

\$318,359,919



**Multifamily Assured Schedule Payment Trust<sup>SM</sup>**  
**(MAST<sup>SM</sup>)**

**Guaranteed Trust Pass-Through Certificates**  
**Fannie Mae Multifamily Grantor Trust 2003-T5**

**Carefully consider the risk factors on page 6 of this prospectus. Unless you understand and are able to tolerate these risks, you should not invest in the certificates.**

The certificates, together with interest thereon, are not guaranteed by the United States and do not constitute a debt or obligation of the United States or any of its agencies or instrumentalities other than Fannie Mae.

The certificates are exempt from registration under the Securities Act of 1933 and are "exempted securities" under the Securities Exchange Act of 1934.

**The Certificates**

We, the Federal National Mortgage Association ("Fannie Mae"), will issue the classes of certificates listed in the chart on this page.

**Payments to Certificateholders**

We will make monthly payments on the certificates. You, the investor, will receive

- interest accrued on the balance of your certificate,
- in the case of the A Class, principal in amounts that correspond to the original amortization schedules of the mortgage loans underlying the Fannie Mae MBS in the REMIC trust, with any remaining principal of the A Class to be paid on the final distribution date, and
- in the case of the B Class, no principal until the final distribution date at which time we will pay the entire principal balance of the B Class.

**The Fannie Mae Guaranty**

We will guarantee that required payments of principal and interest on the certificates are distributed to investors on time and that any remaining principal balance of each class of certificates is paid on the final distribution date.

**The Trusts and Related Assets**

The REMIC trust will own Fannie Mae MBS and certain proceeds thereof. The mortgage loans underlying the Fannie Mae MBS will be fixed-rate balloon loans generally secured by first liens on multifamily properties.

The issuing trust will own the REMIC regular interests issued from the REMIC trust together with any Fannie Mae debt obligations that we are required to deliver in the event of the full or partial prepayment of any underlying mortgage loan due to casualty, condemnation or certain other prepayments.

Class	Original Class Balance	Principal Type	Interest Rate	Interest Type	CUSIP Number	Final Distribution Date
A	\$ 52,359,919	AMZ	4.05511%	FIX	31393TH74	March 2013
B	266,000,000	SP	4.38189	FIX	31393TH82	March 2013
IO	318,359,919(1)	NTL	(2)	WAC/IO	31393TH90	March 2013
R	0	NPR	0	NPR	31393TJ23	March 2013

(1) Notional balance. This class is an interest only class.

(2) Variable interest rate. During the initial interest accrual period, the IO Class will bear interest at the annual rate of 0.19260%.

The dealers specified below will offer the certificates from time to time in negotiated transactions at varying prices to be determined at the time of sale. We expect the settlement date to be October 30, 2003.

**Citigroup**  
 (Co-Lead Dealer)

**Credit Suisse First Boston**  
 (Co-Lead Dealer)

## TABLE OF CONTENTS

	<u>Page</u>		<u>Page</u>
<b>AVAILABLE INFORMATION</b> .....	3	<b>SPECIAL CHARACTERISTICS OF THE</b>	
<b>REFERENCE SHEET</b> .....	4	<b>R CERTIFICATE</b> .....	12
<b>RISK FACTORS</b> .....	6	<b>STRUCTURING ASSUMPTIONS</b> .....	14
<b>DESCRIPTION OF THE</b>		<b>YIELD TABLE</b> .....	14
<b>CERTIFICATES</b> .....	7	<b>WEIGHTED AVERAGE LIVES OF THE</b>	
<b>GENERAL</b> .....	7	<b>CERTIFICATES</b> .....	15
<i>Structure</i> .....	7	<b>DECREMENT TABLE</b> .....	16
<i>Fannie Mae Guaranty</i> .....	7	<b>DESCRIPTION OF THE</b>	
<i>Characteristics of Certificates</i> .....	8	<b>MORTGAGE LOANS</b> .....	16
<i>Authorized Denominations</i> .....	8	<b>GENERAL</b> .....	16
<i>Distribution Dates</i> .....	8	<b>CERTAIN ADDITIONAL</b>	
<i>Record Date</i> .....	8	<b>CHARACTERISTICS OF THE</b>	
<i>Class Factors</i> .....	8	<b>MORTGAGE LOANS</b> .....	17
<b>BOOK-ENTRY PROCEDURES</b> .....	9	<i>Prepayment Lockouts</i> .....	17
<i>General</i> .....	9	<i>Defeasance</i> .....	17
<i>Method of Payment</i> .....	9	<b>THE TRUST AGREEMENT</b> .....	17
<b>THE MBS</b> .....	9	<b>TRANSFER OF ASSETS TO THE</b>	
<i>General</i> .....	9	<b>TRUST</b> .....	17
<i>Default</i> .....	9	<b>CERTAIN FANNIE MAE MATTERS</b> ...	17
<b>PAYMENTS OF INTEREST ON THE</b>		<b>VOTING UNDER THE MBS TRUST</b>	
<b>CERTIFICATES</b> .....	10	<b>INDENTURE</b> .....	18
<i>Categories of Classes</i> .....	10	<b>EVENTS OF DEFAULT</b> .....	18
<i>General</i> .....	10	<b>RIGHTS UPON EVENT OF</b>	
<i>Interest Accrual Period</i> .....	10	<b>DEFAULT</b> .....	18
<i>Notional Class</i> .....	10	<b>AMENDMENT</b> .....	19
<i>Weighted Average Coupon Class</i> ...	10	<b>TERMINATION</b> .....	19
<b>PAYMENTS OF PRINCIPAL OF THE</b>		<b>CERTAIN FEDERAL INCOME</b>	
<b>CERTIFICATES</b> .....	11	<b>TAX CONSEQUENCES</b> .....	19
<i>Categories of Classes</i> .....	11	<b>ERISA CONSIDERATIONS</b> .....	36
<i>Scheduled Amortization</i>		<b>LEGAL INVESTMENT</b>	
<i>Payments</i> .....	11	<b>CONSIDERATIONS</b> .....	37
<i>Balloon Payment</i> .....	11	<b>LEGAL OPINION</b> .....	37
<i>Casualty, Condemnation or Other</i>		<b>PLAN OF DISTRIBUTION</b> .....	37
<i>Prepayment</i> .....	11	<b>LEGAL MATTERS</b> .....	37
<i>Principal Balance Schedules</i> .....	11	<b>EXHIBIT A</b> .....	A-1
<b>CLASS DEFINITIONS AND</b>		<b>EXHIBIT B</b> .....	B-1
<b>ABBREVIATIONS</b> .....	12		

## AVAILABLE INFORMATION

You should purchase the certificates only if you have read and understood this prospectus and the following documents (the “Disclosure Documents”):

- either our Prospectus for Fannie Mae Guaranteed Mortgage Pass-Through Certificates (Multi-family Residential Mortgage Loans) dated September 1, 2003 or our Prospectus for Fannie Mae Guaranteed Mortgage Pass-Through Certificates (Multifamily Residential Mortgage Loans) dated August 1, 2002, as applicable for each pool identified in Exhibit A to this prospectus (each, an “MBS Prospectus”);
- our Prospectus Supplement to the MBS Prospectus for each pool identified in Exhibit A to this prospectus (each, an “MBS Prospectus Supplement”); and
- any Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q and Current Reports on Form 8-K that we file with the SEC during the period specified in the final paragraph of this page.

You can obtain copies of the Disclosure Documents by writing or calling us at:

Fannie Mae  
MBS Helpline  
3900 Wisconsin Avenue, N.W., Area 2H-3S  
Washington, D.C. 20016  
(telephone 1-800-237-8627).

In addition, the Disclosure Documents, together with class factors for the certificates, are available on our corporate Web site at [www.fanniemae.com](http://www.fanniemae.com).

You can also obtain additional copies of this prospectus by writing or calling the dealers at:

Citigroup Global Markets Inc.  
Prospectus Department  
Brooklyn Army Terminal  
140 58th Street, Suite 8-G  
Brooklyn, New York 11220  
(telephone 718-765-6732).

or

Credit Suisse First Boston LLC  
Prospectus Department  
11 Madison Avenue  
New York, New York 10010  
(telephone: 212-325-2580).

In the first quarter of 2003, we began filing periodic reports with the SEC under the Securities Exchange Act of 1934. These filings will include the Form 10-Ks, Form 10-Qs and Form 8-Ks. Our SEC filings are available at the SEC’s Web site at [www.sec.gov](http://www.sec.gov). You may also read and copy any document we file with the SEC by visiting the SEC’s Public Reference Room at 450 Fifth Street, NW, Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information about the operation of the Public Reference Room. We are providing the address of the SEC’s Internet site solely for the information of prospective investors. We do not intend the Web site address to be an active link.

Information contained in any Form 10-K, Form 10-Q and Form 8-K that we file with the SEC prior to the termination of the offering of the certificates is hereby incorporated by reference in this prospectus supplement. In cases where we “furnish” information to the SEC on Form 8-K, as provided under the Securities Exchange Act of 1934, that information is not incorporated by reference in this prospectus supplement.

## REFERENCE SHEET

**This reference sheet is not a summary of the transaction and does not contain complete information about the certificates. You should purchase the certificates only after reading this prospectus and each of the other Disclosure Documents.**

### Assets Underlying the Trusts

The REMIC trust will own the MBS specified on Exhibit A to this prospectus and certain proceeds thereof. Each of the mortgage loans underlying the MBS prohibits voluntary prepayment at any time and permits defeasance during certain periods. Certain other characteristics of the MBS and the mortgage loans as of October 1, 2003 are set forth on Exhibit A.

The issuing trust will own the REMIC regular interests issued from the REMIC trust together with any Fannie Mae debt obligations that we are required to deliver in the event of the full or partial prepayment of any underlying mortgage loan due to casualty, condemnation or certain other prepayments.

### Class Factors

A class factor is a number that, when multiplied by the initial principal balance (or notional principal balance) of a certificate, can be used to calculate the current principal balance (or notional principal balance) of that certificate (after taking into account principal payments in the same month). We publish the class factor for each class of certificates on or shortly after the 11th day of each month.

### Settlement Date

We expect to issue the certificates on October 30, 2003.

### Distribution Dates

We will make payments on the certificates on the 25th day of each calendar month, or on the next business day if the 25th day is not a business day, beginning in November 2003.

### Book-Entry and Physical Certificates

We will issue the book-entry certificates through the U.S. Federal Reserve Banks, which will electronically track ownership of the certificates and payments on them. We will issue the physical certificates in registered, certificated form.

We will issue the classes of certificates in the following forms:

<u>Fed Book-Entry</u>	<u>Physical</u>
A, B and IO Classes	R Class

### Interest Rates

During each interest accrual period, the A and B Classes will bear interest at the applicable annual interest rates specified on the cover of this prospectus.

During the initial interest accrual period, the IO Class will bear interest at the applicable annual interest rate specified on the cover of this prospectus. During subsequent interest accrual periods, the IO Class will bear interest at the variable annual interest rate described in this prospectus.

### Notional Class

The IO Class is a notional class and will not receive any principal. The notional principal balance is the balance used to calculate accrued interest on the IO Class. The notional principal balance of the IO Class will equal the percentage of the outstanding balances specified below immediately before the related Distribution Date:

#### Class

IO ..... 100% of the A Class and B Class

### Payments of Principal

#### *Scheduled Amortization Payments*

On each distribution date prior to the final distribution date, we will pay to the holders of the A Class principal in amounts that correspond to the original amortization schedules of the mortgage loans underlying the Fannie Mae MBS in the REMIC trust.

#### *Balloon Payment*

On the final distribution date, we will pay an amount equal to any remaining principal balance of the A Class to the holders of the A Class and the entire principal balance of the B Class to the holders of the B Class.

### Weighted Average Lives\*

<u>Classes</u>	<u>Years</u>
A .....	5.1
B .....	9.4
IO .....	8.7

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

## RISK FACTORS

We have listed below some of the risks associated with an investment in the certificates. Because each investor has different investment needs and a different risk tolerance, you should consult your own financial and legal advisors to determine whether the certificates are a suitable investment for you.

*The certificates are **not** a suitable investment for every investor.* Before investing, you should have sufficient knowledge and experience to evaluate the merits and risks of the certificates and the information contained in this prospectus and the other Disclosure Documents. In particular:

- you should understand the terms of the certificates thoroughly;
- you should understand the terms of the MBS thoroughly;
- you should be able to evaluate (either alone or with the help of a financial advisor) the economic, interest rate and other factors that may affect your investment;
- you should have sufficient financial resources and liquidity to bear all risks associated with the certificates; and
- you should investigate any legal investment restrictions that may apply to you.

*Delay classes have lower yields and market values.* Because the certificates do not receive interest immediately following each interest accrual period, they have lower yields and lower market values than they would if there were no such delay.

*Some investors may be unable to buy certain classes of certificates.* Investors whose investment activities are subject to legal investment laws and regulations, or to review by regulatory authorities, may be unable to buy certain certificates. You should get legal advice to determine whether you may purchase the certificates.

