contained and incorporated by reference in this Prospectus. In addition, such investors should have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of such investors' financial situation, the Offered Certificates, the merits and risks of investing in the Offered Certificates and the impact the Offered Certificates will have on their overall investment portfolios. No investor should purchase an Offered Certificate unless such investor understands and has sufficient financial resources to bear, the prepayment, yield, structure, market, liquidity and other risks associated with such Offered Certificate. Investors should also not purchase any Offered Certificate without sufficient experience, financial resources and liquidity, relative to the potential risks, to manage their investments, including their investment in such Offered Certificate. Before purchasing any Offered Certificate, investors should understand thoroughly the terms of such Offered Certificate, be familiar with the behavior of the mortgage-backed securities markets, and consider (if necessary, with the assistance of a financial advisor) possible scenarios for economic, interest rate and other factors that may affect their investment, and their ability to bear the associated risks under a variety of such scenarios. Investors should also consider any legal restrictions that may apply to their investments in Offered Certificates. See "Legal Investment Considerations" herein.

Yield Considerations. The effective yield to Holders of Offered Certificates will depend upon the purchase price of such Offered Certificates, the rate of principal payments, including prepayments, on the Mortgage Loans and the actual characteristics of the Mortgage Loans. The yield to investors in the IO Class will also be sensitive to fluctuations in the weighted average net mortgage rate of the Non-Discount Mortgage Loans. Generally, if the actual rate of payments on the Mortgage Loans is slower than the rate anticipated by an investor who purchased an Offered Certificate at a discount (including the PO Class), the actual yield to such investor will be lower than such investor's anticipated yield. Generally, if the actual rate of payment on the Mortgage Loans is faster than the rate anticipated by an investor who purchased an Offered Certificate at a premium or who purchased an Interest Only Certificate, the actual yield to such investor will be lower than such investor's anticipated yield. An investor should purchase Offered Certificates only after performing an analysis of such Offered Certificates based upon the investor's own assumptions as to future rates of prepayment on the Mortgage Loans.

The timing of changes in the rate of principal payments (including prepayments) or, in the case of the IO Class, in the weighted average net mortgage rate of the Non-Discount Mortgage Loans, may significantly affect the yield to an investor, even if the average rate of principal prepayments or such weighted average net mortgage rate is consistent with such investor's expectations. In general, the earlier the payment of principal or change in the level of such weighted average net mortgage 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) occurring at a rate, or of such weighted average net mortgage rate equaling a rate, higher (or lower) than the rate anticipated by the investor during the period immediately following the Settlement Date will not be offset by any subsequent equivalent reduction (or increase) in the rate of principal payments (including prepayments) or in such weighted average net mortgage rate. In addition, the effective yields on the interest-bearing Offered Certificates will be reduced to the extent prepayments of the Mortgage Loans result in Uncovered Prepayment Interest Shortfalls, as described under "Description of the Offered Certificates—Distributions of Interest." The Fannie Mae guaranty does not cover Uncovered Prepayment Interest Shortfalls.

The effective yields on the Offered Certificates will be reduced below the yields otherwise produced thereon because principal and interest payable on a Distribution Date will not be distributed until the 25th day following the end of the related Interest Accrual Period and will not bear interest during such delay. No interest at all will be paid on any Class of Offered Certificates after the principal balance of such Class has been reduced to zero. As a result of the foregoing, the market values of the

Offered 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 Offered Certificates.

Prepayment Considerations and Risks. The rate of principal payments of the Offered Certificates is directly related to the rate of payments of principal of the Mortgage Loans, which may be in the form of scheduled amortization or prepayments (for this purpose, the term “prepayment” includes prepayments and liquidations resulting from default, casualty or condemnation and payments made pursuant to any exercise of the option of the Master Servicer or Fannie Mae, as applicable, to purchase certain delinquent Mortgage Loans from the Trust). The Mortgage Loans generally may be prepaid in whole or in part at any time without penalty. The Seller is obligated to repurchase Mortgage Loans found to be in material breach of representations and warranties made by it. If any such repurchase occurs, and the Seller is unable to, or elects not to, substitute for the repurchased Mortgage Loan a Mortgage Loan originated under a CRA program, Holders of the Offered Certificates will experience prepayments of principal with respect to the Offered Certificates.

The rate of prepayments on fixed-rate mortgage loans such as the Mortgage Loans is likely to be sensitive to prevailing interest rates. In general, when the level of prevailing interest rates declines sufficiently relative to the interest rate on fixed-rate mortgage loans, the rate of prepayment is likely to increase, although the prepayment rate is influenced by a number of other factors as well, including general economic conditions and homeowner mobility. In addition, it is increasingly difficult to generalize as to the degree to which interest rates must decline before significant prepayments are likely to be experienced. Increased borrower sophistication regarding the benefits of refinancing and extensive solicitation by lenders may result in an increase in the rate at which the Mortgage Loans are prepaid due to refinancing. Additionally, certain rights of the Master Servicer and Fannie Mae, as applicable, such as the option under certain circumstances to purchase certain delinquent Mortgage Loans, may affect the rate of prepayment of the Mortgage Loans in the Trust. See “—Repurchases Due to Delinquency.” Accordingly, Fannie Mae is unable to estimate what the prepayment experience for the Mortgage Loans in the Trust will be. The Information Statement contains the most recent mortgage loan prepayment experience of Fannie Mae’s portfolio. However, Fannie Mae has had limited experience with loans reflecting the underwriting criteria applicable to the Mortgage Loans and is unable to predict whether the experience with respect to its portfolio will have any applicability to the Mortgage Loans. Moreover, it is possible that the Mortgage Loans will experience rates of delinquency, foreclosure and bankruptcy that are higher than those experienced by comparable Mortgage Loans underwritten in accordance with the Fannie Mae Selling Guide.

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 and their removal from the Trust. Lenders servicing the Mortgage Loans are not prohibited from advertising their availability to handle refinancings. Fannie Mae does not, however, permit the removal of Mortgage Loans from the Trust for the purpose of modifications thereto prior to default.

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

Provided that timely information is available, all principal prepayments (including but not limited to voluntary prepayments made by the borrower and liquidation proceeds) received in the one-month period ending on the 15th of each month (each a "Prepayment Period") and allocable to the Offered Certificates will be passed through to Certificateholders on the Distribution Date following the end of such Prepayment Period. In the event that timely information is not available, such principal prepayments will be distributed on the second Distribution Date following such Prepayment Period.

Prior to the Distribution Date in August 2007, the Non-Offered Certificates will be, and thereafter the Non-Offered Certificates may be (based on certain criteria regarding delinquency and losses, among other things, as described herein), entitled to receive distributions allocable to principal based on a disproportionately small percentage (which may be 0%) of principal prepayments on the Mortgage Loans and the Offered Certificates will be entitled to receive distributions allocable to principal based on a disproportionately large percentage (which may be 100%) of such principal prepayments. To the extent that no principal prepayments or a disproportionately small percentage of such prepayments are distributed on the Non-Offered Certificates, the subordination afforded to the Offered Certificates by the Non-Offered Certificates will be maintained or increased in the absence of offsetting Realized Losses allocated thereto. As a result, the average lives of the Offered Certificates will likely be shorter than otherwise would be the case, and the performance characteristics of the Offered Certificates will be different from other mortgage pass-through certificates that do not disproportionately allocate principal prepayments on the Mortgage Loans according to certificate class.

Reinvestment Risk. Because the Mortgage Loans may be prepaid at any time, it is not possible to predict the rate at which distributions of principal of any Class of Offered Certificates will be received. Accordingly, the Offered Certificates generally would not be an appropriate investment for an investor requiring a particular distribution of principal on a specified date or an other predictable stream of principal distributions. In addition, since prevailing interest rates are subject to fluctuation, there can be no assurance that investors in any Class of Offered Certificates will be able to reinvest the distributions thereon at yields equaling or exceeding the yields on the Offered Certificates. It is possible that yields on any such reinvestments will be lower, and may be significantly lower, than the yields on the Offered Certificates. Prospective investors in the Offered Certificates should carefully consider the foregoing risks in light of other investments that may be available to such investors.

Liquidity. The Offered Certificates may not have an established trading market when issued. There can be no assurance of a secondary market for any Offered Certificates or the liquidity of such market if one develops. Consequently, investors may not be able to sell their Offered Certificates readily or at prices that will enable them to realize an anticipated yield. This is particularly the case for Offered Certificates (including the PO and IO Classes) that are especially sensitive to interest rate or market risks, that are designed for specific investment objectives or strategies or that have been structured to meet the investment requirements of limited categories of investors, which may have a more limited secondary market and less or no liquidity and may experience more price volatility than other similar mortgage-backed securities. Illiquidity may have a severe adverse effect on the market values of the Offered Certificates.

No investor should purchase Offered Certificates unless such investor understands and is able to bear the risk that certain Offered Certificates may not be readily saleable, that the value of Offered Certificates will fluctuate over time, and that such fluctuations may be significant and could result in losses to such investor. This is particularly the case for investors whose circumstances may not permit them to hold the Offered Certificates until maturity. Further, depending on the type of Offered Certificates, market conditions and other factors, investors seeking to sell relatively small or relatively large amounts of Offered Certificates may not be able to do so at prices comparable to those that may be available to other investors.

Credit Enhancement. Credit enhancement will be provided for the Offered Certificates first by the right of the Holders of the Offered Certificates to receive certain payments prior to the Non-Offered Certificates; second, by the allocation of Realized Losses to the Non-Offered Certificates; and third, by payments under the Fannie Mae guaranty. None of the Seller, the Trustee, the Master Servicer or any of their respective affiliates will have any obligation to replace or supplement such credit enhancement. The sole source of funds from which such credit enhancement is provided is collections on the Mortgage Loans otherwise payable to the Holders of the Non-Offered Certificates and payments by Fannie Mae under the Fannie Mae guaranty (subject to the priorities of distribution set forth herein), which guaranty does not cover Uncovered Prepayment Interest Shortfalls. Furthermore, the Non-Offered Certificates will provide only limited protection against Realized Losses consisting of special hazard losses, bankruptcy losses and fraud losses. If the Realized Losses on the Mortgage Loans in any of these categories exceed the limits specified in the Trust Agreement (such excess losses, the “Excess Losses”), any such Excess Losses will be allocated pro rata to each Class, including the Offered Classes (although such losses allocated to the Offered Classes will be covered by Fannie Mae’s guaranty). If Fannie Mae were unable to perform its guaranty obligations, distributions to Holders of Offered Certificates would consist solely of payments and other recoveries on the Mortgage Loans and, accordingly, delinquencies and defaults on the Mortgage Loans would affect monthly distributions to such Holders.

Cash Flow. Assuming that the Mortgaged Properties provide adequate security for the Mortgage Loans, substantial delay could be encountered in connection with the liquidation of defaulted Mortgage Loans and corresponding delays in the receipt of related liquidation proceeds by Holders of the Offered Certificates could occur. Further, liquidation expenses (such as legal fees, real estate taxes and maintenance and preservation expenses) will reduce the proceeds payable to Holders of the Offered Certificates and thereby reduce the security for the related Mortgage Loans. If required payments under the Fannie Mae guaranty were not made, and the protection provided by the availability of the credit enhancement were exhausted, such Holders could experience a loss on their investment.

Nature of Collateral. Substantially all of the Mortgage Loans were originated under lending programs designed to meet the objectives of the CRA, as described more fully under “The Mortgage Loans—Origination/Underwriting Description”. Certain of those Mortgage Loans were made to borrowers with incomes higher than the guidelines for CRA mortgage loans or otherwise varied from one or more criteria of such guidelines. The underwriting guidelines for these programs are less stringent than those for mortgage lending programs following the Fannie Mae Selling Guide and permit, for example, higher Loan-to-Value Ratios, higher debt to income ratios, no payment reserves and no primary mortgage insurance. It is possible that mortgage loans originated in accordance with these standards would be more likely than non-CRA mortgage loans to experience delinquencies or defaults in the event of negative economic forces affecting the related borrowers and properties. Fannie Mae is not aware, however, of long-term historical data regarding the delinquency and loss rates for the mortgage loans originated under CRA programs.

Permitted Variance Factor. The Issue Date Pool Balance and the initial original principal balances of the Certificates are subject to a permitted variance of plus or minus 5%. Therefore, investors should be aware that the characteristics of the Mortgage Loans actually included in the Mortgage Pool may differ from the characteristics of the Mortgage Loans set forth in the discussions and tables in this Prospectus.

Repurchases Due to Delinquency. Fannie Mae (after the Mezzanine Termination Date) and the Master Servicer (at any time) each has the option to purchase Mortgage Loans that are more than 90 days delinquent, at a price equal to the unpaid principal balance of each such delinquent Mortgage Loan, together with accrued interest thereon, as described herein. The effect of any such purchase would be the same as that of a prepayment in full of the related Mortgage Loan.

Certain Investment Considerations. No assurances can be given as to the regulatory treatment of an investment in the Offered Certificates, and investors should consult their regulatory advisors prior to investing in the Offered Certificates. See “Legal Investment Considerations” herein.

Real Estate Market. An overall decline in the residential real estate markets in the states in which the Mortgaged Properties are located could adversely affect the values of the Mortgaged Properties such that the outstanding balances of the related Mortgage Loans equal or exceed the value of such Mortgaged Properties. Residential real estate markets in many states have softened in recent years. Fannie Mae cannot quantify the impact of such declines in property values nor predict how long any such decline might continue or when such declines would end. During a period of such declines, the rates of delinquencies, foreclosures and losses on the Mortgage Loans may be higher than those experienced in the mortgage lending industry in general. Geographic concentration of the Mortgage Loans may increase the impact of such market changes. See “The Mortgage Loans—Statistical Information—Geographic Distribution of Mortgaged Properties” and “—Zip Code Concentrations”.

A rise in interest rates over a period of time and the general conditions of the Mortgaged Properties, as well as other factors such as general employment levels, may have the effect of reducing the value of the Mortgaged Properties from the appraised value thereof from the time of origination of the related Mortgage Loans. If there is a reduction in the value of a Mortgaged Property, the ratio of the amount of the related Mortgage Loan to the value of such Mortgaged Property at such time may increase relative to such ratio at the time such Mortgage Loan was originated. Such an increase may reduce the likelihood of liquidation or other proceeds being sufficient to pay in full the outstanding balance of such Mortgage Loan.

Other Legal Considerations. Certain states have imposed statutory prohibitions that limit the remedies of a beneficiary under a deed of trust, security deed or a mortgagee under a mortgage. In some states, statutes limit the right of the beneficiary or mortgagee to obtain a deficiency judgment against the borrower following foreclosure or sale under a deed of trust, security deed or mortgage. A deficiency judgment would be a personal judgment against the borrower equal in most cases to the difference between the net amount received upon the public sale of the real property and the amount due the lender. Other statutes require the beneficiary or mortgagee to exhaust the security afforded under a deed of trust security deed or mortgage by foreclosure in an attempt to satisfy the full debt before bringing a personal action against the borrower. Finally, other statutory provisions limit any deficiency judgment against the borrower following a judicial sale to the excess of the outstanding debt over the fair market value of the property at the time of the public sale. The purpose of these statutes is generally to prevent a beneficiary or a mortgagee from obtaining a large deficiency judgment against the borrower as a result of low or no bids at the judicial sale.

Applicable state laws generally regulate interest rates and other charges, require certain disclosures, and require licensing of mortgage loan originators and servicers, among others. In addition, other state laws, public policy and general principles of equity relating to the protection of consumers, unfair and deceptive practices and debt collection practices may apply to the origination, servicing and collection of the Mortgage Loans. The Seller will be required to repurchase any Mortgage Loan that, at the time of origination, did not comply with applicable federal and state laws and regulations. Depending on the provisions of applicable law and the specific facts and circumstances involved, violations of such laws, policies and principles may limit the ability of the Trust to collect all or part of the principal of or interest on the related Mortgage Loans, may entitle the related borrowers to a refund of amounts previously paid and, in addition, could subject the Trust to damages and administrative enforcement.

The Mortgage Loans are also subject to federal laws, including:

(a) the Federal Truth in Lending Act and Regulation Z promulgated thereunder, which require certain disclosures to the borrowers regarding the terms of mortgage loans;

(b) the Equal Credit Opportunity Act and Regulation B promulgated thereunder, which prohibit discrimination on the basis of age, race, color, sex, religion, marital status, national origin, receipt of public assistance or the exercise of any right under the Consumer Credit Protection Act, in the extension of credit;

(c) the Fair Credit Reporting Act, which regulates the use and reporting of information related to the borrower's credit experience;

(d) the Americans with Disabilities Act, which, among other things, prohibits discrimination on the basis of disability in the full and equal enjoyment of the goods, services, facilities, privileges, advantages or accommodations of any place of public accommodation; and

(e) the Mortgage Loan Consumer Protection Act of 1998, which requires additional application disclosures, limits changes that may be made to the loan documents without the borrower's consent and restricts a lender's ability to declare a default or to suspend or reduce a borrower's credit line to certain enumerated events.

Violations of certain provisions of these federal laws may limit the ability of the Master Servicer to collect all or part of the principal of or interest on the Mortgage Loans, and in addition could subject the Trust to damages and administrative enforcement. The federal Soldiers' and Sailors' Civil Relief Act of 1940 may affect the ability of the Master Servicer to collect full amounts of interest on certain Mortgage Loans and could interfere with the ability of the Master Servicer to foreclose on certain properties.

Under federal and state environmental legislation and applicable case law, it is unclear whether liability for costs of eliminating environmental hazards in respect of real property may be imposed on a secured lender (such as the Trust) acquiring title to such real property. Such costs could be substantial.

GENERAL

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

Structure. The Offered Certificates will be issued and guaranteed by the Federal National Mortgage Association ("Fannie Mae"), a corporation organized and existing under the laws of the United States, under the authority contained in Section 304(d) of the Federal National Mortgage Association Charter Act (12 U.S.C. 1716 *et seq.*). The Trust will be created pursuant to a trust agreement dated as of July 1, 1998 (the "Trust Agreement"), executed by Fannie Mae in its corporate capacity and in its capacity as trustee (in such capacity, the "Trustee"), and the Offered Certificates in the Classes and aggregate original principal balances set forth on the cover hereof as well as the Non-Offered Classes will be issued by Fannie Mae pursuant thereto. Each of Fannie Mae and Countrywide Home Loans, Inc. ("Countrywide"), as seller and as master servicer (in such capacities, the "Seller" and "Master Servicer," respectively) will be a party to a sale and servicing agreement dated as of the Issue Date (the "Sale and Servicing Agreement"). A description of Fannie Mae and its business, together with certain financial statements and other financial information, is contained in the Information Statement.

The assets of the Trust will consist of the Mortgage Loans and will in the aggregate evidence the entire beneficial ownership interest in the distributions of principal and interest thereon. The Certificates (other than the R Class) will be designated as the "regular interests," and the R Class will be designated as the "residual interest," in the REMIC constituted by the Trust.

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

Characteristics of Offered Certificates. The Offered Certificates (other than the R Class) 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. A Holder is not necessarily the beneficial owner of a book-entry Certificate. Beneficial owners will ordinarily hold book-entry Certificates through one or more financial intermediaries, such as banks, brokerage firms and securities clearing organizations. See “Description of the Offered 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 the R Certificate, “Holder” or “Certificateholder” refers to the registered owner thereof. The R Certificate will be transferable at the corporate trust office of the Transfer Agent, or at the agency of the Transfer Agent in New York, New York. The Transfer Agent initially will be State Street Bank and Trust Company in Boston, Massachusetts (“State Street”). A service charge may be imposed for any registration of transfer of the R Certificate and Fannie Mae may require payment of a sum sufficient to cover any tax or other governmental charge. See also “Description of the Offered Certificates—Certain Characteristics of the R Class” herein.

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

Fannie Mae Guaranty. Pursuant to its guaranty of the Offered Certificates, Fannie Mae will be obligated to distribute to the Holders of Offered Certificates (i) the Senior Interest Distribution Amount, (ii) the Required Senior Principal Distribution Amount and (iii) the principal balance of each Class of Offered Certificates in full no later than the Final Distribution Date, whether or not sufficient funds are available in the Certificate Account. Although Fannie Mae guarantees the timely payment of the Senior Principal Distribution Amount and the PO Class Principal Distribution Amount to the A Classes and the PO Class, respectively, such principal distributions may not include the entire Stated Principal Balance with respect to each Liquidated Loan at the time of liquidation. If Fannie Mae were unable to perform these guaranty obligations, distributions to Holders of the Offered Certificates would consist solely of payments and other recoveries on the Mortgage Loans and, accordingly, delinquencies and defaults on the Mortgage Loans would affect distributions to such Certificateholders. The guaranty of Fannie Mae is not backed by the full faith and credit of the United States.

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

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

REMIC Trust Factors. As soon as practicable following the 21st day of each month, Fannie Mae will publish or otherwise make available for each Class of Offered Certificates (other than the R Class) the factor (carried to eight decimal places) which, when multiplied by the original principal balance of a Certificate of such Class, will equal the remaining principal balance of such Certificate after giving effect to the distribution of principal to be made on the following Distribution Date.

Optional Termination. Fannie Mae or the Master Servicer may effect an early termination of the Trust as described herein under “The Agreements—Termination.”

THE MORTGAGE LOANS

General

The information with respect to the Mortgage Loans set forth herein has been collected and summarized by the Seller and provided to Fannie Mae. Fannie Mae has made no independent verification of such information and, therefore, does not warrant its truth or accuracy and shall not be responsible therefor.

It is expected that the Trust will consist of approximately 2,770 mortgage loans (collectively, the “Mortgage Loans”) having an aggregate Stated Principal Balance of approximately \$199,398,569 (subject to a permitted variance of plus or minus 5% in the aggregate) as of July 1, 1998 (the “Issue Date”). Substantially all of the Mortgage Loans were originated under lending programs designed to meet the objectives of the CRA. See “—Origination/Underwriting Description—*General*.”

The Mortgage Loans consist of first lien, single family, fixed-rate, fully amortizing mortgage loans with original terms of from 10 to 30 years. Each Mortgage Loan is evidenced by a promissory note or similar evidence of indebtedness (a “Mortgage Note”) that is secured by a first mortgage or deed of trust on a single family residential property and that provides for monthly payments of principal and interest. As used herein, the property that secures repayment of a Mortgage Loan is referred to as the “Mortgaged Property.”

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

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

Set forth below is certain summary information regarding the assumed characteristics of the Mortgage Loans, aggregated on the basis of the specified characteristics as of the Issue Date (without giving effect to prepayments received on the Mortgage Loans on or after the Issue Date). Such summary information has been aggregated on the basis of the assumed characteristics specified below and is not intended to reflect actual or assumed individual Mortgage Loan characteristics.

The “Weighted Average Net Mortgage Rate” for any Distribution Date and Loan Group is the weighted average of the Net Mortgage Rates in effect with respect to the Mortgage Loans in such Loan Group during the preceding calendar month, weighted on the basis of the respective Stated Principal Balances of such Mortgage Loans immediately prior to such Distribution Date. The “Weighted Average Age” is the weighted average loan age of the Mortgage Loans. The “Net Mortgage Rate” for any Mortgage Loan is the applicable mortgage interest rate therefor less 0.25%. The “Discount Mortgage Loans” are all Mortgage Loans having Net Mortgage Rates lower than 6.56%. The “Non-Discount Mortgage Loans” are all Mortgage Loans having Net Mortgage Rates equal to or greater than 6.56%.