*Uncertain market for the certificates could make them difficult to sell and cause their values to fluctuate.* We cannot be sure that a market for resale of the certificates will develop. Fur-

ther, if a market develops, it may not continue or be sufficiently liquid to allow you to sell your certificates. Even if you are able to sell your certificates, the sale price may not be comparable to similar investments that have a developed market. Moreover, you may not be able to sell small or large amounts of certificates at prices comparable to those available to other investors. You should purchase certificates only if you understand and can tolerate the risk that the value of your certificates will vary over time and that your certificates may not be easily sold.

*If we could not perform our obligations, including our guaranty, the yields on your certificates could be reduced.* If we were unable to perform our guaranty obligations, distributions on the certificates generally would be limited to borrower payments and other recoveries on the mortgage loans backing the MBS. As a result, delinquencies and defaults on the underlying mortgage loans could directly and adversely affect the amounts that certificateholders would receive each month. In addition, if we repurchase a delinquent underlying mortgage loan from the related MBS trust in return for payments to be made over an extended period, our failure to make the payments would directly and adversely affect the amounts that certificateholders would receive each month because the mortgage loan itself would likely have been liquidated.

Furthermore, if we were unable to issue any debt obligations required to be delivered to the issuing trust under the circumstances described in this prospectus, any unscheduled principal payments received on the MBS would be distributed to the certificateholders as received. Finally, if we issue any such debt obligations and fail to repay the amounts due thereunder, the certificateholders would bear the associated losses since the debt obligations will represent unsecured corporate obligations of Fannie Mae.

## DESCRIPTION OF THE CERTIFICATES

The material under this heading summarizes certain features of the Certificates. You will find additional information about the Certificates in the other sections of this prospectus, as well as in the additional Disclosure Documents and the Trust Agreement. If we use a capitalized term in this prospectus without defining it, you will find the definition of that term in the applicable Disclosure Document or in the Trust Agreement.

### General

*Structure.* We will create a trust (the “REMIC Trust”) pursuant to a trust agreement dated as of October 1, 2003 (the “REMIC Trust Agreement”). The REMIC Trust will be treated as a “real estate mortgage investment conduit” (“REMIC”) under the Internal Revenue Code of 1986, as amended (the “Code”).

- The interests issued from the REMIC Trust (other than the R Class) will be the “regular interests” in the REMIC (the “REMIC Regular Interests”).
- The R Class will be the “residual interest” in the REMIC Trust.

The assets of the REMIC Trust will consist of certain Fannie Mae Guaranteed Mortgage Pass-Through Certificates (the “MBS”). Each MBS represents a beneficial ownership interest in one or more fixed-rate balloon mortgage loans secured generally by first liens on multifamily properties having the characteristics described in this prospectus and on Exhibit A (each, a “Mortgage Loan” and, collectively, the “Mortgage Loans”).

We will create one or more issuing trusts under the designation specified on the cover of this prospectus (collectively, the “Issuing Trust”) pursuant to a separate trust agreement dated as of October 1, 2003 (the “Issuing Trust Agreement” and together with the REMIC Trust Agreement, the “Trust Agreement”). We will issue the Guaranteed Trust Pass-Through Certificates (the “Certificates” or “Classes”) pursuant to the Issuing Trust Agreement.

The assets of the Issuing Trust will consist of:

- the REMIC Regular Interests and
- any Fannie Mae debt obligations that we are required to deliver pursuant to an investment agreement with the Issuing Trust, in the event of the full or partial prepayment of any Mortgage Loan due to casualty, condemnation or certain other prepayments.

Any such debt obligations will be delivered in exchange for payment by the Issuing Trust of the amount of such unscheduled principal payment.

*Fannie Mae Guaranty.* We guarantee that we will pay to Certificateholders of the A, B and IO Classes required installments of interest on the Certificates on time. We also guarantee that we will pay principal of the Certificates as follows:

- to the A Class in amounts that correspond to the original amortization schedules of the Mortgage Loans without regard to any prepayments (including prepayments due to default, casualty or condemnation), with any remaining principal balance to be paid on the Final Distribution Date set forth on the cover of this prospectus, and
- to the B Class in a single payment of its entire principal balance on the Final Distribution Date set forth on the cover of this prospectus.

At all times, the notional principal balance of the IO Class will equal the sum of the outstanding balances of the A and B Classes.



In addition, we guarantee that we will timely pay to the REMIC Trust as holder of the MBS:

- scheduled installments of principal on each Mortgage Loan, together with interest at the applicable Net MBS Pass-Through Rate (defined below under “—Payments of Interest on the Certificates—Weighted Average Coupon Class”), whether or not the related borrower pays us; and
- the outstanding principal balance of each Mortgage Loan on its maturity date, whether or not the related borrower pays us.

Our guarantees are not backed by the full faith and credit of the United States. If we were unable to perform our guaranty obligations, Certificateholders would receive only the amounts paid on the related MBS. If that happened, those amounts generally would be limited to borrower payments and other recoveries on the Mortgage Loans. As a result, delinquencies and defaults on the Mortgage Loans could directly and adversely affect the amounts that Certificateholders would receive each month. **The Certificates, together with interest thereon, are not guaranteed by the United States and do not constitute a debt or obligation of the United States or any of its agencies or instrumentalities other than Fannie Mae.** We alone are responsible for making payments on our guaranty. See “Description of the Certificates—Fannie Mae Guaranty” in the MBS Prospectus.

*Characteristics of Certificates.* We will issue each Class of the Certificates (except the R Class) in book-entry form on the book-entry system of the U.S. Federal Reserve Banks (the “Fed Book-Entry Certificates”). Entities whose names appear on the book-entry records of a Federal Reserve Bank as having had Certificates deposited in their accounts are the “Holders” or “Certificateholders” of the Fed Book-Entry Certificates.

A Holder is not necessarily the beneficial owner of a Certificate. Beneficial owners ordinarily will hold Certificates through one or more financial intermediaries, such as banks, brokerage firms and securities clearing organizations. See “—Book-Entry Procedures” below.

We will issue the R Certificate in fully registered, certificated form. The “Holder” or “Certificateholder” of the R Certificate is its registered owner. The R Certificate can be transferred at the corporate trust office of our Transfer Agent, or at the office of the Transfer Agent in New York, New York. U.S. Bank National Association (“US Bank”) in Boston, Massachusetts will be the initial Transfer Agent. We may impose a service charge for any registration of transfer of the R Certificate and may require payment to cover any tax or other governmental charge. See also “—Special Characteristics of the R Certificate” below.

The Holder of the R Certificate will receive the proceeds of any assets remaining in the REMIC Trust after the final distribution to the other Classes by presenting and surrendering the R Certificate at the office of the Paying Agent. US Bank will be the initial Paying Agent.

*Authorized Denominations.* We will issue the Certificates, other than the R Certificate, in minimum denominations of \$1,000 and whole dollar increments. We will issue the R Certificate as a single Certificate with no principal balance.

*Distribution Dates.* We will make monthly payments on the Certificates on the 25th day of each month (or, if the 25th day is not a business day, on the first business day after the 25th). We refer to each such date as a “Distribution Date.” We will make the first payments to Certificateholders the month after we issue the Certificates.

*Record Date.* On each Distribution Date, we will make each monthly payment on the Certificates to Holders of record on the last day of the preceding month.

*Class Factors.* On or shortly after the eleventh day of each month, we will publish a factor (carried to eight decimal places) for each Class of Certificates. When the factor is multiplied by the original principal balance (or notional principal balance) of a Certificate of that Class, the product will



equal the current principal balance (or notional principal balance) of that Certificate after taking into account payments on the Distribution Date in the same month.

## **Book-Entry Procedures**

*General.* The Fed Book-Entry Certificates will be issued and maintained only on the book-entry system of the Federal Reserve Banks. The Fed Book-Entry Certificates may be held of record only by entities eligible to maintain book-entry accounts with the Federal Reserve Banks. Beneficial owners ordinarily will hold Fed Book-Entry Certificates through one or more financial intermediaries, such as banks, brokerage firms and securities clearing organizations. A Holder that is not the beneficial owner of a Fed Book-Entry Certificate, and each other financial intermediary in the chain to the beneficial owner, will have to establish and maintain accounts for their respective customers. A beneficial owner's rights with respect to us and the Federal Reserve Banks may be exercised only through the Holder of the related Certificate. Neither we nor the Federal Reserve Banks will have any direct obligation to a beneficial owner of a Fed Book-Entry Certificate that is not the Holder of that Certificate. The Federal Reserve Banks will act only upon the instructions of the Holder in recording transfers of a Fed Book-Entry Certificate.

We have a fiscal agency agreement in effect with the Federal Reserve Bank of New York. Under this agreement, the regulations (found at 24 C.F.R. Part 81, Subpart E) that govern our use of the book-entry system and the pledging and transfer of interests apply to the Fed Book-Entry Certificates. These regulations may be modified, amended, supplemented, superseded, eliminated or otherwise altered without the consent of any Certificateholder. The Federal Reserve Banks' operating circulars and letters also apply. The Fed Book-Entry Certificates are freely transferable on the records of any Federal Reserve Bank but are not convertible to physical certificates. Certificates maintained on the book-entry system of a Federal Reserve Bank can be separately traded and owned.

*Method of Payment.* Our fiscal agent for the Fed Book-Entry Certificates is the Federal Reserve Bank of New York. On each Distribution Date, the Federal Reserve Banks, acting on our behalf, will make payments on the Fed Book-Entry Certificates by crediting Holders' accounts at the Federal Reserve Banks.

## **The MBS**

*General.* Each MBS represents a beneficial ownership interest in one or more Mortgage Loans secured generally by first mortgages on apartment complexes with at least five residential units. The Mortgage Loans generally were originated to conform with our Multifamily Delegated Underwriting and Servicing ("DUS") product line requirements, as described in the DUS Guide (except where we have granted a waiver). The MBS provide that all scheduled principal payments, if any, and a portion of the scheduled interest payments on the related Mortgage Loans will be passed through monthly. The general characteristics of the MBS are described in the MBS Prospectus and the more specific characteristics of each MBS are described in the related MBS Prospectus Supplement. Certificateholders are advised, however, to rely on the class factors published for their Classes of Certificates and not on any class factors published for the MBS.

The characteristics of the MBS and the related Mortgage Loans as of October 1, 2003 (the "Issue Date") are set forth on Exhibit A.

*Default.* If a Mortgage Loan is delinquent for at least four consecutive monthly payments, we have the option to repurchase that loan from the pool backing the related MBS in return for our obligation to make all scheduled principal payments on that loan in accordance with its original amortization schedule, together with interest thereon at the related Net MBS Pass-Through Rate. As a result, our repurchase of the defaulted Mortgage Loan will have no effect on the payments required to be made to Certificateholders and principal will continue to be paid on the basis of the original amortization schedule and maturity date of the defaulted Mortgage Loan.

## Payments of Interest on the Certificates

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

<u>Interest Type*</u>	<u>Classes</u>
Fixed Rate	A and B
Weighted Average Coupon	IO
Interest Only	IO
No Payment Residual	R

\* See “—Class Definitions and Abbreviations” below.

*General.* We will pay interest on the A, B and IO Classes at the applicable annual interest rates shown on the cover or described in this prospectus. We calculate interest on the certificates based on an assumed 360-day year consisting of twelve 30-day months. We pay interest monthly on each Distribution Date, beginning in the month after the Settlement Date specified in the Reference Sheet. Interest to be paid on each Certificate on a Distribution Date will consist of one month’s interest on the outstanding balance of the Certificate immediately prior to that Distribution Date.

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

<u>Classes</u>	<u>Interest Accrual Period</u>
A, B and IO (collectively, the “Delay Classes”)	Calendar month preceding the month in which the Distribution Date occurs

See “Risk Factors—*Delay classes have lower yields and market values*” in this prospectus.

*Notional Class.* The IO Class is a Notional Class and will not have a principal balance. During each Interest Accrual Period, the IO Class will bear interest on its notional principal balance at its applicable interest rate. The notional principal balance of the IO Class will be calculated as indicated under “Reference Sheet—Notional Class” in this prospectus.

We use the notional principal balance of the IO Class to determine its interest payments. Although the IO Class will not have a principal balance and will not be entitled to any principal payments, we will publish a class factor for it. References in this prospectus to the principal balances of the Certificates generally will refer also to the notional principal balance of the IO Class.

*Weighted Average Coupon Class.* During the initial Interest Accrual Period, the IO Class will bear interest at the annual rate specified on the cover of this prospectus. The IO Class will bear interest during each subsequent Interest Accrual Period at an annual rate equal to the *excess* of the Net MBS WAC Rate for such Interest Accrual Period *over* the weighted average of the rates on the A and B Classes, based on their respective outstanding principal balances as of the last day of such Interest Accrual Period.

The “Net MBS WAC Rate” with respect to any Interest Accrual Period equals the weighted average of the Net MBS Pass-Through Rates for such Interest Accrual Period, weighted on the basis of the scheduled principal balances of the MBS as of the last day of such Interest Accrual Period, calculated on the basis of the original amortization schedules of the Mortgage Loans and without regard to any actual prepayments of principal of the Mortgage Loans. The “Net MBS Pass-Through Rate” of each MBS is specified on Exhibit A. If the interest on the related Mortgage Loan is calculated on an actual/360 basis (see “Description of the Mortgage Loans—General” in this prospectus), then, for purposes of calculating the Net MBS WAC Rate with respect to an Interest Accrual Period during which other than 30 days’ interest accrued on such Mortgage Loan, the related Net MBS Pass-

Through Rate will be converted to a 30/360 equivalent rate. In connection with the foregoing, a single day's net interest received for each of the months of December and January will be allocated to the following February in each year, except that in a leap year the 31st day of interest in the preceding December will not be allocated to the relevant February.