Discount Mortgage Loans

<u>Principal Balance</u>	<u>Weighted Average Net Mortgage Rate</u>	<u>Weighted Average Mortgage Rate</u>	<u>Weighted Average Age (in months)</u>	<u>WAM (in months)</u>
\$ 468,384.02	4.925%	5.175%	8	172
1,341,650.75	5.420	5.670	38	260
3,709,251.94	5.845	6.095	47	308
<u>3,288,609.71</u>	<u>6.373</u>	<u>6.623</u>	<u>17</u>	<u>298</u>
<u><u>\$8,807,896.42</u></u>	5.928%	6.178%	32	290

Non-Discount Mortgage Loans

<u>Principal Balance</u>	<u>Weighted Average Net Mortgage Rate</u>	<u>Weighted Average Mortgage Rate</u>	<u>Weighted Average Age (in months)</u>	<u>WAM (in months)</u>
\$ 63,962,006.76	6.939%	7.189%	6	338
49,931,106.11	7.383	7.633	9	330
56,573,800.15	7.779	8.029	12	341
17,677,859.99	8.250	8.500	15	340
1,689,961.62	8.793	9.043	21	328
<u>755,938.34</u>	<u>9.262</u>	<u>9.512</u>	<u>22</u>	<u>338</u>
<u><u>\$190,590,672.97</u></u>	7.452%	7.702%	10	337

Statistical Information

The statistical information presented below concerning the Mortgage Loans expected to be included in the Trust is based on the aggregate Stated Principal Balance of such Mortgage Loans as of the Issue Date. Prior to the Settlement Date, Mortgage Loans may be removed and other Mortgage Loans may be substituted therefor. The Seller believes that the information set forth herein with respect to the Mortgage Loans as presently constituted will be representative of the characteristics of the Mortgage Loans at the Settlement Date, although certain characteristics of the Mortgage Loans may vary. Unless otherwise indicated, information presented below expressed as a percentage (other than rates of interest) are approximate percentages based on the Stated Principal Balances of the Mortgage Loans as of the Issue Date.

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

As of the Issue Date, the average Stated Principal Balance of the Mortgage Loans was \$71,985.04; the mortgage interest rates of the Mortgage Loans ranged from 5.125% to 9.750%; the weighted average mortgage interest rate of the Mortgage Loans was 7.634%; and the weighted average remaining term to maturity of the Mortgage Loans was 335 months. The remaining terms to maturity as of the Issue Date of the Mortgage Loans ranged from 103 months to 359 months. The maximum and minimum Stated Principal Balance as of the Issue Date were \$297,296.29 and \$6,877.12, respectively. No Mortgage Loan will mature later than June 2028.

The following information sets forth in tabular format certain information, as of the Issue Date, as to the Mortgage Loans. References to “Aggregate Principal Balance” represent the aggregate of the Stated Principal Balances of the related Mortgage Loans as of the Issue Date. The “Stated Principal Balance” of a Mortgage Loan at any time is the unpaid principal balance thereof (or the scheduled unpaid principal balance thereof, in the case of Mortgage Loans that are delinquent) as of the Issue Date reduced by all amounts representing principal received or advanced by the Master Servicer and previously distributed to Certificateholders with respect to such Mortgage Loan and by the principal portion of any Realized Losses in respect of such Mortgage Loan; provided, however, that the Stated Principal Balance of a Liquidated Loan will be deemed to be zero after all Realized Losses, if any, relating to such Mortgage Loan have been determined. The sum of the percentage columns in the following tables may not equal 100% due to rounding.

Current Mortgage Loan Principal Balances

<u>Current Balance (\$) (1)</u>	<u>Number of Mortgage Loans</u>	<u>Aggregate Principal Balance</u>	<u>Percentage of Aggregate Principal Balance</u>
0.01 - 50,000.00	750	\$ 27,501,732.66	13.79%
50,000.01 - 100,000.00	1,548	111,688,954.53	56.01
100,000.01 - 150,000.00	401	48,146,462.05	24.15
150,000.01 - 200,000.00	66	10,884,633.69	5.46
200,000.01 - 250,000.00	3	623,522.69	0.31
250,000.01 - 300,000.00	2	553,263.77	0.28
Total:	<u>2,770</u>	<u>\$199,398,569.39</u>	<u>100.00%</u>

(1) The average current principal balance of the Mortgage Loans is expected to be approximately \$71,985.

Mortgage Interest Rates

<u>Rate (%) (1)</u>	<u>Number of Mortgage Loans</u>	<u>Aggregate Principal Balance</u>	<u>Percentage of Aggregate Principal Balance</u>
5.001 - 5.500	5	\$ 656,063.64	0.33%
5.501 - 6.000	24	2,752,904.49	1.38
6.001 - 6.500	40	3,292,249.73	1.65
6.501 - 7.000	173	13,604,524.78	6.82
7.001 - 7.500	908	67,952,787.16	34.08
7.501 - 8.000	952	70,607,003.02	35.41
8.001 - 8.500	536	33,666,995.28	16.88
8.501 - 9.000	98	5,406,345.90	2.71
9.001 - 9.500	29	1,250,653.61	0.63
9.501 - 10.000	5	209,041.78	0.10
Total:	<u>2,770</u>	<u>\$199,398,569.39</u>	<u>100.00%</u>

(1) The weighted average mortgage interest rate of the Mortgage Loans is expected to be approximately 7.634% per annum.

Original Terms to Maturity

<u>Original Term (months) (1)</u>	<u>Number of Mortgage Loans</u>	<u>Aggregate Principal Balance</u>	<u>Percentage of Aggregate Principal Balance</u>
120	19	\$ 672,941.19	0.34%
144	1	24,825.81	0.01
180	214	13,456,783.05	6.75
240	47	2,246,590.23	1.13
300	8	489,512.09	0.25
353	2	195,167.59	0.10
360	<u>2,479</u>	<u>182,312,749.43</u>	<u>91.43</u>
Total	<u>2,770</u>	<u>\$199,398,569.39</u>	<u>100.00%</u>

(1) The weighted average original term to stated maturity of the Mortgage Loans is expected to be approximately 346 months.

Remaining Terms to Maturity

<u>Remaining Term (months) (1)</u>	<u>Number of Mortgage Loans</u>	<u>Aggregate Principal Balance</u>	<u>Percentage of Aggregate Principal Balance</u>
97 - 120	20	\$ 703,805.30	0.35%
121 - 144	1	24,825.81	0.01
145 - 168	55	3,277,893.80	1.64
169 - 192	158	10,148,025.14	5.09
217 - 240	47	2,246,590.23	1.13
265 - 288	3	127,884.71	0.06
289 - 312	54	5,720,903.07	2.87
313 - 336	102	8,753,671.64	4.39
337 - 360	<u>2,330</u>	<u>168,394,969.69</u>	<u>84.45</u>
Total:	<u>2,770</u>	<u>\$199,398,569.39</u>	<u>100.00%</u>

(1) The weighted average remaining term to stated maturity of the Mortgage Loans is expected to be approximately 335 months.

Original Loan-to-Value Ratios

<u>LTV (%) (1)</u>	<u>Number of Mortgage Loans</u>	<u>Aggregate Principal Balance</u>	<u>Percentage of Aggregate Principal Balance</u>
10.01 - 20.00	13	\$ 497,679.08	0.25%
20.01 - 30.00	24	880,038.21	0.44
30.01 - 40.00	40	1,909,430.38	0.96
40.01 - 50.00	64	3,619,932.32	1.82
50.01 - 60.00	103	6,164,773.76	3.09
60.01 - 70.00	172	11,582,875.70	5.81
70.01 - 80.00	431	31,910,824.00	16.00
80.01 - 90.00	309	21,421,163.75	10.74
90.01 - 100.00	<u>1,614</u>	<u>121,411,852.19</u>	<u>60.89</u>
Total:	<u>2,770</u>	<u>\$199,398,569.39</u>	<u>100.00%</u>

(1) The weighted average original Loan-to-Value Ratio of the Mortgage Loans is expected to be approximately 87.16%.

Types of Mortgaged Properties

<u>Property Type</u>	<u>Number of Mortgage Loans</u>	<u>Aggregate Principal Balance</u>	<u>Percentage of Aggregate Principal Balance</u>
One Family	2,151	\$152,951,787.24	76.71%
Condo	359	23,241,613.91	11.66
2-4 Family	199	17,667,874.51	8.86
PUD	50	4,862,757.70	2.44
Manufactured Housing	11	674,536.03	0.34
Total:	<u>2,770</u>	<u>\$199,398,569.39</u>	<u>100.00%</u>

Purpose of Mortgage Loans

<u>Loan Purpose</u>	<u>Number of Mortgage Loans</u>	<u>Aggregate Principal Balance</u>	<u>Percentage of Aggregate Principal Balance</u>
Cash Out Refinance	200	\$ 15,633,210.24	7.84%
Rate/Term Refinance	147	11,633,542.29	5.83
Purchase	2,423	172,131,816.86	86.33
Total:	<u>2,770</u>	<u>\$199,398,569.39</u>	<u>100.00%</u>

Occupancy Types

<u>Occupancy Status (1)</u>	<u>Number of Mortgage Loans</u>	<u>Aggregate Principal Balance</u>	<u>Percentage of Aggregate Principal Balance</u>
Primary	2,718	\$196,440,720.17	98.52%
Investment	40	2,147,355.11	1.08
Secondary	12	810,494.11	0.41
Total:	<u>2,770</u>	<u>\$199,398,569.39</u>	<u>100.00%</u>

(1) Based upon representations of related borrowers at the time of origination.

Geographic Distribution of Mortgaged Properties

<u>State</u>	<u>Number of Mortgage Loans</u>	<u>Aggregate Principal Balance</u>	<u>Percentage of Aggregate Principal Balance</u>
Ohio	911	\$ 54,474,954.46	27.32%
Washington	348	30,741,243.39	15.42
Oregon	243	21,581,573.55	10.82
New York	333	21,318,364.75	10.69
Massachusetts	210	20,263,055.37	10.16
Maine	165	10,990,369.53	5.51
Indiana	157	7,822,776.95	3.92
Utah	103	7,735,842.79	3.88
Colorado	75	6,688,700.17	3.35
New Hampshire	66	5,373,908.98	2.70
Idaho	59	4,743,951.20	2.38
Alaska	37	3,071,941.78	1.54
Vermont	33	2,246,115.18	1.13
Michigan	26	2,092,930.70	1.05
Florida	1	87,063.47	0.04
Kentucky	1	84,267.92	0.04
Arizona	1	58,339.66	0.03
Pennsylvania	1	23,169.54	0.01
Total:	<u>2,770</u>	<u>\$199,398,569.39</u>	<u>100.00%</u>

Zip Code Concentrations

<u>Top 10 Zip Code Concentrations</u>	<u>Number of Mortgage Loans</u>	<u>Aggregate Principal Balance</u>	<u>Percentage of Aggregate Principal Balance</u>
98366	34	\$ 2,895,718.94	1.45%
02136	21	2,346,792.53	1.18
44004	41	2,302,964.78	1.15
98052	22	1,962,019.48	0.98
02131	18	1,705,719.00	0.86
02130	21	1,584,740.11	0.79
44112	22	1,554,816.60	0.78
44105	23	1,511,748.71	0.76
44110	24	1,486,820.57	0.75
44120	25	1,437,145.72	0.72
Other	<u>2,519</u>	<u>180,610,082.95</u>	<u>90.58</u>
Total:	<u>2,770</u>	<u>\$199,398,569.39</u>	<u>100.00%</u>

Origination / Underwriting Description

Community Reinvestment Act. The Community Reinvestment Act of 1977 (the “CRA”) applies to all federally insured commercial banks, savings banks, and savings and loan associations. It does not apply to credit unions. The four federal agencies that supervise the financial institutions covered by the CRA are the Office of the Comptroller of the Currency, the Federal Deposit Insurance Corporation, the Federal Reserve Board and the Office of Thrift Supervision.

Pursuant to the CRA, such institutions have a continuing and affirmative obligation to help meet the credit needs of their entire communities, including low- and moderate-income neighborhoods,

consistent with safe and sound operation. The federal agencies that regulate these institutions are responsible for evaluating how well each one meets this obligations and are required to take that record into account when the institution applies to the government for expansion or restructuring, such as a new branch, merger or acquisition of another company.

Underwriting

The following information was provided to Fannie Mae by the Seller.

General. Underwriting standards are applied by or on behalf of a lender to evaluate the borrower's credit standing and repayment ability, and the value and adequacy of the mortgaged property as collateral. In general, a prospective borrower applying for a mortgage loan is required to fill out a detailed application designed to provide to the underwriting officer pertinent credit information. As part of the description of the borrower's financial condition, the borrower generally is required to provide a current list of assets and liabilities and a statement of income and expenses, as well as an authorization to apply for a credit report which summarizes the borrower's credit history with local merchants and lenders and any record of bankruptcy. In most cases, an employment verification is obtained from an independent source (typically the borrower's employer), which verifies the length of employment with that organization, the borrower's current salary and whether it is expected that the borrower will continue such employment in the future. If a prospective borrower is self-employed, the borrower may be required to submit copies of signed tax returns. The borrower may also be required to authorize verification of deposits at financial institutions where the borrower has demand or savings accounts.

To determine the adequacy of the mortgaged property as collateral, an appraisal is made of each property considered for financing. The appraiser is required to inspect the property and verify that it is in good repair and that construction, if new, has been completed. The appraisal is based on the market value of comparable homes, the anticipated rental income (if considered applicable by the appraiser) and the cost of replacing the home.

Once all applicable employment, credit and property information is received, a determination generally is made as to whether the prospective borrower has sufficient monthly income available (i) to meet the borrower's monthly obligations on the proposed mortgage loan (generally determined on the basis of the monthly payments due in the year of origination) and other expenses related to mortgaged property (such as property taxes and hazard insurance) and (ii) to meet monthly housing expenses and other financial obligations and monthly living expenses. The underwriting standards generally and with respect to the Mortgage Loans, particularly with respect to the level of loan documentation and the mortgagor's income and credit history, may be varied in appropriate cases where factors such as low Loan-to-Value Ratios or other favorable credit criteria exist.

HomeAssist Program. Approximately 90% (by principal balance) of the Mortgage Loans were underwritten pursuant to the HomeAssist program, a CRA program intended for low- to moderate-income borrowers who desire fixed-rate loans. The program allows loan-to-value ratios up to 100%, with no primary mortgage insurance required. Eligible properties include single-family detached, townhouse unit, condominium unit, planned unit development, two- to four-family detached and manufactured housing originated to secondary market guidelines. The property must be an owner-occupied primary residence and the only residential real estate owned by the borrower. Income must be verified and the borrower's qualifying income generally may not be not greater than 100% of the median income when the property is not located in a low- to moderate-income census tract; no income limits apply to properties which are located in low- to moderate-income census tracts. The purchase price of the property is subject to maximum limits (which vary geographically) when the property is located outside low- to moderate-income census tracts. The maximum debt to income ratio allowed is generally 40% (38% for cash out refinance loans). The borrowers generally have good credit history with any derogatory items explained.

Certain of the Mortgage Loans were underwritten generally in accordance with the HomeAssist program but vary from one or more of the criteria set forth above, including the maximum income limits, the maximum property value limits and the requirement that the property be owner occupied and the only residential real estate owned. Such loans generally were to borrowers who met (or exceeded) the credit criteria of the program.

The mortgage loans in the HomeAssist program are originated by the retail loan officers of Key Bank National Associates (or its affiliates) and sold to the Seller. The documentation for the loans is generally consistent with Fannie Mae guidelines, including uniform notes, mortgages, title policies, appraisals and credit reports. Primary mortgage insurance is generally not required, even on loans with loan-to-value ratios in excess of 80%.

Neighborhood Mortgage Loan Program. Approximately 10% (by principal balance) of the Mortgage Loans were underwritten by the Boston Company pursuant to the Neighborhood Mortgage Loan Program. Under the current guidelines for the program, generally only fixed-rate loans secured by owner occupied primary residences are permitted. Eligible properties are single-family attached or detached, two- to four-family attached or detached, condominiums and planned unit developments. Loan-to-Value Ratios may be up to 97%. Primary mortgage insurance and cash reserves generally are not required. The maximum housing obligations to income ratio is 33% and the maximum total obligations to income ratio is 38% unless the borrower has demonstrated the ability to carry higher debt load through documented housing expenses at least equal to the proposed mortgage payments.

Collection accounts that have been satisfactorily addressed must be paid prior to closing. The only exceptions to this would be defaulted educational loans and medical loans, both of which must be in repayment. In those instances, the loan must have been in repayment for a minimum of six months prior to the date of application with the revised terms documented as acceptable to the agency. There must have been no late payments during the latter period. Loans with seriously delinquent or derogatory information (such as collections, judgments, liens, several 60 day delinquents) appearing within the last twelve months generally are rejected.

The Neighborhood Mortgage Loan Program is available in selected areas of Massachusetts only. Borrowers with greater than 80% (and up to 100%) of the median income for the regions must purchase properties located in a low to moderate income census tract. Borrowers with 80% or less of the median income for the region may purchase properties located anywhere in the availability area. Median incomes are based upon current HUD median income limits and are adjusted annually. No adjustments are made to income limits based on family size.

DESCRIPTION OF THE OFFERED CERTIFICATES

General

The REMIC Pass-Through Certificates for Fannie Mae REMIC Trust 1998-W3 will consist of eight classes of guaranteed senior certificates designated as the A1, A2, A3, A4, A5 and A6 Classes (collectively, the “A Classes”), the PO Class and the IO Class (together with the A Classes and the PO Class, the “Senior Classes”), three classes of mezzanine certificates designated as the B1, B2 and B3 Classes (collectively, the “Mezzanine Classes”), three classes of subordinate certificates designated as the B4, B5 and B6 Classes (collectively, the “Subordinate Classes” and, together with the Mezzanine Classes, the “Non-Offered Classes”), and one residual class designated as the R Class (the “Residual Class” and, together with the Senior Classes, the “Offered Classes”). Fannie Mae will not guarantee the Non-Offered Classes. The Offered Classes and the Non-Offered Classes in the aggregate represent the entire beneficial ownership interest in the Trust.

The Offered Certificates initially evidence an undivided ownership interest of approximately 86.2% in the Mortgage Loans. The initial aggregate principal balance of the Non-Offered Classes will be approximately \$27,420,646 and will evidence an initial undivided ownership interest of approxi-

mately 13.8% in the Mortgage Loans. Only the Offered Certificates are offered hereby. The Non-Offered Classes, which are not being offered hereby, will be issued to the Dealers on the Settlement Date and may be sold at any time thereafter either publicly (in the case of the Mezzanine Classes) or in limited private offerings (in the case of the Subordinate Classes).

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 Bank and Trust Company (“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 Paying Agent to the Depository in immediately available funds. The Depository will be responsible for crediting the amount of such distributions to the accounts of the Depository Participants entitled thereto, in accordance with the Depository’s normal procedures, which currently provide for distributions in same-day funds settled through the New York clearing house. Each Depository Participant and each financial intermediary will be responsible for disbursing such distributions to the beneficial owners of the DTC Certificates that it represents. Accordingly, the beneficial owners may experience some delay in their receipt of distributions.

Certificated Class

The R Class will not be issued in book-entry form but will be issued in fully registered, certificated form. As to the R 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. A service charge may be imposed for any registration of transfer of an R Certificate, and Fannie Mae may require payment of a sum sufficient to cover any tax or other governmental charge.

Distributions of Interest

Categories of Offered Classes

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

<u>Interest Type*</u>	<u>Classes</u>
Fixed Rate	A1, A2, A3, A4, A5, A6 and IO
Principal Only	PO
Interest Only	IO
No Payment Residual	R

* See “—Class Definitions and Abbreviations” herein.

General. The Offered Certificates will bear interest at the respective per annum interest rates set forth or described on the cover. Interest on the Offered 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 the Offered Certificates on each Distribution Date will consist of one month’s interest at the applicable rates on the outstanding principal balances of such Certificates less the Uncovered Prepayment Interest Shortfalls allocated to such Certificates (the “Senior Interest Distribution Amount”). On any Distribution Date, the “Uncovered Prepayment Interest Shortfall” will be equal to the excess, if any, of the aggregate Prepayment Interest Shortfalls on the Mortgage Loans that prepaid during the portion of the related Prepayment Period occurring in the month preceding the month in which such Distribution Date falls over the servicing fee for such Distribution Date. The “Prepayment Interest Shortfall” for any such Mortgage Loans and Distribution Date will equal the excess of one full month’s interest on the principal balance thereof over the interest paid by the related borrower in connection with a prepayment of principal of such Mortgage Loan (*i.e.*, from the first day of the month in which the prepayment occurs to the date of the prepayment). Uncovered Prepayment Interest Shortfalls will be allocated pro rata among all interest-bearing Classes of Certificates, based on the amount of interest accrued on such Classes.

Interest Accrual Period. Interest to be distributed on a Distribution Date will accrue on the Offered 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 (the “Delay Classes”)	Calendar month preceding the month in which the Distribution Date occurs

See “Risk Factors—Yield Considerations” herein.

Solely for the purposes of facilitating the trading of the PO Class, such Class will be treated as a Delay Class.

Notional Class. The IO Class will be a Notional Class. The Notional Class will have no principal balance and will bear interest at the rate of 6.50%. The notional principal balance of the Notional Class will be equal to the product of (i) the aggregate Stated Principal Balance of the Non-Discount Mortgage Loans and (ii) a fraction, the numerator of which is equal to the weighted average net mortgage rate of the Non-Discount Mortgage Loans minus 6.56% and the denominator of which is 6.5%.

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

Certificates generally shall be deemed to refer also to the notional principal balance of the Notional Class.

Principal Distributions

Categories of Offered Classes

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

<u>Principal Type*</u>	<u>Classes</u>
Sequential Pay	A1, A2, A3, A4, A5 and A6
Pass-Through	PO
Notional	IO
No Payment Residual	R

* See “—Class Definitions and Abbreviations” below.

Application of Principal

On each Distribution Date, principal of the Offered Certificates will be distributed in an amount equal to the sum of the Senior Principal Distribution Amount and the PO Class Principal Distribution Amount (such sum, the “Required Senior Principal Distribution Amount”), as described below.

Senior Principal Distribution Amount

On each Distribution Date, the Senior Principal Distribution Amount will be applied, sequentially, to the distribution of principal of the A1, A2, A3, A4, A5 and A6 Classes, in that order, until the respective principal balances thereof are reduced to zero.

Sequential
Pay
Classes

PO Class Principal Distribution Amount

On each Distribution Date, the PO Class Principal Distribution Amount will be applied as principal of the PO Class, until the principal balance thereof is reduced to zero.

Pass-Through
Class

The “Senior Principal Distribution Amount” for any Distribution Date will equal the sum, for all Mortgage Loans, of (i) the Senior Percentage of the sum of the Non-PO Percentage of (a) all monthly payments of principal due on each Mortgage Loan during the related Due Period, (b) the principal portion of the purchase price of each Mortgage Loan repurchased by Fannie Mae or the Seller with respect to such Distribution Date, (c) the Substitution Adjustment Amount in connection with any Mortgage Loan received with respect to such Distribution Date and (d) any insurance proceeds or net liquidation proceeds allocable to recoveries of principal of Mortgage Loans that are not yet Liquidated Loans received during the related Prepayment Period, (ii) with respect to each Mortgage Loan that became a Liquidated Loan during the related Prepayment Period, the lesser of (x) the related Senior Percentage of the Non-PO Percentage of the Stated Principal Balance of such Mortgage Loan and (y) either (A) the related Senior Prepayment Percentage or (B) if an Excess Loss was sustained with respect to such Liquidated Loan during such Prepayment Period, the related Senior Percentage, of the applicable Non-PO Percentage of the amount of the net liquidation proceeds allocable to principal received with respect to such Loan, (iii) the related Senior Prepayment Percentage of the applicable Non-PO Percentage of all partial and full principal prepayments by borrowers on all such Mortgage Loans received during the related Prepayment Period for such Distribution Date and (iv) the amount of Realized Losses allocated to the A Classes for such Distribution Date.