Our determination of the interest rate for the IO Class will be final and binding in the absence of manifest error. You may obtain the interest rate by telephoning us at 1-800-237-8627.

## Payments of Principal of the Certificates

*Categories of Classes.* For the purpose of principal payments, the Classes fall into the following categories:

<u>Principal Type*</u>	<u>Classes</u>
Amortizing	A
Single Payment	B
Notional	IO
No Payment Residual	R

\* See "—Class Definitions and Abbreviations" below.

*Scheduled Amortization Payments.* On each Distribution Date prior to the Final Distribution Date, we will pay principal of the A Class in amounts that correspond to the original amortization schedules of the Mortgage Loans. } Amortizing Class

*Balloon Payment.* On the Final Distribution Date, we will pay an amount equal to any remaining principal balance of the A Class to the Holders of the A Class and the entire principal balance of the B Class to the Holders of the B Class. } Amortizing Class and Single Payment Class

*Casualty, Condemnation or Other Prepayment.* As of the Settlement Date, Fannie Mae will enter into a forward purchase agreement with the Issuing Trust (the "Investment Agreement") relating to certain prepayments received on the MBS due to casualty, condemnation or other prepayments not resulting from defaults on the Mortgage Loans. Under the Investment Agreement, when a Mortgage Loan is prepaid, in whole or in part, as a result of the payment of a casualty insurance claim or a condemnation award, or if a Mortgage Loan is prepaid in circumstances in which the prepayment lockout terms are held to be unenforceable, we will deposit in the Issuing Trust, in exchange for such prepayment, Fannie Mae debt obligations for the benefit of each Class so that the scheduled payment amounts due for such Class will continue to be made. The payment terms of any such debt obligations will, either by themselves in the case of a prepayment in full, or together with the partially prepaid Mortgage Loan, be identical to the payments reflected in the original amortization schedule for that Mortgage Loan which are required to be passed through to the Certificateholders. As a result, any casualty or condemnation proceeds or other prepayment of a Mortgage Loan as described above will have no effect on the payments required to be made to Certificateholders, and principal will continue to be paid on the basis of the original amortization schedule and maturity date of the related Mortgage Loan.

*Principal Balance Schedules.* Exhibit B to this prospectus sets forth the remaining principal balances of the A Class and B Class and the remaining notional principal balance of the IO Class on each Distribution Date, after giving effect to payments of principal scheduled to be made on that date.

## Class Definitions and Abbreviations

Classes of Certificates fall into different categories. The following chart identifies and generally defines these categories. The first column of the chart shows our abbreviation for each category. We identify the categories of Classes of Certificates on the cover page of this prospectus by means of one or more of these abbreviations.

<u>Abbreviation</u>	<u>Category of Class</u>	<u>Definition</u>
<b>INTEREST TYPES</b>		
FIX	Fixed Rate	A Class whose interest rate is fixed throughout the life of the Class.
IO	Interest Only	A Class that receives a portion of the interest payments made on the underlying MBS, but no principal. A notional principal balance is the amount used as a reference to calculate the amount of interest due on an Interest Only Class.
NPR	No Payment Residual	A Class that represents the “residual interest” in a REMIC and is designed to receive no payments of interest.
WAC	Weighted Average Coupon	A Class whose Class coupon represents blended interest rates that may change from period to period.
<b>PRINCIPAL TYPES</b>		
AMZ	Amortizing	A Class that is designed to receive principal payments in direct relation to scheduled payments on the underlying mortgage loans.
NPR	No Payment Residual	A Class that represents the “residual interest” in a REMIC and is designed to receive no payments of principal.
NTL	Notional	A Class having no principal balance that bears interest on the related notional principal balance. The notional principal balance is the amount used as a reference to calculate the amount of interest due on an Interest Only Class.
SP	Single Payment	A Class that is designed to receive a single principal payment on its final distribution date.

## Special Characteristics of the R Certificate

The R Class will not have a principal balance and will not bear interest. If any assets of the REMIC Trust remain after the principal balances of the A and B Classes are reduced to zero, we will pay the Holder of the R Certificate the proceeds from the REMIC Trust. We do not expect that any material assets will remain in the REMIC Trust at such time.

No R Certificate may be transferred to a “disqualified organization” or to anyone acting on behalf of a disqualified organization. The term “transfer” can include any transfer of record ownership or of beneficial ownership, whether as a result of a sale, gift, pledge, default or otherwise. The term “disqualified organization” includes the United States, any state or other political subdivision, any foreign government, any international organization, or any agency or instrumentality of any of them (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 a tax on unrelated business income. Each person or entity to which an R Certificate is transferred will be required to execute an affidavit, acceptable to us, stating that:

- the transferee is a “U.S. Person” (as defined below) or a foreign person subject to United States income taxation on a net basis on income derived from the R Certificate,

- if the transferee is a partnership for U.S. federal income tax purposes, each person or entity that holds an interest (directly, or indirectly through a pass-through entity) in the partnership is a U.S. Person or a foreign person subject to United States income taxation on a net basis on income derived from the R Certificate,
- the transferee is not a disqualified organization,
- it is not acquiring the R Certificate for the account of a disqualified organization,
- it consents to any amendment of the Trust Agreement that we deem necessary (upon the advice of our counsel) to ensure that the R Certificate will not be owned directly or indirectly by a disqualified organization,
- it is not acquiring the R Certificate to avoid or impede the assessment or collection of tax,
- it understands that it may incur tax liabilities in excess of any cash that it will receive on the R Certificate,
- it intends to pay taxes on the R Certificate as they become due,
- it will not cause income from the R Certificate to be attributed to a foreign permanent establishment or fixed base of the transferee or another taxpayer, and
- it will not transfer the R Certificate unless it has received from the new transferee an affidavit containing the same representations listed above and it does not have actual knowledge that this other affidavit is false.

See “Certain Federal Income Tax Consequences—Taxation of Beneficial Owners of the R Certificate—*R Certificate Transferred to or Held by Disqualified Organizations*” in this prospectus. The transferee also must deliver a properly executed IRS Form W-9 (or, if applicable, a Form W-8ECI) with its taxpayer identification number. In addition, if a pass-through entity (including a nominee) holds the R Certificate, it may be subject to additional taxes if a disqualified organization is a record holder in the entity.

The R Certificate may not be transferred to any person that is not a (i) U.S. Person or (ii) a foreign person subject to United States income taxation on a net basis on income derived from the R Certificate. The term “U.S. Person” means

- a citizen or resident of the United States,
- a corporation, partnership or other entity created under the laws of the United States or any of its states or the District of Columbia,
- 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”), if a “noneconomic residual interest” is transferred, the transfer will be disregarded for all federal income tax purposes unless no significant purpose of the transfer is to impede the assessment or collection of tax. The R Certificate will constitute a noneconomic residual interest.

Under the Regulations, the phrase “a significant purpose of the transfer is to impede the assessment or collection to tax” means that the transferor of the R Certificate had “improper knowledge” at the time of the transfer. In other words, the transferor 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 REMIC. A transferor is presumed not to have improper knowledge if four conditions are met. First, the transferor conducts, at the time of the transfer, a reasonable investigation of the financial condition of the transferee and, based on the results, finds that the transferee has historically paid its debts as they become due and finds no significant evidence to indicate that the transferee will not continue to pay its debts as they become due in the future. Second, the transferee makes certain representations to the transferor in the affidavit relating to disqualified organizations discussed above. Third, the transfer satisfies either the “asset test” or the “formula test.”

A transfer satisfies the asset test if (i) the transferee’s gross assets exceed \$100 million and its net assets exceed \$10 million (in each case, at the time of the transfer and at the close of each of the transferee’s two fiscal years preceding the year of transfer), (ii) the transferee is an “eligible corporation” and the transferee agrees in writing that any subsequent transfer of the R Certificate will be to an eligible corporation and will comply with the safe harbor and satisfy the asset test, and (iii) the facts and circumstances known to the transferor do not reasonably indicate that the taxes associated with the R Certificate will not be paid. A transfer satisfies the formula test if the present value of the anticipated tax liabilities associated with holding the R Certificate is less than or equal to the present value of the sum of (i) any consideration given to the transferee to acquire the R Certificate, (ii) expected future distributions on the R Certificate, and (iii) anticipated tax savings associated with holding the R Certificate as the related REMIC trust generates losses. The Regulations contain additional details regarding their application and you should consult your own tax advisor regarding the application of the Regulations to a transfer of the R Certificate.

The Holder of the R Certificate will be considered to be the holder of the “residual interest” in the REMIC Trust. See “Certain Federal Income Tax Consequences—REMIC Election and Special Tax Attributes” in this prospectus. Pursuant to the Trust Agreement we will be obligated to provide to the Holder of the R Certificate (i) information needed to prepare federal income tax returns and (ii) any reports regarding the R Certificate that may be required under the Code.

## **Structuring Assumptions**

The information in the tables in this prospectus has been prepared based on the assumptions that the settlement date for the sale of the Certificates is October 30, 2003 and that each Distribution Date occurs on the 25th day of a month.

## **Yield Table**

The table below illustrates the sensitivity of the pre-tax corporate bond equivalent yield to maturity of the IO Class to various assumed purchase prices. We calculated the yields set forth in the table by

- determining the monthly discount rate that, when applied to the assumed stream of cash flows to be paid on the IO Class, would cause the discounted present value of the assumed stream of cash flows to equal the assumed aggregate purchase price of the IO Class, and
- converting the monthly rates to corporate bond equivalent rates.

These calculations do not take into account variations in the interest rates at which you could reinvest distributions on the IO Certificates. Accordingly, these calculations do not illustrate the return on any investment in the IO Certificates when reinvestment rates are taken into account.



### Pre-Tax Yields to Maturity of the IO Class

<u>Assumed Price*</u>	<u>Pre-Tax Yield</u>
0.55% .....	10.0%
0.60% .....	7.5%
0.65% .....	5.4%
0.70% .....	3.5%
0.75% .....	1.7%
0.80% .....	0.2%

\* The prices do not include accrued interest. Accrued interest has been added to the prices in calculating the yields set forth in the table above.

### Weighted Average Lives of the Certificates

The weighted average life of a Certificate is determined by

- (a) multiplying the amount of the reduction, if any, of the principal balance of the 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 the Certificate referred to in clause (a).

The weighted average life of the Certificates of each Class (other than the R Class) will depend on the payment of principal (or reduction of the notional principal balance) of that Class.

## Decrement Table

The following table indicates the percentages of original principal balances (or notional principal balances) that would be outstanding after each date shown.

### Percent of Original Principal Balances Outstanding

<u>Date</u>	<u>A Class</u>	<u>B Class</u>	<u>IO Class†</u>
Initial Percent .....	100	100	100
October 2004 .....	92	100	99
October 2005 .....	83	100	97
October 2006 .....	73	100	96
October 2007 .....	63	100	94
October 2008 .....	53	100	92
October 2009 .....	42	100	90
October 2010 .....	31	100	89
October 2011 .....	18	100	87
October 2012 .....	6	100	84
October 2013 .....	0	0	0
Weighted Average			
Life (years)** .....	5.1	9.4	8.7

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

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

## DESCRIPTION OF THE MORTGAGE LOANS

### General

The Mortgage Loans are fixed-rate mortgage loans secured primarily by first mortgages on apartment complexes with at least five residential units. Two of the Mortgage Loans are 30/360 loans, where interest is calculated on the basis of an assumed 360-day year assumed to consist of twelve 30-day months. Each 30/360 Mortgage Loan provides for monthly payments of principal and interest in amounts sufficient to amortize the loan on a 30-year schedule with a balloon payment due in March 2013. The other Mortgage Loans are actual/360 loans, where interest is calculated on the basis of the actual number of days elapsed in the related interest accrual period and a year assumed to consist of 360 days. While the actual/360 Mortgage Loans also provide for monthly payments of principal and interest, they generate more interest and amortize at a slower rate than an otherwise comparable 30/360 Mortgage Loan. As a result, actual/360 Mortgage Loans will have a larger balloon payment due in March 2013 than an otherwise comparable 30/360 Mortgage Loan. See Exhibit A to this prospectus and the related MBS Prospectus Supplements for additional information concerning the Mortgage Loans.

The Mortgage Loans were originated to conform generally with our DUS product line requirements, as described in the DUS Guide (except where we have granted a waiver). The DUS program provides market-rate financing to multifamily borrowers. Fannie Mae DUS-approved lenders are required to conform to the lender qualifications and underwriting guidelines set forth in our DUS Guide. DUS lenders generally retain a “first loss” position with respect to each of their respective DUS mortgage loans.