The “Non-PO Percentage” with respect to any Discount Mortgage Loan will be equal to the related Net Mortgage Rate $\div$ 6.56%. The Non-PO Percentage with respect to any Non-Discount Mortgage Loan will be 100%. The PO Percentage with respect to any Discount Mortgage Loan will be equal to $(6.56\% - \text{the related Net Mortgage Rate}) \div 6.56\%$. The PO Percentage with respect to any Non-Discount Mortgage Loan will be 0%.

The “Senior Percentage” for any Distribution Date is the lesser of (i) 100% and (ii) the percentage equivalent of a fraction the numerator of which is the aggregate principal balance of the

A Classes immediately prior to such date and the denominator of which is the sum, for all Mortgage Loans, of the applicable Non-PO Percentage of the Stated Principal Balance of each Mortgage Loan as of the Due Date in the month of such Distribution Date.

With respect to any Distribution Date, the “Due Date” is the first day of the calendar month in which such Distribution Date occurs.

For any Distribution Date, the “Subordinate Percentage” will be calculated as the difference between 100% and the Senior Percentage on such Distribution Date.

Except as described below, the “Senior Prepayment Percentage” for any Distribution Date will be determined as follows:

<u>Distribution Date</u>	<u>Senior Prepayment Percentage</u>
August 1998 through July 2003	100%
August 2003 through July 2004	the Senior Percentage plus 70% of the Subordinate Percentage
August 2004 through July 2005	the Senior Percentage plus 60% of the Subordinate Percentage
August 2005 through July 2006	the Senior Percentage plus 40% of the Subordinate Percentage
August 2006 through July 2007	the Senior Percentage plus 20% of the Subordinate Percentage
August 2007 and thereafter	the Senior Percentage

Notwithstanding the foregoing, if on any Distribution Date the Senior Percentage exceeds the initial Senior Percentage, the Senior Prepayment Percentage for such Distribution Date will equal 100%.

In addition, no decrease in the Senior Prepayment Percentage will occur unless both of the following conditions (the “Step Down Conditions”) are satisfied: (i) the outstanding principal balance of all Mortgage Loans delinquent 60 days or more (averaged over the preceding six-month period), as a percentage of the aggregate outstanding principal balance of the Non-Offered Classes, does not equal or exceed 50% and (ii) cumulative Realized Losses with respect to the Mortgage Loans do not exceed (a) with respect to the Distribution Date falling on the fifth anniversary of the first Distribution Date, 30% of the aggregate principal balance of the Non-Offered Classes as of the Issue Date (the “Original Subordinated Principal Balance”), (b) with respect to the Distribution Date falling on the sixth anniversary of the first Distribution Date, 35% of the Original Subordinated Principal Balance, (c) with respect to the Distribution Date falling on the seventh anniversary of the first Distribution Date, 40% of the Original Subordinated Principal Balance, (d) with respect to the Distribution Date falling on the eighth anniversary of the first Distribution Date, 45% of the Original Subordinated Principal Balance, and (e) with respect to the Distribution Date falling on the ninth anniversary of the first Distribution Date, 50% of the Original Subordinated Principal Balance.

The “PO Class Principal Distribution Amount” for any Distribution Date will equal the sum, for all Discount Mortgage Loans, of (i) the applicable PO Percentage of (a) all monthly payments of principal due on each Discount Mortgage Loan during the related Due Period, (b) the principal portion of the purchase price of each Discount Mortgage Loan that was repurchased by Fannie Mae or the Seller with respect to such Distribution Date, (c) the Substitution Adjustment Amount in connection with any Discount Mortgage Loan received with respect to such Distribution Date, (d) any insurance proceeds or net liquidation proceeds allocable to recoveries of principal of Discount Mortgage Loans that are not yet Liquidated Loans received during the related Prepayment Period, (e) with respect to each Discount Mortgage Loan that became a Liquidated Loan during the related Prepayment Period, the amount of net liquidation proceeds allocable to principal received with respect to such Mortgage Loan, (f) all partial and full principal prepayments by borrowers on Discount Mortgage Loans received during the related Prepayment Period and (g) all Excess Losses in respect of Discount Mortgage Loans, (ii) on the Mezzanine Termination Date, all PO Deferred Amounts not previously distributed to Holders of the PO Class and (iii) on each Distribution Date following the

Mezzanine Termination Date, all Realized Losses (other than Excess Losses) allocated to the PO Class on such Distribution Date.

The “PO Deferred Amount” for any Distribution Date will equal the PO Percentage of Realized Losses (other than Excess Losses) for each Discount Mortgage Loan that became a Liquidated Loan in the related Prepayment Period.

With respect to each Distribution Date, the “Due Period” is the period beginning on the second day of the month immediately preceding the month in which the Distribution Date occurs and ending on the first day of the month in which the Distribution Date occurs.

Principal received in respect of the Mortgage Loans in excess of the Required Senior Principal Distribution Amount will be allocated on each Distribution Date to the Non-Offered Classes. The Non-PO Percentage of Realized Losses (other than Excess Losses) will be allocated solely to the Non-Offered Classes until the Distribution Date on which the aggregate principal balance of the Mezzanine Classes is reduced to zero (the “Mezzanine Termination Date”).

In general, a “Realized Loss” means, with respect to a Liquidated Loan, the amount by which the remaining unpaid principal balance of the Mortgage Loan exceeds the amount of net liquidation proceeds applied to the principal balance of the Mortgage Loan.

On each Distribution Date, the applicable PO Percentage of any Realized Loss, including any Excess Loss, on a Discount Mortgage Loan will be allocated to the PO Class until the principal balance thereof is reduced to zero. The amount of any such Realized Loss, other than an Excess Loss, allocated on or prior to the Mezzanine Termination Date will be treated as a PO Deferred Amount. To the extent funds are available on such Distribution Date or on any future Distribution Date from amounts that would otherwise be allocable to the Non-Offered Classes, PO Deferred Amounts will be paid on the PO Class prior to distributions of principal on the Mezzanine Certificates or the Subordinate Certificates. Any distribution in respect of unpaid PO Deferred Amounts will not further reduce the principal balance of the PO Class. The PO Deferred Amounts will not bear interest. After the Mezzanine Termination Date, no new PO Deferred Amounts will be created.

On each Distribution Date, the applicable Non-PO Percentage of any Realized Loss, other than any Excess Loss, will be allocated first to the Non-Offered Classes until the aggregate principal balance thereof has been reduced to zero, and then to the A Classes pro rata based upon their respective principal balances.

On each Distribution Date, the applicable Non-PO Percentage of Excess Losses will be allocated pro rata among the A Classes and the Mezzanine Classes and Subordinate Classes based upon their respective principal balances.

Realized Losses allocated to the A Classes and Excess Losses allocated to the PO Class on each Distribution Date and Realized Losses (other than Excess Losses) allocated to the PO Class on each Distribution Date following the Mezzanine Termination Date (as well as any PO Deferred Amounts on the Mezzanine Termination Date) will be covered under the Fannie Mae guaranty.

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

Class Definitions and Abbreviations

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

<u>Abbreviation</u>	<u>Category of Class</u>	<u>Definition</u>
PRINCIPAL TYPES		
NPR	No Payment Residual	A Residual Class that is designed to receive no payments of principal.
NTL	Notional	A Class having no principal balance and bearing interest on the related notional principal balance. The notional principal balance is used for purposes of the determination of interest distributions on an Interest Only Class that is not entitled to principal.
PT	Pass-Through	A Class that is designed to receive principal payments in direct relation to actual or scheduled payments on some or all the Mortgage Loans.
SEQ	Sequential Pay	Classes that receive principal payments in a prescribed sequence, that do not have predetermined schedules and that under all circumstances receive payments of principal continuously from the first Distribution Date on which they receive principal until they are retired. A single Class that receives principal payments before or after all other Classes in the same Series of Certificates may be identified as a Sequential Pay Class.
INTEREST TYPES		
FIX	Fixed Rate	A Class whose interest rate is fixed throughout the life of the Class.
IO	Interest Only	A Class that receives some of all of the interest payments made on the Mortgage Loans or other assets of the Trust and little or no principal. Interest Only Classes have either a nominal or a notional principal balance. A nominal principal balance represents actual principal that will be paid on the Class. It is referred to as nominal since it is extremely small compared to other Classes. A notional principal balance is the amount used as a reference to calculate the amount of interest due on an Interest Only Class that is not entitled to any principal.
NPR	No Payment Residual	A Residual Class that is designed to receive no payments of interest.
PO	Principal Only	A Class that does not bear interest and is entitled to receive only payments of principal.

Certain Characteristics of the R Class

The R Class will not have a principal balance and will not bear interest. The Holder of the R Class will be entitled to receive the proceeds of the remaining assets of the Trust, if any, after the principal balances of all Classes, including the Non-Offered 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 permitted to a “disqualified organization” or any person who would hold an R Certificate on behalf of a disqualified organization. For purposes of the preceding sentence, a transfer includes any transfer of record or beneficial ownership, whether pursuant to a purchase, a default under a secured lending agreement or otherwise. The term “disqualified organization” includes the United States, any State or political subdivision thereof, any foreign government, any international organization, or any agency or instrumentality of the foregoing (other than certain taxable instrumentalities), any cooperative organization furnishing electric energy or providing telephone service to persons in rural areas, or any organization (other than a farmers’ cooperative) that is exempt from federal income tax, unless such organization is subject to the tax on unrelated business income. Each transferee of an R Certificate will be required to execute an affidavit, in a form acceptable to Fannie Mae, that: (i) it is not a disqualified organization, (ii) it is not acquiring the R Certificate for the account of a disqualified organization, (iii) it consents to any amendment of the Trust Agreement that shall be deemed necessary by Fannie Mae (upon advice of counsel) to constitute a reasonable arrangement to ensure that the R Certificate will not be owned directly or indirectly by a disqualified organization, (iv) no purpose of the acquisition of the R Certificate is to avoid or impede the assessment or collection of tax, (v) it understands that it may incur tax liabilities in excess of any cash flows generated by the R Certificate, (vi) it intends to pay taxes associated with holding the R Certificate as they become due, and (vii) it will not transfer such R Certificate unless (a) it has received from the transferee an affidavit containing these same seven representations and (b) as of the time of the transfer, it does not have actual knowledge that such affidavit is false. See “Certain Federal Income Tax Consequences—Sales and Other Dispositions of Certificates—*Residual Certificates Transferred to or Held by Disqualified Organizations*” below. Such transferee also must deliver a properly executed Internal Revenue Service (“IRS”) Form W-9 on which such transferee provides its taxpayer identification number. In addition, a pass-through entity (including a nominee) that holds the R Certificate may be subject to additional taxes if a disqualified organization is a record holder therein.

In addition, no transfer of record or beneficial ownership of an R Certificate (whether pursuant to a purchase, a default under a secured lending agreement or otherwise) will be allowed to any person that is not a “U.S. Person” without the written consent of Fannie Mae. The term “U.S. Person” means a citizen or resident of the United States, a corporation, partnership or other entity created or organized in or under the laws of the United States or any political subdivision thereof, an estate the income of which is subject to U.S. federal income tax regardless of the source of its income or a trust if a court within the United States can exercise primary supervision over its administration and one or more U.S. Persons have the authority to control all substantial decisions of the trust.

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

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

organizations discussed above. A transferor of the R Certificate should consult with its own tax advisors for further information regarding such transfers.

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

Structuring Assumptions

Pricing Assumptions. Unless otherwise specified, the information in the tables in this Prospectus has been prepared on the basis of (i) the assumed characteristics of the Mortgage Loans set forth herein under “The Mortgage Loans—General” and (ii) the following assumptions (the “Pricing Assumptions”):

- payments on all Mortgage Loans are due and received on the first day of each month;
- each year consists of twelve 30-day months;
- the Mortgage Loans prepay at the constant percentages of the Prepayment Assumption specified in the related table;
- the Settlement Date for the sale of the Certificates is July 30, 1998; and
- there are no defaults, losses, delinquencies or Uncovered Prepayment Interest Shortfalls on the Mortgage Loans.

Prepayment Assumption. Prepayments of mortgage loans commonly are measured relative to a prepayment standard or model. The model used herein is The Bond Market Association’s standard prepayment model (“PSA”), which represents an assumed rate of prepayment each month of the then outstanding principal balance of a pool of new mortgage loans. 100% PSA assumes prepayment rates of 0.2% per annum of the then unpaid principal balance of such pool of mortgage loans in the first month of the life of such mortgage loans and an additional 0.2% per annum in each month thereafter (for example, 0.4% per annum in the second month) until the 30th month. Beginning in the 30th month and in each month thereafter during the life of such mortgage loans, 100% PSA assumes a constant prepayment rate of 6% per annum. Multiples may be calculated from this prepayment rate sequence. For example, 175% PSA assumes prepayment rates will be 0.35% per annum in month one, 0.70% per annum in month two, and increasing by 0.35% in each succeeding month until reaching a rate of 10.5% per annum in month 30 and remaining constant at 10.5% per annum thereafter. 0% PSA assumes no prepayments.

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

Yield Tables

General. The tables below indicate the sensitivity of the pre-tax corporate bond equivalent yields to maturity of applicable Classes to various constant percentages of PSA. The yields set forth in the tables were calculated by determining the monthly discount rates that, when applied to the assumed streams of cash flows to be paid on the applicable Classes, would cause the discounted present value of such assumed streams of cash flows to equal the assumed aggregate purchase prices of such Classes and converting such monthly rates to corporate bond equivalent rates. Such calculations do not take into account variations that may occur in the interest rates at which investors may be able to reinvest funds received by them as distributions on the Certificates and consequently do not purport to reflect the return on any investment in the Certificates when such reinvestment rates are considered. *There can be no assurance that the pre-tax yields on the Certificates will correspond to any*

of the pre-tax yields shown herein or that the aggregate purchase prices of the Certificates will be as assumed. Furthermore, because some of the Mortgage Loans will likely have remaining terms to maturity shorter or longer than those assumed and interest rates higher or lower than assumed, the principal distributions on the Certificates are likely to differ from those assumed, even if all Mortgage Loans prepay at the indicated constant percentages of PSA. Moreover, it is not likely that the Mortgage Loans will prepay at a constant PSA rate until maturity, that all of such Mortgage Loans will prepay at the same rate.

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

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

<u>Class</u>	<u>Price</u>
PO	65%

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

<u>Class</u>	<u>PSA Prepayment Assumption</u>				
	<u>50%</u>	<u>100%</u>	<u>175%</u>	<u>350%</u>	<u>500%</u>
PO	4.4%	5.6%	7.9%	14.1%	20.2%

* Applies only to Discount Mortgage Loans.

The IO Class. As indicated in the table below, the yield to investors in the IO Class will be highly sensitive to the rate of principal payments (including prepayments) of the Non-Discount Mortgage Loans. The Non-Discount Mortgage Loans may be prepaid by the borrower without the payment of a prepayment penalty. On the basis of the assumptions described below the yield to maturity on the IO Class would be 0% if prepayments were to occur at a constant rate of approximately 358% PSA. If the actual prepayment rate of the Non-Discount Mortgage Loans were to exceed the foregoing level for as little as one month while equaling such level for the remaining months, the investors in the IO Class would not fully recoup their initial investments. There can be no assurance that the Non-Discount Mortgage Loans will prepay at any of the rates assumed herein or at any other particular rate, that the pre-tax yields on the IO Class will correspond to any of the pre-tax yields shown herein or that the aggregate purchase price of the IO Class will be as assumed below. Finally, reductions in the amount of interest distributable to the interest-bearing Offered Classes (including the IO Class) as a result of Uncovered Prepayment Interest Shortfalls will reduce the yield to investors in the IO Class and, in certain cases, such reduction in yield could be substantial.

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

<u>Class</u>	<u>Price*</u>
IO	28%

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

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

Class	PSA Prepayment Assumption				
	50%	100%	175%	350%	500%
IO	19.2%	16.2%	11.6%	0.5%	(9.6)%

* Applies only to Non-Discount Mortgage Loans.

Weighted Average Lives of the Offered Certificates

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

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

Maturity Considerations and Final Distribution Dates

The original maturities of substantially all of the Mortgage Loans are expected to be between 10 and 30 years. Each Mortgage Loan will provide for amortization of principal according to a schedule that, in the absence of prepayments, would result in repayment of such Mortgage Loan by its maturity date.

The Final Distribution Date for the Offered Certificates is the date by which the principal balances thereof are required to be fully paid. The Final Distribution Date of the Offered Certificates has been determined so that scheduled payments on the Mortgage Loans will be sufficient to retire each such Class on or before the Final Distribution Date without the necessity of any call on Fannie Mae under its guaranty.

Decrement Tables

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

Percent of Original Principal Balances Outstanding***

Date	A1 Class					A2 Class					A3 Class					A4 Class				
	PSA Prepayment Assumption					PSA Prepayment Assumption					PSA Prepayment Assumption					PSA Prepayment Assumption				
	0%	100%	175%	350%	500%	0%	100%	175%	350%	500%	0%	100%	175%	350%	500%	0%	100%	175%	350%	500%
Initial Percent	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100
July 1999	92	64	43	0	0	100	100	100	98	83	100	100	100	100	100	100	100	100	100	100
July 2000	83	11	0	0	0	100	100	86	46	15	100	100	100	100	100	100	100	100	100	100
July 2001	74	0	0	0	0	100	85	57	1	0	100	100	100	100	0	100	100	100	100	43
July 2002	64	0	0	0	0	100	68	32	0	0	100	100	100	0	0	100	100	100	54	0
July 2003	53	0	0	0	0	100	51	10	0	0	100	100	100	0	0	100	100	100	0	0
July 2004	41	0	0	0	0	100	36	0	0	0	100	100	43	0	0	100	100	100	0	0
July 2005	28	0	0	0	0	100	23	0	0	0	100	100	0	0	0	100	100	78	0	0
July 2006	15	0	0	0	0	100	10	0	0	0	100	100	0	0	0	100	100	46	0	0
July 2007	*	0	0	0	0	100	0	0	0	0	100	96	0	0	0	100	100	19	0	0
July 2008	0	0	0	0	0	95	0	0	0	0	100	31	0	0	0	100	100	0	0	0
July 2009	0	0	0	0	0	89	0	0	0	0	100	0	0	0	0	100	89	0	0	0
July 2010	0	0	0	0	0	82	0	0	0	0	100	0	0	0	0	100	67	0	0	0
July 2011	0	0	0	0	0	75	0	0	0	0	100	0	0	0	0	100	47	0	0	0
July 2012	0	0	0	0	0	68	0	0	0	0	100	0	0	0	0	100	27	0	0	0
July 2013	0	0	0	0	0	60	0	0	0	0	100	0	0	0	0	100	9	0	0	0
July 2014	0	0	0	0	0	51	0	0	0	0	100	0	0	0	0	100	0	0	0	0
July 2015	0	0	0	0	0	42	0	0	0	0	100	0	0	0	0	100	0	0	0	0
July 2016	0	0	0	0	0	32	0	0	0	0	100	0	0	0	0	100	0	0	0	0
July 2017	0	0	0	0	0	21	0	0	0	0	100	0	0	0	0	100	0	0	0	0
July 2018	0	0	0	0	0	10	0	0	0	0	100	0	0	0	0	100	0	0	0	0
July 2019	0	0	0	0	0	0	0	0	0	0	81	0	0	0	0	100	0	0	0	0
July 2020	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	98	0	0	0	0
July 2021	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	63	0	0	0	0
July 2022	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	25	0	0	0	0
July 2023	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
July 2024	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
July 2025	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
July 2026	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
July 2027	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Weighted Average Life (years)**	5.0	1.3	0.9	0.5	0.4	15.8	5.3	3.4	2.0	1.5	21.4	9.7	6.0	3.2	2.4	23.4	12.9	8.0	4.1	3.0

Date	A5 Class					A6 Class					PO Class†					IO Class****††				
	PSA Prepayment Assumption					PSA Prepayment Assumption					PSA Prepayment Assumption					PSA Prepayment Assumption				
	0%	100%	175%	350%	500%	0%	100%	175%	350%	500%	0%	100%	175%	350%	500%	0%	100%	175%	350%	500%
Initial Percent	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100
July 1999	100	100	100	100	100	100	100	100	100	100	98	92	88	79	71	99	95	93	87	81
July 2000	100	100	100	100	100	100	100	100	100	100	95	85	77	61	49	98	89	83	69	58
July 2001	100	100	100	100	100	100	100	100	100	100	93	77	67	47	33	97	83	73	54	40
July 2002	100	100	100	100	0	100	100	100	100	97	90	71	58	36	23	95	77	65	42	28
July 2003	100	100	100	72	0	100	100	100	100	42	87	64	51	27	15	94	71	57	33	19
July 2004	100	100	100	0	0	100	100	100	88	13	84	58	44	21	10	93	66	50	25	13
July 2005	100	100	100	0	0	100	100	100	59	0	81	53	38	16	7	91	61	44	20	9
July 2006	100	100	100	0	0	100	100	100	41	0	77	47	32	12	5	89	56	39	15	6
July 2007	100	100	100	0	0	100	100	100	29	0	74	42	27	9	3	87	52	34	12	4
July 2008	100	100	92	0	0	100	100	100	23	0	70	38	23	7	2	85	47	30	9	3
July 2009	100	100	47	0	0	100	100	100	17	0	66	33	20	5	1	83	43	26	7	2
July 2010	100	100	6	0	0	100	100	100	13	0	61	29	16	4	1	81	40	23	5	1
July 2011	100	100	0	0	0	100	100	89	10	0	57	25	13	3	1	78	36	20	4	1
July 2012	100	100	0	0	0	100	100	76	8	0	52	22	11	2	*	75	33	17	3	1
July 2013	100	100	0	0	0	100	100	65	6	0	48	19	9	1	*	72	29	14	2	*
July 2014	100	81	0	0	0	100	100	56	4	0	44	16	7	1	*	69	26	12	2	*
July 2015	100	43	0	0	0	100	100	47	3	0	39	14	6	1	*	66	24	10	1	*
July 2016	100	8	0	0	0	100	100	40	2	0	35	11	5	1	*	62	21	9	1	*
July 2017	100	0	0	0	0	100	90	33	2	0	30	9	4	*	*	58	18	7	1	*
July 2018	100	0	0	0	0	100	78	27	1	0	25	7	3	*	*	53	16	6	1	*
July 2019	100	0	0	0	0	100	66	22	1	0	19	5	2	*	*	48	14	5	*	*
July 2020	100	0	0	0	0	100	55	17	1	0	14	4	1	*	*	43	11	4	*	*
July 2021	100	0	0	0	0	100	45	13	*	0	11	3	1	*	*	37	9	3	*	*
July 2022	100	0	0	0	0	100	35	10	*	0	7	1	*	*	*	31	7	2	*	*
July 2023	65	0	0	0	0	100	25	7	*	0	2	1	*	*	*	24	5	2	*	*
July 2024	0	0	0	0	0	87	17	4	*	0	0	0	0	0	0	17	4	1	*	*
July 2025	0	0	0	0	0	47	8	2	*	0	0	0	0	0	0	9	2	*	*	*
July 2026	0	0	0	0	0	10	2	*	*	0	0	0	0	0	0	2	*	*	*	*
July 2027	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Weighted Average Life (years)**	25.2	16.9	11.0	5.2	3.7	27.0	22.7	17.6	8.6	5.0	14.1	8.8	6.6	3.8	2.7	18.9	10.9	7.8	4.5	3.2

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

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

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

**** In the case of a Notional Class, the Decrement Table indicates the percentage of the original notional principal balance outstanding.

† Applies only to Discount Mortgage Loans.

†† Applies only to Non-Discount Mortgage Loans.