Multifamily lending is generally viewed as exposing the lender to a greater risk of loss than one- to four-family residential lending. Multifamily lending typically involves larger loans to single borrowers or groups of related borrowers than does lending on one- to four-family residences. Further, the repayment of loans secured by income-producing properties is typically dependent on the successful

operation of the related real estate project. If the cash flow from the project is reduced (for example, if leases are not obtained or renewed), the borrower's ability to repay the loan may be impaired. Multifamily real estate can be affected significantly by the supply and demand in the market for the type of property securing the loan and, therefore, may be subject to adverse economic conditions. Market values may vary as a result of economic events or governmental regulations outside the control of the borrower or lender, such as rent control laws, which impact the future cash flow of the property.

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

*Prepayment Lockouts.* Each of the Mortgage Loans prohibits voluntary prepayment for the life of the loan. These lockout provisions may not be enforceable under the laws of certain states. Even if a Mortgage Loan is prepaid for any reason, including as a result of default, casualty or condemnation, no principal will be paid to Certificateholders other than in accordance with the original amortization schedule and maturity date of each Mortgage Loan, unless Fannie Mae is unable to perform its obligations under the Trust Agreement.

*Defeasance.* Each of the Mortgage Loans provides that the borrower may make a “defeasance election” during certain periods. If a defeasance election is properly made for a Mortgage Loan, the borrower will deliver eligible investments to Fannie Mae as substitute collateral for the related Mortgage Loan, and Fannie Mae will release the mortgaged property from the lien of the related mortgage. In each such case, the MBS backed by the related Mortgage Loan will remain outstanding and payments on the Mortgage Loan will continue to be required in accordance with its original amortization schedule and maturity date.

## **THE TRUST AGREEMENT**

We summarize below certain provisions of the Trust Agreement that are not discussed elsewhere in this prospectus. However, you must understand that these summaries are not complete. If there is ever a conflict between the information in this prospectus and the actual terms of the Trust Agreement, the terms of the Trust Agreement will prevail.

### **Transfer of Assets to the Trust**

The Trust Agreement will contain a mortgage security schedule that will identify the MBS and any other assets that are being transferred to the REMIC Trust and an asset schedule that will identify the REMIC Regular Interests that are being transferred to the Issuing Trust and any Fannie Mae debt obligations that we are required to deliver to the Issuing Trust from time to time. As trustee, we will hold the MBS, the REMIC Regular Interests and any other assets for the Holders of the Certificates.

### **Certain Fannie Mae Matters**

We may not resign from our duties under the Trust Agreement unless a change in law requires it. Even then, our resignation would not become effective until a successor has assumed our duties under the Trust Agreement. In no event, however, would any successor take over our guaranty obligations. Even if our other duties under the Trust Agreement should terminate, we would still be obligated under our guaranty.

We are not liable under the Trust Agreement to the Trust or to Certificateholders for our errors in judgment or for anything we do, or do not do, in good faith. This also applies to our directors, officers, employees and agents. Nevertheless, neither we nor they will be protected from liability that results from willful misfeasance, bad faith or gross negligence or as a result of a willful disregard of duties.

The Trust Agreement also provides that we may refuse involvement in any legal action that we think will expose us to expense or liability unless the action is related to our duties under the Trust Agreement. On the other hand, we may decide to participate in legal actions if we think our

participation would be in the interests of the Certificateholders. In this case, we will pay our legal expenses and costs.

If we merge or consolidate with another corporation, the successor corporation will be our successor under the Trust Agreement.

### **Voting Under the MBS Trust Indenture**

The holders of a certain minimum percentage ownership in MBS will have the right to terminate certain of our duties under the related indenture (the “MBS Trust Indenture”), if there is an event of default under the MBS Trust Indenture.

Under the Issuing Trust Agreement, if there is an event of default under the MBS Trust Indenture, voting among the A Class, B Class and IO Class Certificateholders with respect to their indirect beneficial ownership interests in the MBS will be allocated as follows: the IO Class will hold 1% of the voting rights, and each of the A and B Classes will hold its pro rata share (by balance) of the remaining 99% of the voting rights. Under the REMIC Trust Agreement, if there is an event of default under the MBS Trust Indenture, voting among the A1 Class, B1 Class and IO1 Class Certificateholders with respect to their direct beneficial ownership interests in the MBS will be allocated as follows: the IO1 Class will hold 1% of the voting rights and each of the A1 and B1 Classes will hold its pro rata share (by balance) of the remaining 99% of the voting rights. Solely for the purpose of determining the voting rights allocation under the REMIC Trust Agreement, the principal balances of the A1 Class, B1 Class and IO1 Class will at all times be deemed to equal the outstanding principal balances of the A Class, B Class and IO Class, respectively.

The holders of a certain minimum percentage ownership in MBS may give their consent to an amendment or waiver of the terms of the MBS Trust Indenture. The Trust Agreement, however, does not permit us, as trustee, to vote the MBS in favor of an amendment or waiver unless we have been directed to do so by Holders of Certificates entitled to at least 51% of the voting rights.

### **Events of Default**

Any of the following will be considered an “Event of Default” under the Trust Agreement:

- if we fail to pay Certificateholders of a Class any required amount and our failure continues uncorrected for 15 days after Certificateholders owning at least 5% of that Class have given us written notice;
- if we fail in a material way to fulfill any of our obligations under the Trust Agreement and our failure continues uncorrected for 60 days after Certificateholders owning at least 25% of any Class have given us written notice; or
- if we become insolvent or unable to pay our debts when due or if other events of insolvency occur.

### **Rights upon Event of Default**

If any of the Events of Default under the Trust Agreement has occurred and continues uncorrected, Certificateholders who own at least 25% of any Class have the right to terminate, in writing, all of our obligations under the Trust Agreement. These obligations include our duties as trustee as well as in our corporate capacity. However, our guaranty obligations will continue in effect. The same proportion of Certificateholders also may appoint, in writing, a successor to assume all of our terminated obligations. This successor will take legal title to the MBS and other assets of the Trust.

## **Amendment**

We may amend the Trust Agreement, without notifying the Certificateholders or obtaining their consent, for any of the following purposes:

- to add to our duties;
- to evidence that another party has become our successor and has assumed our duties under the Trust Agreement as trustee or in our corporate capacity or both;
- to eliminate any of our rights in our corporate capacity under the Trust Agreement;
- to cure any ambiguity or correct or add to any provision in the Trust Agreement, so long as no Certificateholder is adversely affected; and
- to modify the Trust Agreement to maintain the legal status of the REMIC Trust as a REMIC and of the Issuing Trust as one or more trusts under subpart E of part I of subchapter J of the Code.

If Certificateholders who own at least 66% of each Class give their consent, we may amend the Trust Agreement to eliminate, change or add to its terms or to waive our compliance with any of those terms. Nevertheless, we may not terminate or change our guaranty obligations or reduce the percentage of Certificateholders who must consent to the types of amendments listed in the previous sentence. In addition, unless each affected Certificateholder consents, no amendment may reduce or delay the funds that we must pay on any Certificate. Similarly, unless the Holder of the R Certificate gives its consent, no amendment may adversely affect its rights.

## **Termination**

The REMIC Trust and the Issuing Trust will terminate when we have paid the Certificateholders all required interest and principal amounts and not before. In addition, we will not terminate any related MBS trust early except in the case of a repurchase or prepayment in full of a Mortgage Loan that is the sole Mortgage Loan backing that MBS.

## **CERTAIN FEDERAL INCOME TAX CONSEQUENCES**

The Certificates and payments on the Certificates are not generally exempt from taxation. Therefore, you should consider the tax consequences of holding a Certificate before you acquire one. The following tax discussion describes certain federal income tax consequences to beneficial owners of Certificates. The discussion is general and does not purport to deal with all aspects of federal taxation that may be relevant to particular investors. This discussion may not apply to your particular circumstances for one of the following, or other, reasons:

- This discussion is based on federal tax laws in effect as of the date of this prospectus. Changes to any of these laws after the date of this prospectus may affect the tax consequences discussed below.
- This discussion addresses only Certificates acquired at original issuance and held as “capital assets” (generally, property held for investment).
- This discussion does not address tax consequences to beneficial owners subject to special rules, such as dealers in securities, certain traders in securities, banks, tax-exempt organizations, life insurance companies, persons that hold Certificates as part of a hedging transaction or as a position in a straddle or conversion transaction, or persons whose functional currency is not the U.S. dollar.
- This discussion does not address taxes imposed by any state, local or foreign taxing jurisdiction.

For these reasons, you should consult your own tax advisors regarding the federal income tax consequences of holding and disposing of Certificates as well as any tax consequences arising under the laws of any state, local or foreign taxing jurisdiction.

The topics in this discussion are addressed in the order of the following captions:

- Classification of the Issuing Trust
- Taxation of Beneficial Owners of A and B Class Certificates
- REMIC Election and Special Tax Attributes
- Taxation of REMIC Regular Interests
- Taxation of the Investment Agreement and the Fannie Mae Debt Obligations
- Taxation of Beneficial Owners of IO Class Certificates
- Taxation of Beneficial Owners of the R Certificate
- Taxation of the REMIC Trust
- Information Reporting and Backup Withholding
- Foreign Investors

### **Classification of the Issuing Trust**

Our special tax counsel, Arnold & Porter, will deliver its opinion that, assuming compliance with the Trust Agreement, the Issuing Trust should be classified as one or more trusts under subpart E of part I of subchapter J of the Code and will not be classified as an association taxable as a corporation or as a taxable mortgage pool.

The Issuing Trust will hold the REMIC Regular Interests issued by the REMIC Trust, one corresponding to each Class of Certificates (other than the R Class). In addition, the Issuing Trust will have entered into the Investment Agreement relating to the REMIC Regular Interests. Pursuant to the Investment Agreement, the Issuing Trust will be obligated to invest any unscheduled principal payment on a REMIC Regular Interest in Fannie Mae debt obligations.

It is possible that the IRS could assert that the Issuing Trust does not constitute a grantor trust for federal income tax purposes because, as a result of the investment agreement, the assets of the Issuing Trust may change over time, even though the investment agreement will preclude the Trustee from exercising any discretion regarding the investments to be purchased pursuant to the investment agreement. If the IRS were to succeed with that position, the Issuing Trust would be classified as a partnership under the entity classification regulations. In that event, however, the Issuing Trust would not be treated as a publicly-traded partnership taxable as a corporation because the income of the Issuing Trust would constitute “qualifying income” within the meaning of section 7704(d) of the Code. Alternatively, the IRS could assert that the A and B Class Certificates constitute indebtedness of Fannie Mae secured by the REMIC Regular Interests. If the IRS were to assert this position successfully, a beneficial owner of an A Class or B Class Certificate would be taxed as if the Certificate represented a Fannie Mae debt obligation, which is taxed as described under “—Taxation of the Investment Agreement and the Fannie Mae Debt Obligations” below. In neither case, however, would the Issuing Trust be subject to federal income taxation.

You should consult your tax advisor regarding the tax consequences to you if the IRS were to successfully assert that the Issuing Trust should be taxed other than as a grantor trust or that the A Class or B Class Certificates should be taxed as indebtedness of Fannie Mae. The remainder of the discussion assumes that the Issuing Trust is properly characterized as a grantor trust and that the A, B and IO Class Certificates represent beneficial ownership interests in that grantor trust.

### **Taxation of Beneficial Owners of A and B Class Certificates**

Each beneficial owner of an A Class or B Class Certificate will be treated



- as holding an undivided interest in the corresponding REMIC Regular Interest,
- as having entered into an investment agreement corresponding to that REMIC Regular Interest, and
- as holding an undivided interest in any Fannie Mae debt obligations acquired pursuant to that investment agreement.

Consequently, each beneficial owner of an A Class or B Class Certificate will be required to report its pro rata share of income accruing with respect to the corresponding REMIC Regular Interest, as discussed under “—Taxation of REMIC Regular Interests” below. In addition, each beneficial owner of an A Class or B Class Certificate will be required to report its pro rata share of income with respect to any corresponding Fannie Mae debt obligations, as discussed under “—Taxation of the Investment Agreement and Fannie Mae Debt Obligations” below. Also, a beneficial owner of an A Class or B Class Certificate will be required to treat the sale or other disposition of the Certificate as a sale or other disposition of a pro rata portion of the corresponding REMIC Regular Interest, the corresponding investment agreement and any corresponding Fannie Mae debt obligation.

It is possible that the IRS could assert that, with respect to an A Class or B Class Certificate, the corresponding REMIC Regular Interest, the corresponding investment agreement and any corresponding Fannie Mae debt obligations should be reported on an integrated basis. That is, all cash flows with respect to these three components should be treated as amounts payable to a beneficial owner of an A Class or B Class Certificate with respect to a single transaction. You should consult your own tax advisor regarding the consequences to you if the IRS were to assert this position successfully. For federal income tax information reporting purposes, we intend to treat the three components with respect to an A Class or B Class Certificate separately (and therefore not on an integrated basis), as further described below.

### ***Allocations with Respect to an A Class or B Class Certificate***

A beneficial owner of an A Class or B Class Certificate must allocate its cost to acquire the Certificate between the corresponding REMIC Regular Interest and the related investment agreement and any Fannie Mae debt obligations based on their relative fair market values as of the date the Certificate is acquired. When a beneficial owner sells or disposes of the Certificate, the beneficial owner must allocate the sale proceeds among the corresponding REMIC Regular Interest, the related investment agreement and any corresponding Fannie Mae debt obligations based on their relative fair market values as of the date of the sale or disposition. In light of the issue prices of the A and B Class Certificates, the remoteness of the circumstances under which a Fannie Mae debt obligation will be purchased pursuant to the Investment Agreement, and the price at which the Fannie Mae debt obligations would be purchased pursuant to the Investment Agreement, no value will be assigned to the investment agreement corresponding to the A Class or B Class Certificates for federal income tax information reporting purposes, and a beneficial owner that acquires an A Class or B Class Certificate at original issuance should allocate all of its cost to acquire that Certificate to the corresponding REMIC Regular Interest.

As a result of this allocation, a beneficial owner of an A Class or B Class Certificate may have a tax basis in the corresponding REMIC Regular Interest that is greater than the principal amount of that REMIC Regular Interest. In such a case, the beneficial owner generally would be treated as having acquired the REMIC Regular Interest at a premium and generally would be able to elect to amortize that premium over the remaining term of the REMIC Regular Interest. See “—Taxation of REMIC Regular Interests—*REMIC Regular Interests Purchased at a Premium*” below. Furthermore, the beneficial owner generally would accelerate the amortization of a portion of the premium in the event of an unscheduled payment of principal, reflecting the reduction in balance of an investment that was acquired at a premium.

In the case of the A and B Class Certificates, any such reduction with respect to a REMIC Regular Interest generally will be offset by the issuance of a Fannie Mae debt obligation required by the Investment Agreement. The IRS could assert that premium on a REMIC Regular Interest should not be accelerated in the event of an unscheduled payment of principal, but instead should be amortized over the remaining term of the corresponding Fannie Mae debt obligation purchased as a result of that unscheduled payment of principal. For example, the IRS could assert that wash sale, straddle or other provisions preclude you from amortizing premium using the “market discount fraction” of the corresponding REMIC Regular Interest. (See the discussion under “Taxation of REMIC Regular Interests—*REMIC Regular Interests Purchased with Market Discount*” regarding the market discount fraction.) You should consult your own tax advisor regarding the amortization of premium with respect to an A Class or B Class Certificate.

### ***Administrative Expenses of the Issuing Trust***

Each beneficial owner of a Certificate (other than the R Certificate) also will be required to include in income its pro rata share of the compensation paid to administer the Issuing Trust. In turn, a beneficial owner of a Certificate can deduct its allocable share of these expenses as provided in section 162 or section 212 of the Code, consistent with its method of accounting. A beneficial owner’s ability to deduct its share of these expenses is limited under section 67 of the Code in the case of (i) estates and trusts and (ii) individuals owning an interest in a Certificate directly or through an investment in a “pass-through entity” (other than in connection with such individual’s trade or business). Pass-through entities include partnerships, S corporations, grantor trusts, certain limited liability companies and non-publicly offered regulated investment companies, but do not include estates, non-grantor trusts, cooperatives, real estate investment trusts and publicly offered regulated investment companies. Generally, such a beneficial owner can deduct its share of these costs only to the extent that these costs, when aggregated with certain of the beneficial owner’s other miscellaneous itemized deductions, exceed 2% of the beneficial owner’s adjusted gross income. For this purpose, an estate or non-grantor trust computes adjusted gross income in the same manner as in the case of an individual, except that deductions for administrative expenses of the estate or trust that would not have been incurred if the property were not held in the estate or trust are treated as allowable in arriving at adjusted gross income. In addition, section 68 of the Code may provide for certain limitations on itemized deductions otherwise allowable for a beneficial owner who is an individual. Further, such a beneficial owner will not be able to deduct any portion of these costs in computing its alternative minimum tax liability.

Other deductions with respect to the Certificates are also subject to these limitations. See “—Taxation of REMIC Regular Interests—*Pass-Through of Servicing and Guaranty Fees to Individuals*” below.

### ***Tax Attributes of Certificates***

Although the Certificates will represent beneficial ownership in REMIC Regular Interests, which are afforded certain tax attributes under the Code (see “—REMIC Election and Special Tax Attributes” below), the interest in the related investment agreement and any Fannie Mae debt obligation represented by a Certificate will not constitute:

- a “real estate asset” within the meaning of section 856(c)(5)(B) of the Code,
- a “qualified mortgage” within the meaning of section 860G(a)(3) of the Code or a “permitted investment” within the meaning of section 860G(a)(5) of the Code, or
- an asset described in section 7701(a)(19)(C)(xi) of the Code.

Income received under any Fannie Mae debt obligation will not constitute income described in section 856(c)(3)(B) of the Code with respect to a real estate investment trust. As a result of the treatment of the related investment agreement and any Fannie Mae debt obligation under these

sections of the Code, the Certificates may not be a suitable investment for real estate investment trusts and generally will not be a suitable investment for REMICs.

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

We will elect to treat the REMIC Trust as a REMIC for federal income tax purposes. Arnold & Porter will deliver its opinion that, assuming compliance with the Trust Agreement, the REMIC Trust will be treated as a REMIC for federal income tax purposes. The REMIC Regular Interests will be designated as the “regular interests,” and the R Class will be designated as the “residual interest” in the REMIC constituted by the REMIC Trust.

The REMIC Regular Interests will be “regular or residual interest in a REMIC” within the meaning of section 7701(a)(19)(C)(xi) of the Code and “real estate assets” within the meaning of section 856(c)(5)(B) of the Code. If at any time during a calendar year less than 95% of the assets of the REMIC Trust consist of “qualified mortgages,” then the portion of the REMIC Regular Interests that are qualifying assets under those sections during the calendar year may be limited to the portion of the assets of the REMIC Trust that are “qualified mortgages.” Similarly, income on the REMIC Regular Interests 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 REMIC Trust should be treated as owning the assets represented by the MBS. In general, an MBS will be a “qualified mortgage” if the Mortgage Loans underlying that MBS are “principally secured by an interest in real property” within the meaning of section 860G(a)(3) of the Code. The assets of the REMIC Trust will include, in addition to MBS representing Mortgage Loans, payments on MBS held pending distribution on the REMIC Regular Interests and any reinvestment income thereon.

REMIC Regular Interests 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. The REMIC Regular Interests 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, but see the discussion under “—Taxation of Beneficial Owners of A and B Class Certificates—*Tax Attributes of Certificates*” above.

### **Taxation of REMIC Regular Interests**

The REMIC Trust will issue three REMIC Regular Interests, one corresponding to each Class of Certificates (other than the R Class). The REMIC Regular Interest corresponding to a Class of Certificates will be entitled to receive an amount equal to a specified portion of each principal and interest payment on each Mortgage Loan such that the aggregate of those amounts would fund the corresponding Class of Certificates, assuming no unscheduled payments of principal. All principal payable on a Mortgage Loan prior to the maturity date of the Mortgage Loan will be allocated to the REMIC Regular Interest corresponding to the A Class, and principal due on the maturity date of a Mortgage Loan will be allocated between the REMIC Regular Interest corresponding to the A Class and the REMIC Regular Interest corresponding to the B Class, based on the relative amounts of principal payable on the A Class and the B Class on the Final Distribution Date. In the event of an unscheduled payment of principal with respect to a Mortgage Loan, that prepayment will be allocated between the REMIC Regular Interests according to the relative amounts of principal from that Mortgage Loan that would have been paid to each REMIC Regular Interest had there been no prepayment.

For federal income tax purposes, the REMIC Regular Interests will be treated as debt instruments issued by a REMIC on the date when the Certificates are first sold to the public (the “Settlement Date”) and not as ownership interests in a REMIC or its assets. Interest, original issue discount and market discount with respect to a REMIC Regular Interest will represent ordinary income to the

beneficial owner of the REMIC Regular Interest (a “Regular Owner”). A Regular Owner is required to report interest under an accrual method of accounting, regardless of whether it otherwise reports income under a cash method of accounting. Rules regarding original issue discount and market discount are discussed below.

### ***Treatment of Original Issue Discount***

A REMIC Regular Interest 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 REMIC Regular Interest for each day during its taxable year on which it held the REMIC Regular Interest, generally in advance of receipt of the cash attributable to that income. We will supply to Holders, brokers and middlemen information with respect to the original issue discount, if any, accruing on the REMIC Regular Interests corresponding to the A and B Class Certificates. We will supply this information at the time and in the manner required by the IRS.

### ***Definition of Original Issue Discount***

In general, a REMIC Regular Interest 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 REMIC Regular Interest is the initial offering price to the public (excluding bond houses and brokers) at which a substantial amount of the REMIC Regular Interests 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 REMIC Regular Interest generally is its stated principal amount, plus an amount equal to the excess (if any) of the interest payable on the first Distribution Date over the interest that accrues for the period from the Settlement Date to the first Distribution Date. The stated redemption price at maturity of a REMIC Regular Interest that is an interest-only REMIC Regular Interest, however, is equal to the sum of all distributions to be made under that REMIC Regular Interest.

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

### ***Daily Portions of Original Issue Discount***

For REMIC Regular Interests 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. We 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 REMIC Regular Interest, if any, as of the end of the accrual period and (B) the distribution made on the REMIC Regular Interest during the accrual period of amounts included in the stated redemption price at maturity, over (ii) the adjusted issue price of the REMIC Regular Interest at the beginning of the accrual period. The present value of the remaining distributions will be calculated based on (i) the yield to maturity of the REMIC Regular Interest, calculated as of the Settlement Date, giving effect to the Prepayment Assumption, (ii) events (including actual prepayments) that have occurred prior to the end of the accrual period, (iii) the Prepayment Assumption, and (iv) in the case of a REMIC Regular Interest calling for a variable rate of interest, an assumption that the value of the index upon which the variable rate is based remains the same as its value on the Settlement Date over the entire life of the REMIC Regular Interest. The adjusted issue price of a REMIC Regular Interest at any time will equal the issue price of the REMIC Regular Interest, increased by the aggregate amount of previously accrued original issue discount with respect to the REMIC Regular Interest, and reduced by the amount of any distributions made on the REMIC Regular Interest 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. The Prepayment Assumption that will be used in determining the rate of accrual of original issue discount will assume that no Mortgage Loan prepays prior to its stated maturity date. We believe that the Prepayment Assumption for the REMIC Regular Interests is consistent with this standard. We make no representation, however, that the Mortgage Loans backing the MBS will prepay at the rate reflected in the Prepayment Assumption or at any other rate. You must make your own decision as to the appropriate prepayment assumption to be used in deciding whether or not to purchase any of the Certificates.

### ***Subsequent Holders' Treatment of Original Issue Discount***

If a REMIC Regular Interest is issued with original issue discount and a subsequent holder purchases the corresponding Certificate at a cost of less than its remaining stated redemption price at maturity, that holder also will be required to include in income the daily portion of original issue discount with respect to the REMIC Regular Interest for each day it holds the corresponding Certificate. If the cost of the REMIC Regular Interest to the subsequent holder exceeds the adjusted issue price of the REMIC Regular Interest, however, the holder can reduce the daily accruals by an amount equal to the product of (i) the daily portion and (ii) a constant fraction. The numerator of the constant fraction is the excess of the purchase price over the adjusted issue price of the REMIC Regular Interest, and the denominator is the sum of the daily portions of original issue discount on the REMIC Regular Interest for all days on or after the day of purchase.

### ***REMIC Regular Interests Purchased at a Premium***

A purchaser of a REMIC Regular Interest that purchases the REMIC Regular Interest at a cost (net of accrued interest) greater than its remaining stated redemption price at maturity will be considered to have purchased the REMIC Regular Interest at a premium (a "Premium REMIC Regular Interest"). 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 the premium as "amortizable bond premium." If a Regular Owner makes this election, the amount of any interest payment that must be

included in the Regular Owner's income for each period ending on a Distribution Date will be reduced by the portion of the premium allocable to the period based on the Premium REMIC Regular Interest's yield to maturity. In addition, the legislative history of the Tax Reform Act of 1986 states that premium should be amortized under principles analogous to those governing the accrual of market discount (as discussed below under "*—REMIC Regular Interests Purchased with Market Discount*"). If a Regular Owner elects to amortize premium, 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 fully taxable bonds thereafter acquired by it. A Regular Owner may revoke the election only with the consent of the IRS. If the election is not made, (i) 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 REMIC Regular Interest and, when each principal distribution is received, a loss equal to the premium allocated to the 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 REMIC Regular Interest. See "Taxation of Beneficial Owners of A and B Class Certificates—*Allocations with Respect to an A Class or B Class Certificate*" above concerning the treatment of premium on a REMIC Regular Interest in the event of an unscheduled payment of principal.