THE AGREEMENTS

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

Transfer of Mortgage Loans to the Trust

The Mortgage Loans transferred to the Trust will be identified in a Mortgage Loan Schedule appearing as an exhibit to the Trust Agreement. In addition, Fannie Mae, in its capacity as Trustee of the Trust, will hold on behalf of Certificateholders the original Mortgage Notes, endorsed in blank, and assignments to Fannie Mae of the mortgage instruments in recordable form. The document custody requirements described above are subject to change at any time; provided that any such change will not, in Fannie Mae’s determination, have a materially adverse affect on the interests of Certificateholders.

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

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

Servicing of Mortgage Loans

Pursuant to the Sale and Servicing Agreement, the Master Servicer is responsible for servicing and administering the Mortgage Loans.

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

An amount will be retained by the Master Servicer on a monthly basis as compensation for its servicing activities, which amount will be calculated at the rate of 0.25% per annum (the “Servicing Fee Rate”) of the Stated Principal Balance of each Mortgage Loan. The Master Servicer is also entitled to retain prepayment fees, late charges, assumption fees, and similar charges to the extent they are collected from borrowers. In addition, the Master Servicer is entitled to retain any amounts by which the proceeds of the liquidation of a Mortgage Loan exceed (i) the Stated Principal Balance of that Mortgage Loan and (ii) interest thereon at the mortgage interest rate from the month in which the Master Servicer determined that any amount advanced by it would no longer be recoverable through the end of the month of such liquidation, but only to the extent such amounts are not otherwise distributable to the holders of the Non-Offered Certificates to offset previously allocated

Realized Losses. The Master Servicer will pay all expenses incurred by it in connection with its servicing activities and is not entitled to reimbursement therefor (other than Servicing Advances) out of the assets of the Trust.

Fannie Mae will be entitled to receive from the Master Servicer a fee in consideration of its guaranty obligations.

Distributions on Mortgage Loans; Deposits in the Certificate Account

On each Remittance Date, the Master Servicer will remit to one or more accounts (collectively, the “Certificate Account”) an amount equal to the sum of (i) scheduled principal and interest on the Mortgage Loans received during the related Due Period, (ii) unscheduled principal and interest on the Mortgage Loans (*i.e.*, voluntary prepayments, as well as principal and interest on the Mortgage Loans in the form of net liquidation proceeds or similar proceeds) received during the related Prepayment Period, and (iii) the amount of any advance required to be made by the Master Servicer with respect to the related Distribution Date in respect of delinquent payments of principal and interest on the Mortgage Loans.

Amounts credited to the Certificate Account as of a Distribution Date will be available to be distributed to Holders on such date to the extent of interest accrued and distributable on the related Certificates (*i.e.*, excluding any Uncovered Prepayment Interest Shortfalls) and principal distributions reflected in the REMIC Trust Factors. Any reinvestment earnings on amounts so deposited will not be included in the calculation of amounts distributable to Certificateholders.

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

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

Reports to Certificateholders

As soon as practicable following the 21st calendar day of each month, Fannie Mae will publish or otherwise make available the REMIC Trust Factor (carried to eight decimal places) for each Class of Certificates after giving effect to the distribution of principal to be made on the following Distribution Date. The principal balance of a Certificate of any Class after giving effect to such principal distribution will be the product of the applicable REMIC Trust Factor and the applicable denomination or initial principal balance of such Certificate. With respect to each distribution on Certificates of each Class, Fannie Mae will cause to be forwarded to each Holder thereof a statement setting forth the total principal and interest distributions on such Distribution Date with respect to the Certificates in each Class held by such Holder. Fannie Mae also will furnish to each person who was a Certificateholder at any time during a calendar year such statements and information as shall be required to be furnished pursuant to the Code.

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

Collection and Other Servicing Procedures

The Master Servicer is responsible for servicing the Mortgage Loans and, in connection with its servicing activities, has full power and authority to do or cause to be done any and all things as it may deem necessary or appropriate in its discretion, including the foreclosure or comparable conversion of a defaulted Mortgage Loan. Either Fannie Mae (after the Mezzanine Termination Date) or the Master Servicer (at any time) may, in its discretion and without obligation, purchase from the Trust any Mortgage Loan that has become more than 90 days delinquent. If either the Master Servicer or Fannie Mae exercises such option, the purchase price will be equal to the outstanding principal balance of the delinquent Mortgage Loan together with accrued interest at the Net Mortgage Rate and will be distributed to Certificateholders in the manner described herein. The effect of any such purchase would be the same as that of a prepayment in full of the related Mortgage Loan. See “Description of Offered Certificates—Principal Distributions.”

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

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

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

Subject to the following paragraphs, the Master Servicer in its discretion may enforce or waive enforcement of any of the terms of any Mortgage Loan or enter into an agreement for the modification

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

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

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

Certain Matters Regarding Fannie Mae

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

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

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

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

Events of Default

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

Rights Upon Event of Default

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

Amendment

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

The Trust Agreement also may be amended by Fannie Mae with the consent of the Holders of Certificates of each Class representing principal balances aggregating not less than 66 percent of the aggregate principal balances of all Certificates of such Class so as to waive compliance by Fannie Mae with any terms of the Trust Agreement, or to allow Fannie Mae to eliminate, change, add to or modify the terms of the Trust Agreement. However, no such waiver or amendment may, without the consent of all Holders of the Senior Certificates, terminate or modify the guaranty obligations of Fannie Mae or, without the consent of all Certificateholders, reduce the percentages of the Certificates the Holders of which are required to consent to any waiver or amendments. In addition, no waiver or amendment shall, without the consent of each Certificateholder affected thereby, reduce in any manner the amount of, or delay the timing of, payments received on Mortgage Loans or other assets in the Trust that are required to be distributed on any Certificate, or without the consent of all Holders of any residual interest in the Trust, adversely affect the rights of the Holders of such residual interest.

Termination

The Trust Agreement terminates upon the final payment or liquidation of the last Mortgage Loan remaining in the Trust and distribution of all proceeds thereof. The Trust Agreement will terminate also upon repurchase by Fannie Mae or the Master Servicer, at its respective option, of all remaining Mortgage Loans (other than Mortgage Loans that have been converted to REO Property (as defined below)) and REO Property in the Trust at a price equal to the outstanding principal balance of each such Mortgage Loan together with one month's interest thereon at the Net Mortgage Rate, plus the fair market value of REO Property; provided, however, that neither Fannie Mae nor the Master Servicer will exercise its option unless the aggregate Stated Principal Balance of the remaining Mortgage Loans at the time of repurchase is less than one percent of the aggregate Stated Principal Balance of all the Mortgage Loans as of the Issue Date, and provided further that in the event the Master Servicer wishes to exercise its option and such exercise would result in Fannie Mae paying Offered Certificateholders pursuant to Fannie Mae's guaranty, the Master Servicer will not so exercise its option without obtaining the prior written consent of Fannie Mae. An "REO Property" is a Mortgaged Property acquired by the Master Servicer through foreclosure or deed-in-lieu-of-foreclosure in connection with a defaulted Mortgage Loan. The exercise of either such option will effect retirement of all Certificates. In no event, however, will the Trust continue beyond the expiration of 21 years from the death of the last survivor of the persons named in the Trust Agreement. Fannie Mae will give written notice of termination of the Trust Agreement as it relates to each affected Certificateholder, and the final distribution will be made to the person entitled thereto.

CERTAIN FEDERAL INCOME TAX CONSEQUENCES

General

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

REMIC Election

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

Taxation of Beneficial Owners of Regular Certificates

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

Original Issue Discount

The PO and IO Classes will be, and one or more of the A Classes may be, issued with "original issue discount" within the meaning of section 1273(a) of the Code. A Regular Owner must include in

gross income the sum of the “daily portions” of original issue discount on its Regular Certificate for each day during its taxable year on which it held such Certificate, generally in advance of receipt of the cash attributable to such income. Fannie Mae will supply, at the time and in the manner required by the IRS, to Holders of Regular Certificates, brokers and middlemen information with respect to the original issue discount accruing on the Regular Certificates.

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

Notwithstanding the general definition, original issue discount will be treated as zero in the case of a Regular Certificate if such discount is less than 0.25 percent of the stated redemption price at maturity of such Certificate multiplied by its weighted average life. The weighted average life of a Regular Certificate is apparently computed for this purpose as the sum, for all distributions included in the stated redemption price at maturity of the Certificate, of the amounts determined by multiplying (i) the number of complete years (rounding down for partial years) from the Settlement Date until the date on which each such distribution is expected to be made under the assumption that the Mortgage Loans prepay at a specified rate, by (ii) a fraction, the numerator of which is the amount of such distribution and the denominator of which is the Regular Certificate’s stated redemption price at maturity. If original issue discount is treated as zero under this rule, the actual amount of original issue discount must be allocated to the principal distributions on the Regular Certificate and, when each such distribution is received, gain equal to the discount allocated to such distribution will be recognized. The prepayment assumption applicable to the Mortgage Loans is 175 percent of the PSA model (the “Prepayment Assumption”). See “Description of the Offered Certificates—Structuring Assumptions—*Prepayment Assumption*” herein.

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

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

amounts included in the stated redemption price at maturity. The original issue discount accruing during any accrual period will then be allocated ratably to each day during the period to determine the daily portion of original issue discount.

The Code requires that the prepayment assumption used to calculate original issue discount be determined in the manner prescribed in Treasury regulations. To date, no such regulations have been promulgated. The legislative history of this Code provision indicates that the regulations will provide that the assumed prepayment rate must be the rate used by the parties in pricing the particular transaction. Fannie Mae believes that the Prepayment Assumption is consistent with this standard. Fannie Mae makes no representation, however, that the Mortgage Loans will prepay at the rate reflected in the Prepayment Assumption or at any other rate. Each investor must make its own decision as to the appropriate prepayment assumption to be used in deciding whether or not to purchase any of the Certificates. See “Description of the Offered Certificates—Maturity Considerations and Final Distribution Dates” and “—Decrement Tables” herein.

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

Certificates Purchased at a Premium

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

Market Discount

A Regular Owner that purchases a Regular Certificate at a price less than the remaining stated redemption price at maturity of such Certificate, or in the case of a Regular Certificate issued with original issue discount, less than the adjusted issue price of such Certificate, has market discount with respect to such Certificate in the amount of such difference. An owner that purchases a Regular Certificate at a market discount is required to treat any principal payments on such certificate as ordinary income to the extent of the market discount that accrued while such owner held such certificate, unless the owner elects to include such market discount in income on a current basis. An

owner may also be required to treat gain on the disposition or retirement of such a Certificate as ordinary income under the circumstances discussed below under “Sales and Other Dispositions of Certificates—*In General*.”

The legislative history to the Tax Reform Act of 1986 states that market discount on a regular certificate may be treated as accruing in proportion to remaining accruals of original issue discount, if any, or if none, in proportion to the remaining distributions of interest on the regular certificate. An owner may instead elect to determine the accrual of market discount under a constant yield method. Fannie Mae will make available to Holders of Regular Certificates information necessary to compute the accrual of market discount, in the manner and form as required by the IRS.

A Regular Owner that incurs or continues indebtedness to acquire a Regular Certificate at a market discount may be required to defer the deduction of all or a portion of the interest on such indebtedness until the corresponding amount of market discount is included in income.

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

Special Election

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

Taxation of Beneficial Owners of the Residual Certificate

Daily Portions

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

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

Taxable Income or Net Loss of the Trust

The taxable income or net loss of the Trust will be the income from the “qualified mortgages” it holds and any reinvestment earnings less deductions allowed to the Trust. Such taxable income or net loss for a given calendar quarter will be determined in the same manner as for an individual having the calendar year as the taxable year and using the accrual method of accounting, with certain modifications. The first modification is that a deduction will be allowed for accruals of interest (including any original issue discount, but without regard to the investment interest limitation in section 163(d) of the Code) on the Regular Certificates (but not the Residual Certificate), even though Regular Certificates are, for non-tax purposes, certificates of beneficial ownership rather than indebtedness of the Trust. Second, market discount or premium equal to the difference between the aggregate principal balances of the qualified mortgages and the basis to the Trust therein generally will be included in income (in the case of discount) or deductible (in the case of premium) by the Trust as it accrues under a constant yield method, taking into account the Prepayment Assumption. The basis to the Trust in qualified mortgages is the aggregate of the issue prices of all the Regular and Residual Certificates in the Trust on the Settlement Date. If, however, a substantial amount of a Class of Regular or Residual Certificates has not been sold to the public, then the fair market value of all the Regular or Residual Certificates in that Class as of the date of this Prospectus should be substituted for the issue price. Third, no item of income, gain, loss or deduction allocable to a prohibited transaction (see “Taxes on the Trust—*Prohibited Transactions*” below) will be taken into account. Fourth, the Trust generally may not deduct any item that would not be allowed in calculating the taxable income of a partnership by virtue of section 703(a)(2) of the Code. Finally, the limitation on miscellaneous itemized deductions imposed on individuals by section 67 of the Code will not be applied at the Trust level to any administrative fees, such as servicing and guaranty fees. (See, however, “*Pass-Through of Servicing and Guaranty Fees to Individuals*” below.) In addition, under the Regulations, any expenses that are incurred in connection with the formation of the Trust and the issuance of the Regular and Residual Certificates will not be treated as expenses of the Trust for which a deduction is allowed. If the deductions allowed to the Trust exceed its gross income for a calendar quarter, such excess will be a net loss for the Trust for that calendar quarter. The Regulations also provide that any gain or loss to the Trust from the disposition of any asset, including a qualified mortgage or “permitted investment” (as defined in section 860G(a)(5) of the Code) will be treated as ordinary gain or loss.

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

Basis Rules and Distributions

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

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

Excess Inclusions

Any excess inclusions with respect to a Residual Certificate are subject to certain special tax rules. With respect to a Residual Owner, the excess inclusion for any calendar quarter is defined as the excess (if any) of the daily portions of taxable income over the sum of the "daily accruals" for each day during such quarter that such Residual Certificate was held by such Residual Owner. The daily accruals are determined by allocating to each day during a calendar quarter its ratable portion of the product of the "adjusted issue price" of the Residual Certificate at the beginning of the calendar quarter and 120 percent of the "Federal long-term rate" in effect on the Settlement Date, based on quarterly compounding, and properly adjusted for the length of such quarter. For this purpose, the adjusted issue price of a Residual Certificate as of the beginning of any calendar quarter is equal to the issue price of the Residual Certificate, increased by the amount of daily accruals for all prior quarters and decreased by any distributions made with respect to such Residual Certificate before the beginning of such quarter. The issue price of a Residual Certificate is the initial offering price to the public (excluding bond houses and brokers) at which a substantial amount of the Residual Certificates was sold. The Federal long term rate is a blend of current yields on Treasury securities having a maturity of more than nine years, computed and published monthly by the IRS. One hundred twenty percent of the Federal long-term rate in effect on the Settlement Date is 6.90%.

The Treasury Department has the authority to issue regulations that would treat all taxable income of the Trust as excess inclusions if the Residual Certificate does not have "significant value." Although the Treasury Department has not exercised this authority in the Regulations, future regulations may contain such a rule.

Any excess inclusions cannot be offset by losses from other activities. For a Residual Owner that is subject to tax only on unrelated business taxable income (as defined in section 511 of the Code), any excess inclusion of such Residual Owner is treated as unrelated business taxable income. With respect to variable contracts (within the meaning of section 817 of the Code), a life insurance company cannot adjust its reserve to the extent of any excess inclusion, except as provided in regulations. If a Residual Owner is a member of an affiliated group filing a consolidated income tax return, the taxable income of the affiliated group cannot be less than the sum of the excess inclusions attributable to all residual interests in REMICs held by members of the affiliated group. For purposes of the alternative minimum tax, taxable income does not include excess inclusions, the alternative minimum taxable income cannot be less than excess inclusions, and excess inclusions are disregarded in computing the alternative tax net operating loss deduction. For a discussion of the effect of excess inclusions on certain foreign investors that own Residual Certificates, see "Foreign Investors—*Residual Certificates*" below.

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

Pass-Through of Servicing and Guaranty Fees to Individuals

A Residual Owner who is an individual will be required to include in income a share of the administrative fees of the Trust. A deduction for such fees generally will be allowed to such Owner only to the extent that such fees, along with certain of such Owner's other miscellaneous itemized deductions exceed 2 percent of such Owner's adjusted gross income. In addition, a Residual Owner may not be able to deduct any portion of such fees in computing such Residual Owner's alternative minimum tax liability. A Residual Owner's share of such fees generally will be determined by (i) allocating the amount of such expenses for each calendar quarter on a pro rata basis to each day in the calendar quarter, and (ii) allocating the daily amount the Owners in proportion to their respective holdings on such day. Similar rules apply in the case of (i) estates and trusts, and (ii) individuals owning an interest in a Residual Certificate through grantor trusts and non-publicly offered regulated investment companies, but do not include estates, trusts other than grantor trusts, cooperatives, real estate investment trusts and publicly offered regulated investment companies.

Amounts Paid to a Transferee of a Residual Certificate

The federal income tax consequences of any consideration paid to a transferee on the transfer of a Residual Certificate are unclear. A transferee receiving such consideration should consult its own tax advisor.

Special Tax Attributes

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

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

Regular Certificates held by a financial institution (as referred to in section 582(c)(2) of the Code) will be treated as evidences of indebtedness for purposes of section 582(c)(1) of the Code. Regular Certificates will also be "qualified mortgages" within the meaning of section 860G(a)(3) of the Code with respect to other REMICs and "permitted assets" within the meaning of section 860L(c)(1) of the Code with respect to financial asset securitization investment trusts.

Taxes on the Trust

A REMIC is not subject to federal income tax except with respect to income from prohibited transactions and in certain other instances described below.

Prohibited Transactions

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

source other than a Mortgage Loan or certain other permitted investments, the receipt of compensation for services, or the disposition of an asset purchased with the payments on the qualified mortgages for temporary investment pending distribution on the regular and residual interests.

Contributions to a REMIC after the Startup Day

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

Net Income from Foreclosure Property

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

Application to the Trust

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

Sales and Other Dispositions of Certificates

In General

Upon the sale, exchange, retirement or other disposition of a Regular Certificate or upon the sale, exchange or other disposition of a Residual Certificate, an owner generally will recognize gain or loss equal to the difference between the amount realized upon the disposition and the owner’s adjusted basis in the Certificate. In addition, the Code requires the recognition of gain upon the “constructive sale of an appreciated financial position.” In general, a constructive sale of an appreciated financial position occurs if a taxpayer enters into certain transactions or series of such transactions with respect to a financial instrument that have the effect of substantially eliminating the taxpayer’s risk of loss and opportunity for gain with respect to the financial instrument. These provisions do not apply to Certificates other than the Notional Class.

The adjusted basis of a Regular Certificate generally will equal the cost of such Certificate to the owner, increased by any original issue discount or market discount included in the owner’s gross income with respect to such Certificate and reduced by distributions on such Certificate previously received by the owner of amounts included in the stated redemption price at maturity and by any premium that has reduced the owner’s interest income with respect to such Certificate. The adjusted basis of a Residual Certificate is determined as described above under “Taxation of Beneficial Owners of Residual Certificates—*Basis Rules and Distributions*.” Except as provided in the following paragraph or under section 582(c) of the Code, any such gain or loss will be capital gain or loss, provided such Certificate is held as a “capital asset” (generally, property held for investment) within the meaning of section 1221 of the Code.

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

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

Residual Certificates Transferred to or Held by Disqualified Organizations

Section 860E(e) of the Code imposes a substantial tax, payable by the transferor (or, if a transfer is through a broker, nominee, or other middleman as the transferee’s agent, payable by that agent) upon any transfer of a Residual Certificate to a disqualified organization. For purposes of the preceding sentence, a transfer includes any transfer of record or beneficial ownership, whether pursuant to a purchase, a default under a secured lending agreement or otherwise. The term “disqualified organization” is defined above under “Description of the Certificates—Certain Characteristics of the R Class.” A transferor of a Residual Certificate (or an agent of a transferee of a Residual Certificate, as the case may be) will be relieved of such tax liability if (i) the transferee furnishes to the transferor (or the transferee’s agent) an affidavit that the transferee is not a disqualified organization, and (ii) the transferor (or the transferee’s agent) does not have actual knowledge that the affidavit is false at the time of the transfer.

In addition, a tax may be imposed upon a pass-through entity (including regulated investment companies, real estate investment trusts, common trust funds, partnership, trusts, estates, certain cooperatives, and nominees) that owns a Residual Certificate if such pass-through entity has a disqualified organization as a record holder. For this purpose, all interests in an electing large partnership are treated as held by disqualified organizations. No such tax will be imposed on a pass-through entity for a period with respect to an interest therein owned by a disqualified organization if (i) the record holder of such interest furnishes to the pass-through entity an affidavit that it is not a disqualified organization, (ii) during such period, the pass-through entity has no actual knowledge that the affidavit is false and (iii) the entity is not an electing large partnership.

Other Transfers of Residual Certificates

A transfer of a Residual Certificate that has tax avoidance potential is disregarded for federal income tax purposes if the transferee is not a U.S. person (a “Non-U.S. Person”), unless the transferee’s income from such Certificate is otherwise subject to U.S. income tax. A Residual Certificate has tax avoidance potential unless, at the time of the transfer, the transferor reasonably expects that, for each excess inclusion, the REMIC Trust will pay to the transferee an amount that will equal at least 30 percent of the excess inclusion, and that each such amount will be paid at or after the time at which the excess inclusion accrues and not later than the close of the calendar year following the calendar year of accrual. Certain transfers by a Non-U.S. Person to a U.S. Person or

another Non-U.S. Person are also disregarded if the transfer has the effect of allowing the transferor to avoid tax on accrued excess inclusions. See “Description of the Offered Certificates—Certain Characteristics of the R Class” for a discussion of additional provisions applicable to transfers of Residual Certificates.

Termination

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

Reporting and Other Administrative Matters

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

Backup Withholding

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

Foreign Investors

Regular Certificates

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

to a Regular Owner that is a “controlled foreign corporation” described in section 881(c)(3)(C) of the Code.

Residual Certificates

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

LEGAL INVESTMENT CONSIDERATIONS

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

LEGAL OPINION

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

ERISA CONSIDERATIONS

The Employee Retirement Income Security Act of 1974, as amended (“ERISA”) and the Code impose certain requirements on employee benefit plans and certain other retirement plans and arrangements (including, but not limited to, individual retirement accounts and annuities), as well as on collective investment funds and separate accounts in which such plans or arrangements are invested (all of which are hereinafter referred to as a “Plan”) and on persons who are fiduciaries with respect to such Plans. Any Plan fiduciary which proposes to cause a Plan to acquire any Offered Certificates would be required to determine whether such an investment is permitted under the governing Plan instruments and is prudent and appropriate for the Plan in view of its overall investment policy and the composition and diversification of its portfolio. In addition, ERISA and the Code prohibit certain transactions involving the assets of a Plan and “disqualified persons” (within

the meaning of the Code) and “parties in interest” (within the meaning of ERISA) who have certain specified relationships to the Plan. Therefore, a Plan fiduciary considering an investment in Offered Certificates should also consider whether such an investment might constitute or give rise to a prohibited transaction under ERISA or the Code.

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

PLAN OF DISTRIBUTION

Fannie Mae will acquire the Mortgage Loans from the Seller in exchange for the Certificates pursuant to the Sale and Servicing Agreement. The Dealers, who have been retained by the Seller, propose to offer the Offered Certificates directly to the public from time to time in negotiated transactions at varying prices to be determined at the time of sale. The Dealers may effect such transactions to or through dealers.

LEGAL MATTERS

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

AVAILABLE INFORMATION

Certain information may be available to Offered Certificateholders on an ongoing basis on State Street’s Web Site located at <http://www.corporatetrust.statestreet.com>.

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

\$171,977,923
(Approximate)



FannieMae

Guaranteed REMIC
Pass-Through Certificates
Fannie Mae REMIC Trust 1998-W3

PROSPECTUS

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LEHMAN BROTHERS
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INCORPORATED

June 26, 1998