### ***REMIC Regular Interests Purchased with Market Discount***

A Regular Owner that purchases a REMIC Regular Interest at a price that is less than the remaining stated redemption price at maturity of the REMIC Regular Interest (or in the case of a REMIC Regular Interest issued with original issue discount, less than the adjusted issue price of the REMIC Regular Interest) has market discount with respect to the REMIC Regular Interest in the amount of the difference. In general, three consequences arise if a Regular Owner acquires a REMIC Regular Interest with market discount. First, a Regular Owner must treat any principal payment with respect to a REMIC Regular Interest acquired with market discount as ordinary income to the extent of the market discount that accrued while the Regular Owner held the REMIC Regular Interest. Second, a Regular Owner must treat gain on the disposition or retirement of such a REMIC Regular Interest as ordinary income under the circumstances discussed below under "*—Sales and Other Dispositions of REMIC Regular Interests*." Third, a Regular Owner that incurs or continues indebtedness to acquire a REMIC Regular Interest at a market discount may be required to defer the deduction of all or a portion of the interest on the indebtedness until the corresponding amount of market discount is included in income. Alternatively, a Regular Owner may elect to include market discount in income on a current basis as it accrues, in which case the three consequences discussed above will not apply. If this election is made, a Regular Owner must also apply the election to all debt instruments acquired by the Regular Owner on or after the beginning of the first taxable year to which the election applies, and a Regular Owner may revoke the election only with the consent of the IRS.

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

Notwithstanding the above rules, market discount on a REMIC Regular Interest will be considered to be zero if the discount is less than 0.25% of the remaining stated redemption price at maturity of the REMIC Regular Interest multiplied by its weighted average remaining life. Weighted average remaining life presumably would be calculated in a manner similar to the calculation of weighted average life described under "*—Definition of Original Issue Discount*" above, taking into account payments (including prepayments) prior to the date of acquisition of the REMIC Regular



Interest by the subsequent purchaser. If market discount on a REMIC Regular Interest is treated as zero under this rule, the actual amount of market discount must be allocated to the remaining principal distributions on the REMIC Regular Interest and, when each principal distribution is received, gain equal to the discount allocated to that distribution will be recognized.

### ***Special Election***

For any REMIC Regular Interest acquired on or after April 4, 1994, the OID Regulations permit a Regular Owner to elect to include in a gross income all “interest” that accrues on the REMIC Regular Interest 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. You should consult your own tax advisor regarding the time and manner of making and the scope of the election and the implementation of the constant yield method.

### ***Sales and Other Dispositions of REMIC Regular Interests***

Upon the sale, exchange, retirement or other disposition of a REMIC Regular Interest, a beneficial owner generally will recognize gain or loss equal to the difference between the amount realized upon the disposition and the beneficial owner’s adjusted basis in the REMIC Regular Interest. 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. The constructive sale provisions apply only to the REMIC Regular Interest corresponding to the IO Class Certificates and do not apply to the REMIC Regular Interests corresponding to the A and B Class Certificates or to the A and B Class Certificates themselves.

The adjusted basis of a REMIC Regular Interest generally will equal the cost of the REMIC Regular Interest to the beneficial owner, increased by any original issue discount or market discount included in the beneficial owner’s gross income with respect to the REMIC Regular Interest and reduced by distributions on the REMIC Regular Interest previously received by the beneficial owner of amounts included in the stated redemption price at maturity and by any premium that has reduced the beneficial owner’s interest income with respect to the REMIC Regular Interest. Except as provided in the following paragraph or under section 582(c) of the Code (which generally applies to banks), the gain or loss, if any, will be capital gain or loss, provided the REMIC Regular Interest 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 REMIC Regular Interest that might otherwise be capital gain will be treated as ordinary income to the extent that the 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% 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 the Regular Owner’s income. In addition, gain recognized on such a sale or other disposition by the Regular Owner who purchased a REMIC Regular Interest at a market discount would also be taxable as ordinary income in an amount not exceeding the portion of the market discount that accrued during the period the REMIC Regular Interest was held by the Regular Owner, reduced by any market discount includible in income under the rules described under “—*REMIC Regular Interests Purchased with Market Discount*” above.

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

The REMIC Trust will be classified as a single-class REMIC under Treasury regulations promulgated pursuant to section 67 of the Code. As a result, (i) an estate or trust that beneficially owns a REMIC Regular Interest or (ii) an individual who directly owns a REMIC Regular Interest or indirectly owns a REMIC Regular Interest through an investment in a “pass-through entity” (other than in connection with such individual’s trade or business) will be required to include in income a share of the administrative fees of the REMIC Trust. In general, administrative fees include the costs to service and guarantee the Mortgage Loans. Such a beneficial owner will be entitled to deduct these fees subject to sections 67 and 68 of the Code, as in the case of administrative expenses of the Issuing Trust. See “—Classification of the Issuing Trust—*Administrative Expenses of the Issuing Trust*” above. In addition, such a beneficial owner will not be able to deduct any portion of these costs in computing its alternative minimum tax liability.

A beneficial owner’s share of these fees generally will be determined by (i) allocating the amount of these fees for each calendar quarter on a pro rata basis to each day in the calendar quarter, and (ii) allocating the daily amount among the beneficial owners of the REMIC Regular Interests and the R Certificate in proportion to their respective amounts of income accruing on the REMIC Regular Interests and the R Certificate on that day. We will report the allocable share of these fees in the manner required by the IRS. See “—Taxation of the REMIC Trust—*Reporting and Other Administrative Matters*” below.

### ***Termination***

In general, no special tax consequences will apply to a Regular Owner upon the termination of a REMIC Trust by virtue of the final payment or liquidation of the last Mortgage Loan that backs the MBS remaining in the REMIC Trust.

## **Taxation of the Investment Agreement and the Fannie Mae Debt Obligations**

### ***Interest Income and Original Issue Discount***

Pursuant to the Investment Agreement, the Issuing Trust will purchase any Fannie Mae debt obligation for an amount equal to its principal amount.

A beneficial owner of a debt obligation must include the interest income with respect to the debt obligation in its gross income when it is received or when it accrues, depending on the beneficial owner’s method of accounting. In addition, a Fannie Mae debt obligation might be issued with original issue discount. In that case, a beneficial owner would be required to include the original issue discount in income as it accrues, generally in advance of the receipt of cash attributable to such income. Original issue discount with respect to a Fannie Mae debt obligation generally is defined and treated in the same manner as original issue discount is defined and treated with respect to a REMIC Regular Interest (see “—Taxation of REMIC Regular Interests—*Treatment of Original Issue Discount*,” “—*Definition of Original Issue Discount*” and “—*Daily Portions of Original Issue Discount*” above). Because a beneficial owner of an A Class or B Class Certificate will be required to report income with respect to the corresponding REMIC Regular Interest using an accrual method of accounting, the possibility that the beneficial owner might be required to report income with respect to a debt obligation as original issue discount should not materially affect such beneficial owner.

### ***Market Discount***

A beneficial owner that acquires a Fannie Mae debt obligation for less than its principal amount generally has market discount in the amount of the difference between the principal amount and the beneficial owner’s basis in that debt obligation. Market discount with respect to a Fannie Mae debt obligation generally is treated in the same manner as market discount with respect to a REMIC

Regular Interest (see “—Taxation of REMIC Regular Interests—*REMIC Regular Interests Purchased with Market Discount*” above), except as provided below.

A beneficial owner of a Fannie Mae debt obligation must determine the amount of accrued market discount for a period using a straight-line method, unless the beneficial owner elects to determine accrued market discount using a constant-yield method. The IRS has authority to provide regulations for determining the accrual of market discount in the case of securities, such as some Fannie Mae debt obligations, which provide for more than one principal payment, but has not yet issued such regulations. In addition, the legislative history to the Tax Reform Act of 1986 states that market discount on certain types of debt instruments may be treated as accruing in proportion to remaining accruals of original issue discount, if any, or if none, in proportion to remaining distributions of interest. You should consult your own tax advisors regarding the method a beneficial owner should use to determine accrued market discount.

Notwithstanding the above rules, market discount with respect to a Fannie Mae debt obligation generally will be considered to be zero if the discount is less than 0.25% of the principal balance of the debt obligation multiplied by the number of complete years from the date on which the beneficial owner acquires the debt obligation to the redemption date of the debt obligation (“*de minimis* market discount”). The IRS has authority to provide regulations to adjust the computation of *de minimis* market discount in the case of securities, such as some Fannie Mae debt obligations, which provide for more than one principal payment, but has not yet issued such regulations. The IRS could assert, nonetheless, that *de minimis* market discount should be calculated using the remaining weighted average life of a debt obligation (see “Taxation of REMIC Regular Interests—*Definition of Original Issue Discount*” above) rather than the redemption date. You should consult your own tax advisors regarding the proper method for computing *de minimis* market discount with respect to a debt obligation.

### ***Premium***

If a beneficial owner acquires a Fannie Mae debt obligation for more than its principal amount, the beneficial owner generally will have premium with respect to such debt obligation in the amount of such excess. Premium with respect to a Fannie Mae debt obligation generally is treated in the same manner as premium with respect to a REMIC Regular Interest (see “—Taxation of REMIC Regular Interests—*REMIC Regular Interests Purchased at a Premium*” above), except that, if a beneficial owner elects to amortize premium, the premium in the case of the Fannie Mae debt obligation must be amortized based on that debt obligation’s yield to maturity.

### ***Accrual Method Election***

A beneficial owner may elect to include in income its entire return on a Fannie Mae debt obligation (*i.e.*, the excess of all remaining payments to be received on the debt obligation over the amount of the beneficial owner’s basis in the debt obligation) based on the compounding of interest at a constant yield. Such an election for a debt obligation with amortizable bond premium (or market discount) will result in a deemed election to amortize premium for all the beneficial owner’s debt instruments with amortizable bond premium (or to accrue market discount currently for all the beneficial owners’ debt instruments with market discount) as discussed above.

### ***Disposition of Fannie Mae Debt Obligations or the Investment Agreement***

Upon the sale, exchange or other disposition of a Fannie Mae debt obligation, a beneficial owner generally will recognize gain or loss equal to the difference between the amount realized upon the disposition and the beneficial owner’s adjusted basis in the debt obligation. The adjusted basis of a debt obligation generally will equal the cost of the debt obligation to the beneficial owner, increased by the amounts of original issue discount and market discount included in the beneficial owner’s gross income with respect to the debt obligation, and reduced by distributions on the debt obligation

previously received by the beneficial owner as principal and by any premium that has reduced the beneficial owner's interest income with respect to the debt obligation. Any such gain or loss generally will be capital gain or loss, except (i) as provided in section 582(c) of the Code (which generally applies to banks) or (ii) to the extent any gain represents original issue discount or accrued market discount not previously included in income (to which extent such gain would be treated as ordinary income). Any capital gain (or loss) will be long-term capital gain (or loss) if at the time of disposition the beneficial owner held the debt obligation for more than one year. Gain or loss with respect to the disposition of the corresponding investment agreement will be computed and treated in the same manner as gain or loss with respect to a debt obligation. The ability to deduct capital losses is subject to certain limitations.

### **Taxation of Beneficial Owners of IO Class Certificates**

No authority directly addresses the taxation of the IO Class Certificates. It is possible that the IO Class Certificates should be taxed in a manner similar to that described above with respect to the A and B Class Certificates. For example, an IO Class Certificate might be taxed as if the beneficial owner held an interest in the corresponding REMIC Regular Interest, corresponding investment agreement, and any corresponding Fannie Mae debt obligations. It is not clear, however, whether these three components should be taxed separately or should be integrated. Moreover, because certain losses with respect to one of these three items might be viewed for tax purposes as offsetting gains with respect to one or more of the other items, it is not clear how these items should be taxed separately. Finally, because the investment agreement corresponding to the IO Class Certificates provides protection from prepayment risk with respect to the Mortgage Loans and is expected to constitute more than an insignificant portion of the value of the IO Class Certificates as of the Settlement Date, the IO Class Certificates might be properly treated for tax purposes as indebtedness of Fannie Mae secured by the corresponding REMIC Regular Interest.

Given the uncertainty regarding the proper tax treatment of an investment in the IO Class Certificates, we intend, for information reporting purposes, to treat all payments on the IO Class Certificates as being paid pursuant to a single debt instrument that is issued with original issue discount. Our reporting of the accrual of original issue discount with respect to the IO Class Certificates will generally be done in the same manner as the reporting of the accrual of original issue discount with respect to a REMIC Regular Interest (see “—Taxation of REMIC Regular Interests—*Treatment of Original Issue Discount*,” “—*Definition of Original Issue Discount*” and “—*Daily Portions of Original Issue Discount*” above). You should consult your own tax advisor regarding the proper tax treatment of the IO Class Certificates.

In addition, you should be aware that the IRS may be more likely to assert that the IO Class constitutes indebtedness of Fannie Mae, which does not have the beneficial tax characteristics of a REMIC regular interest as described under “—REMIC Election and Special Tax Attributes” above. As a result, the IO Class Certificates may not be a suitable investment for real estate investment trusts and will not be a suitable investment for REMICs.

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

#### ***Daily Portions***

Except as indicated below, a beneficial owner of the R Certificate (“Residual Owner”) will be required to report its daily portion of the taxable income or net loss of the REMIC Trust for each day during a calendar quarter that the Residual Owner owned the R 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 REMIC Trust for the quarter and by allocating the amount so allocated among the Residual Owners (on that day) in accordance with their percentage interests on

that day. Any amount so included in the gross income or allowed as a loss of any Residual Owner 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 REMIC Trust will continue until there are no REMIC Regular Interests outstanding.

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

The taxable income or net loss of the REMIC Trust will be the income from the “qualified mortgages” it holds and any reinvestment earnings less deductions allowed to the REMIC 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 as discussed below.

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 REMIC Regular Interests (but not the R Certificate). The determination of the deduction for interest must be reduced by the amortization of any bond issuance premium with respect to a REMIC Regular Interest (that is, the excess, if any, of the issue price of the REMIC Regular Interest over its stated redemption price at maturity). Second, market discount equal to the difference between the total stated principal balances of the qualified mortgages and the basis to the REMIC Trust therein generally will be included in income by the REMIC Trust as it accrues under a constant yield method, taking into account the Prepayment Assumption. If a REMIC Trust is treated as having acquired the qualified mortgages at a premium, the premium also will be amortized using a constant yield method. The basis to a REMIC Trust in qualified mortgages is the aggregate of the issue prices of all the REMIC Regular Interests and the R Certificate on the Settlement Date. If, however, a substantial amount of a class of REMIC Regular Interests has not been sold to the public, then the fair market value of all the REMIC Regular Interests 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 “—Taxation of the REMIC Trust—*Prohibited Transactions*” below) will be taken into account. Fourth, the REMIC 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 REMIC Trust level to any administrative fees, such as servicing and guaranty fees. (See, however, “—*Pass-Through of Servicing and Guaranty Fees to Individuals*” below.) If the deductions allowed to the REMIC Trust exceed its gross income for a calendar quarter, the excess will be a net loss for the REMIC Trust for that calendar quarter.

Under the Regulations, any expenses that are incurred in connection with the formation of the REMIC Trust and the issuance of the REMIC Regular Interests and the R Certificate are not treated as expenses of the REMIC Trust for which a deduction is allowed. The Regulations also provide that any gain or loss to the REMIC 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 REMIC Trust at a discount, some or all of the REMIC Regular Interests 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 REMIC Regular Interests exceeds the REMIC Trust’s deduction for unaccrued original issue discount relating to the REMIC Regular Interests. Taxable income may also be greater in earlier years because interest expense deductions, expressed as a percentage of the outstanding principal amount of the REMIC Regular Interests, may increase over time as the earlier classes of REMIC Regular Interests are paid, whereas interest income with respect to any given



Mortgage Loan backing the MBS, 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 the R Certificate equal to the amount paid for the R Certificate. The 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 the R Certificate. A distribution on the R Certificate to a Residual Owner is not included in gross income to the extent it does not exceed the Residual Owner's basis in the R Certificate (adjusted as described above) and, to the extent it exceeds the adjusted basis of the R Certificate, shall be treated as gain from sale of the R Certificate.

A Residual Owner is not allowed to take into account any net loss for a calendar quarter to the extent the net loss exceeds the Residual Owner's adjusted basis in the R Certificate as of the close of the calendar quarter (determined without regard to that 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 R Certificate.

### ***Excess Inclusions***

Excess inclusions with respect to the R Certificate are subject to certain special tax rules. All taxable income with respect to the R Certificate will constitute excess inclusions.

Excess inclusions cannot be offset by losses from other activities. For Residual Owners that are subject to tax only on unrelated business taxable income (as defined in section 511 of the Code), an excess inclusion of the 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.

If the R Certificate is held by a real estate investment trust, under regulations yet to be prescribed, the aggregate excess inclusions with respect to the R Certificate 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 the trust in proportion to the dividends received by the shareholders from the trust, and any amount so allocated would be treated as an excess inclusion with respect to the R Certificate as if held directly by the shareholder. Similar rules would apply in the case of regulated investment companies, common trust funds and certain cooperatives that hold the R 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 a REMIC Trust, including the servicing and guaranty fees imposed at the level of the MBS. See, for example, "Description of Certificates—Servicing Through Lenders" and "Certain Federal Income Tax Consequences" in the MBS Prospectus. Such a Residual Owner will be entitled to deduct these fees subject to sections 67 and 68 of the Code, as in the case of administrative expenses of the Issuing Trust. See "—Taxation of Beneficial Owners of A and B Class Certificates—Administrative Expenses of the Issuing Trust" above. In addition, such a Residual Owner will not be able to deduct any portion of such fees in computing the Residual Owner's alternative minimum tax liability. A Residual Owner's share of such fees generally will be determined as described under



“Taxation of REMIC Regular Interests—*Pass-Through of Servicing and Guaranty Fees to Individuals*” above. Similar rules apply in the case of (i) estates and trusts and (ii) individuals owning an interest in the R Certificate through an investment in a “pass-through entity.” Pass-through entities include partnerships, S corporations, 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 the R Certificate***

The Treasury Department recently issued proposed regulations providing that, to clearly reflect income, an inducement fee paid to a transferee of a noneconomic residual interest in a REMIC must be included in income over a period that is reasonably related to the period during which the applicable REMIC is expected to generate taxable income or net loss allocable to the transferee. The proposed regulations set forth two safe harbor methods under which a taxpayer’s accounting for the inducement fee will be considered to clearly reflect income for these purposes. The proposed regulations also provide that an inducement fee shall be treated as income from sources within the United States. If finalized as proposed, the regulations would be effective for taxable years ending on or after the publication of the final regulations in the Federal Register. The proposed regulations contain additional details regarding their application and you should consult your own tax advisor regarding the application of the proposed regulations.

### ***Sales and Other Dispositions of the R Certificate***

Upon the sale, exchange or other disposition of the R 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 R Certificate. The adjusted basis of the R Certificate is determined as described above under “—Taxation of Beneficial Owners of the R Certificate—*Basis Rules and Distributions*.” Except as provided under section 582(c) of the Code (which generally applies to banks), the gain or loss, if any, will be capital gain or loss, provided the R Certificate is held as a “capital asset” (generally, property held for investment) within the meaning of section 1221 of the Code.

If a Residual Owner sells or otherwise disposes of the R Certificate at a loss, the loss will not be recognized if, within six months before or after the sale or other disposition of the R Certificate, the 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. The 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 or other disposition. While this rule may be modified by Treasury regulations, no such regulations have yet been published.

### ***R Certificate 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 the R 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 terms “disqualified organization” is defined under “Description of the Certificates—Special Characteristics of the R Certificate” in this prospectus. A transferor of the R Certificate (or an agent of a transferee of the R Certificate, as the case may be) will be relieved of this 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, partnerships, trusts, estates, certain cooperatives, and nominees) that owns the R Certificate if the 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 the interest furnishes to the pass-through entity an affidavit that it is not a disqualified organization, (ii) during that 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 the R Certificate***

A transfer of the R Certificate will be 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 the R Certificate is otherwise subject to U.S. income tax. 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. As a result of these rules, certain transfers of the R Certificate are restricted under the Trust Agreement. See “Description of the Certificates—Special Characteristics of the R Certificate” in this prospectus for a discussion of additional provisions applicable to transfers of the R Certificate.

### ***Termination***

In general, no special tax consequences will apply to a Regular Owner upon the termination of a REMIC Trust by virtue of the final payment or liquidation of the last Mortgage Loan that backs the MBS remaining in the REMIC Trust. If a Residual Owner’s adjusted basis in the R Certificate at the time the termination occurs exceeds the amount of cash distributed to the 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 the excess.

## **Taxation of the REMIC Trust**

The REMIC Trust will not be 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% 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% 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) to a qualified reserve fund by a Holder of a residual interest, (iii) in the nature of a guarantee, (iv) 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 REMIC Trust***

It is not anticipated that the REMIC Trust will engage in any transactions that will give rise to a tax on the REMIC Trust. In any event, pursuant to our guaranty obligations, we will make distributions on the REMIC Regular Interests and the R Certificate without offset or deduction for any tax imposed on the REMIC Trust.

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

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

If, for a taxable year, there is more than one Residual Owner, each Residual Owner is required to treat items on its return consistently with the treatment on the return of the REMIC Trust, unless the Residual Owner either files a statement identifying the inconsistency or establishes that the inconsistency resulted from incorrect information received from the REMIC Trust. The IRS may assert a deficiency resulting from a failure to comply with the consistency requirement without instituting an administrative proceeding at the REMIC Trust level.

### ***Tax Return Disclosure Requirements***

The Treasury Department recently issued Regulations directed at “tax shelters” that could be read to apply to transactions generally not considered to be tax shelters. These Regulations require that taxpayers that participate in a “reportable transaction” disclose such transaction on their tax returns by attaching IRS Form 8886, and retain information related to the transaction. A transaction may be a “reportable transaction” based upon any of several indicia, one or more of which may be present with respect to the Certificates. You should consult your tax advisor concerning any possible disclosure obligation with respect to your investment in the Certificates.

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

Within a reasonable time after the end of each calendar year, we will furnish or make available to each Holder that received a distribution during that year a statement setting forth such information as

is required by the Code or Treasury regulations and such other information as we deem necessary or desirable to assist Holders in preparing their federal income tax returns, or to enable Holders to make such information available to beneficial owners or other financial intermediaries for which Holders hold Certificates as nominees.

Payments of interest and principal, as well as payments of proceeds from the sale of Certificates, may be subject to the “backup withholding tax” under section 3406 of the Code if recipients of the payments fail to furnish to the payor certain information, including their taxpayer identification numbers, or otherwise fail to establish an exemption from this tax. Any amounts deducted and withheld from a payment to a recipient would be allowed as a credit against the recipient’s federal income tax. Certain penalties may be imposed by the IRS on a recipient of payments required to supply information who does not do so in the proper manner.

### **Foreign Investors**

Payments on a Certificate (other than the R Certificate) to, or on behalf of, a beneficial owner that is a Non-U.S. Person generally will be exempt from U.S. federal income and withholding taxes, provided the following conditions are satisfied:

- the beneficial owner is not subject to U.S. tax as a result of a connection to the United States other than ownership of the Certificate,
- the beneficial owner signs a statement under penalties of perjury that certifies that the beneficial owner is a Non-U.S. Person, and provides the name and address of the beneficial owner, and
- the last U.S. Person in the chain of payment to the beneficial owner receives the statement from the beneficial owner or a financial institution holding on its behalf and does not have actual knowledge that the statement is false.

You should be aware that the IRS might take the position that this exemption does not apply to a beneficial owner that also owns 10% or more of the residual interest in the REMIC Trust or of the voting stock of Fannie Mae, or to a beneficial owner that is a “controlled foreign corporation” described in section 881(c)(3)(C) of the Code. For the definition of the term “U.S. Person,” see the discussion under “Description of the Certificates—Special Characteristics of the R Certificate” in this prospectus.

### **ERISA CONSIDERATIONS**

The Employee Retirement Income Security Act of 1974, as amended (“ERISA”), and the Code impose certain requirements on employee benefit plans subject to ERISA (such as employer-sponsored retirement plans) and upon other types of benefit plans and arrangements subject to section 4975 of the Code (such as individual retirement accounts). ERISA and section 4975 of the Code also impose these requirements on certain entities in which the benefit plans or arrangements that are subject to ERISA and section 4975 of the Code invest. We refer to these plans, arrangements and entities as “Plans.” Any person who is a fiduciary of a Plan is also subject to the requirements imposed by ERISA and section 4975 of the Code. Before a Plan invests in any Certificate, the Plan fiduciary must consider whether the governing instruments for the Plan would permit the investment, whether the Certificates would be a prudent and appropriate investment for the Plan under its investment policy and whether such an investment might result in a transaction prohibited under ERISA or section 4975 of the Code for which no exemption is available.

On November 13, 1986, the U.S. Department of Labor issued a final regulation covering the acquisition by a Plan of a “guaranteed governmental mortgage pool certificate,” defined to include certificates which are “backed by, or evidencing an interest in specific mortgages or participation interests therein” and are guaranteed by Fannie Mae as to the payment of interest and principal.

Under the regulation, investment by a Plan in a “guaranteed governmental mortgage pool certificate” does not cause the assets of the Plan to include the mortgages underlying the certificate or cause the sponsor, trustee and other servicers of the mortgage pool to be subject to the fiduciary responsibility provisions of ERISA or section 4975 of the Code in providing services with respect to the mortgages in the pool.

Sidley Austin Brown & Wood LLP has advised us that the Certificates qualify under the definition of “guaranteed governmental mortgage pool certificates” and, as a result, the purchase and holding of Certificates by Plans will not cause the Mortgage Loans, the assets of the Issuing Trust or the assets of Fannie Mae to be subject to the fiduciary requirements of ERISA or to the prohibited transaction requirements of ERISA and section 4975 of the Code.

## LEGAL INVESTMENT CONSIDERATIONS

If you are an institution whose investment activities are subject to legal investment laws and regulations or to review by certain regulatory authorities, you may be subject to restrictions on investment in certain classes of the Certificates. If you are a 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, the Department of the Treasury or other federal or state agencies with similar authority, you should review the rules, guidelines and regulations that apply to you prior to purchasing or pledging the Certificates. In addition, if you are a financial institution, you should consult your regulators concerning the risk-based capital treatment of any Certificate. **Investors should consult their own legal advisors in determining whether and to what extent the Certificates constitute legal investments or are subject to restrictions on investment and whether and to what extent the Certificates can be used as collateral for various types of borrowings.**

## LEGAL OPINION

If you purchase Certificates, we will send you, upon request, an opinion of our General Counsel (or one of our Deputy General Counsels) as to the validity of the Certificates and the Trust Agreement.

## PLAN OF DISTRIBUTION

We are obligated to deliver the Certificates to Citigroup Global Markets, Inc. in exchange for the MBS. Citigroup Global Markets, Inc. and Credit Suisse First Boston LLC as co-lead dealers and joint bookrunners (collectively, the “Dealers”) propose to offer the Certificates directly to the public from time to time in negotiated transactions at varying prices to be determined at the time of sale. The Dealers may effect these transactions to or through other dealers.

## LEGAL MATTERS

Sidley Austin Brown & Wood LLP will provide legal representation for Fannie Mae. Cleary, Gottlieb, Steen & Hamilton will provide legal representation for the Dealers.

Certain Mortgage Loan and MBS Information

	Pool	Location of Mortgaged Property		Principal Balance as of Trust Issue Date(1)	Mortgage Interest Rate	Net MBS Pass- Through Rate (2) / (3)	Accrual Basis	Mortgage Loan Maturity Date	Original Term to Maturity of MBS (mos.)	Remaining Term to Maturity of MBS (mos.)	Age of MBS (mos.)	MBS Issue Date	Original Amortization Term of the MBS (mos.)	Remaining Amortization Term of the MBS (mos.)	Remaining Lockout Term of Mortgage Loan (mos.)
		City	State												
(4)	385809	Tampa	FL	\$ 10,120,695	6.000%	4.890%	Actual/360	March 2013	121	113	8	2/1/2003	360	352	113
	385834	Birmingham	AL	4,758,657	5.490%	4.720%	Actual/360	March 2013	121	113	8	2/1/2003	360	352	113
	385838	Philadelphia	PA	4,840,252	5.770%	4.900%	Actual/360	March 2013	121	113	8	2/1/2003	360	352	113
	385871	Sherman Oaks	CA	1,586,704	5.670%	4.880%	Actual/360	March 2013	121	113	8	2/1/2003	360	352	113
	385888	New Carrollton	MD	8,653,157	5.380%	4.860%	Actual/360	March 2013	122	113	9	1/1/2003	360	352	113
	385913	San Angelo	TX	3,240,764	5.490%	4.720%	Actual/360	March 2013	120	113	7	3/1/2003	300	293	113
	385914	Shreveport	LA	4,328,760	5.490%	4.720%	Actual/360	March 2013	120	113	7	3/1/2003	360	353	113
	385915	Kilgore	TX	2,700,511	5.490%	4.720%	Actual/360	March 2013	120	113	7	3/1/2003	360	353	113
	385938	Seattle	WA	8,537,573	5.430%	4.560%	Actual/360	March 2013	120	113	7	3/1/2003	360	353	113
	385941	University Place	WA	1,290,806	5.550%	4.760%	Actual/360	March 2013	120	113	7	3/1/2003	360	353	113
(4)	386019	Washington	DC	6,304,330	5.070%	4.200%	30/360	March 2013	119	113	6	4/1/2003	360	354	113
	386022	Greenville	SC	4,529,080	5.060%	4.190%	Actual/360	March 2013	119	113	6	4/1/2003	360	354	113
	386039	Lawrenceville	GA	22,267,397	5.380%	4.510%	Actual/360	March 2013	120	113	7	3/1/2003	360	353	113
	386087	Las Vegas	NV	7,753,317	5.650%	4.780%	Actual/360	March 2013	119	113	6	4/1/2003	360	354	113
	386088	Albuquerque	NM	8,106,147	5.190%	4.320%	Actual/360	March 2013	119	113	6	4/1/2003	360	354	113
	386091	Albuquerque	NM	10,708,855	5.190%	4.320%	Actual/360	March 2013	119	113	6	4/1/2003	360	354	113
	386092	Albuquerque	NM	3,447,099	5.190%	4.320%	Actual/360	March 2013	119	113	6	4/1/2003	360	354	113
	386110	Oakland	CA	5,165,753	5.200%	4.330%	Actual/360	March 2013	119	113	6	4/1/2003	360	354	113
	386123	Newtown	PA	9,112,658	5.320%	4.610%	30/360	March 2013	118	113	5	5/1/2003	360	355	113
	386213	Dover	DE	5,375,972	5.115%	4.245%	Actual/360	March 2013	117	113	4	6/1/2003	360	356	113
(5)	386214	Houston	TX	3,186,506	5.370%	4.500%	Actual/360	March 2013	118	113	5	5/1/2003	360	356	113
	386253	Yonkers	NY	4,483,871	4.670%	4.180%	Actual/360	March 2013	116	113	3	7/1/2003	360	357	113
	386264	Houston	TX	5,420,991	4.790%	4.020%	Actual/360	March 2013	116	113	3	7/1/2003	360	357	113
	386265	Houston	TX	7,530,594	4.790%	4.020%	Actual/360	March 2013	116	113	3	7/1/2003	360	357	113
	386329	Tampa	FL	15,464,256	4.660%	3.790%	Actual/360	March 2013	116	113	3	7/1/2003	360	357	113
	386338	Kenneth City	FL	4,623,387	4.675%	3.805%	Actual/360	March 2013	116	113	3	7/1/2003	360	357	113
	386350	Slidell	LA	7,374,006	4.765%	3.795%	Actual/360	March 2013	115	113	2	8/1/2003	359	357	113
	386356	Las Vegas	NV	18,336,794	4.870%	4.000%	Actual/360	March 2013	115	113	2	8/1/2003	359	357	113
	386357	Las Vegas	NV	18,336,794	4.870%	4.000%	Actual/360	March 2013	115	113	2	8/1/2003	359	357	113
	386387	New York	NY	43,545,344	4.730%	4.040%	Actual/360	March 2013	115	113	2	8/1/2003	359	357	113
(4)	386387	Ithaca	NY	3,791,566	5.105%	4.135%	Actual/360	March 2013	115	113	2	8/1/2003	360	358	113
	386410	Bountiful	UT	7,343,682	5.110%	4.240%	Actual/360	March 2013	115	113	2	8/1/2003	360	358	113
	386453	Arlington	VA	1,950,000	5.800%	5.090%	Actual/360	March 2013	114	113	1	9/1/2003	360	360	113
	386465	Vancouver	WA	8,091,936	6.000%	5.130%	Actual/360	March 2013	114	113	1	9/1/2003	360	359	113
	386467	Guiderland	NY	12,975,532	5.870%	5.000%	Actual/360	March 2013	115	113	2	8/1/2003	360	358	113
	386484	Seattle	WA	7,991,624	5.735%	4.865%	Actual/360	March 2013	114	113	1	9/1/2003	360	359	113
	386494	Greensboro	NC	5,664,547	6.180%	5.210%	Actual/360	March 2013	114	113	1	9/1/2003	360	359	113
	386539	Hoboken	NJ	2,000,000	6.120%	5.190%	Actual/360	March 2013	114	113	1	9/1/2003	360	360	113
	386541	Phoenix	AZ	7,420,000	5.990%	5.120%	Actual/360	March 2013	114	113	1	9/1/2003	360	360	113
				<u>\$318,359,919</u>	<u>5.217%</u>	<u>4.382%</u>									

(1) MBS balance as of October 2003 payment. These balances have been rounded to the nearest dollar, and the sum may not equal the printed total.  
(2) If interest on the Mortgage Loan is calculated on an Actual/360 basis, then, for purposes of calculating the Net MBS WAC Rate, the related Net MBS Pass-Through Rate will be converted to a 30/360 equivalent rate.  
(3) The difference between the MBS Pass-Through Rate and the Net MBS Pass-Through Rate will be used to pay the administrative fees of the Trust.  
(4) The first monthly payment on this MBS consisted of interest only.  
(5) The Mortgage Loan backing the related MBS amortized one month before pooling.

NOTE: The information with respect to the related MBS and Mortgage Loans set forth on Exhibit A has been collected and summarized by Citigroup Global Markets, Inc. and Credit Suisse First Boston LLC and provided to Fannie Mae. Fannie Mae has made no independent verification of such information and, therefore, does not warrant its truth or accuracy.



### Approximate Principal Balance Schedules

#### *A Class Balances*

<u>Distribution Date</u>	<u>Balance</u>	<u>Distribution Date</u>	<u>Balance</u>	<u>Distribution Date</u>	<u>Balance</u>
Initial Balance .....	\$52,359,919	December 2006 .....	\$37,577,841	February 2010 .....	\$20,158,773
November 2003 .....	52,025,731	January 2007 .....	37,177,793	March 2010 .....	19,562,514
December 2003 .....	51,646,198	February 2007 .....	36,775,964	April 2010 .....	19,082,102
January 2004 .....	51,308,833	March 2007 .....	36,247,014	May 2010 .....	18,560,190
February 2004 .....	50,969,967	April 2007 .....	35,841,030	June 2010 .....	18,075,304
March 2004 .....	50,542,163	May 2007 .....	35,391,589	July 2010 .....	17,549,037
April 2004 .....	50,199,880	June 2007 .....	34,981,791	August 2010 .....	17,059,638
May 2004 .....	49,812,465	July 2007 .....	34,528,636	September 2010 .....	16,568,055
June 2004 .....	49,466,933	August 2007 .....	34,114,990	October 2010 .....	16,035,267
July 2004 .....	49,076,353	September 2007 .....	33,699,502	November 2010 .....	15,539,112
August 2004 .....	48,727,543	October 2007 .....	33,240,807	December 2010 .....	15,001,871
September 2004 .....	48,377,180	November 2007 .....	32,821,420	January 2011 .....	14,501,103
October 2004 .....	47,981,898	December 2007 .....	32,358,930	February 2011 .....	13,998,100
November 2004 .....	47,628,215	January 2008 .....	31,935,611	March 2011 .....	13,376,869
December 2004 .....	47,229,698	February 2008 .....	31,510,406	April 2011 .....	12,868,842
January 2005 .....	46,872,665	March 2008 .....	31,001,192	May 2011 .....	12,320,042
February 2005 .....	46,514,042	April 2008 .....	30,571,818	June 2011 .....	11,807,297
March 2005 .....	46,024,502	May 2008 .....	30,099,601	July 2011 .....	11,253,902
April 2005 .....	45,662,095	June 2008 .....	29,666,205	August 2011 .....	10,736,396
May 2005 .....	45,255,086	July 2008 .....	29,190,073	September 2011 .....	10,216,580
June 2005 .....	44,889,251	August 2008 .....	28,752,621	October 2011 .....	9,656,302
July 2005 .....	44,478,904	September 2008 .....	28,313,219	November 2011 .....	9,131,663
August 2005 .....	44,109,612	October 2008 .....	27,831,239	December 2011 .....	8,566,687
September 2005 .....	43,738,676	November 2008 .....	27,387,727	January 2012 .....	8,037,182
October 2005 .....	43,323,361	December 2008 .....	26,901,745	February 2012 .....	7,505,314
November 2005 .....	42,948,922	January 2009 .....	26,454,087	March 2012 .....	6,895,527
December 2005 .....	42,530,196	February 2009 .....	26,004,433	April 2012 .....	6,358,557
January 2006 .....	42,152,223	March 2009 .....	25,431,862	May 2012 .....	5,781,575
February 2006 .....	41,772,567	April 2009 .....	24,977,642	June 2012 .....	5,239,629
March 2006 .....	41,263,841	May 2009 .....	24,481,234	July 2012 .....	4,657,803
April 2006 .....	40,880,221	June 2009 .....	24,022,773	August 2012 .....	4,110,838
May 2006 .....	40,452,555	July 2009 .....	23,522,236	September 2012 .....	3,561,430
June 2006 .....	40,065,319	August 2009 .....	23,059,496	October 2012 .....	2,972,338
July 2006 .....	39,634,132	September 2009 .....	22,594,693	November 2012 .....	2,417,845
August 2006 .....	39,243,249	October 2009 .....	22,087,980	December 2012 .....	1,823,800
September 2006 .....	38,850,624	November 2009 .....	21,618,842	January 2013 .....	1,264,176
October 2006 .....	38,414,192	December 2009 .....	21,107,908	February 2013 .....	702,052
November 2006 .....	38,017,872	January 2010 .....	20,634,396	March 2013 .....	0

#### *B Class Balances*

<u>Distribution Date</u>	<u>Balance</u>
Initial Balance through February 2013 .....	\$266,000,000
March 2013 .....	0

#### *IO Class Balances*

<u>Distribution Date</u>	<u>Balance</u>	<u>Distribution Date</u>	<u>Balance</u>	<u>Distribution Date</u>	<u>Balance</u>
Initial Balance .....	\$318,359,919	March 2004 .....	\$316,542,163	August 2004 .....	\$314,727,543
November 2003 .....	318,025,731	April 2004 .....	316,199,880	September 2004 .....	314,377,180
December 2003 .....	317,646,198	May 2004 .....	315,812,465	October 2004 .....	313,981,898
January 2004 .....	317,308,833	June 2004 .....	315,466,933	November 2004 .....	313,628,215
February 2004 .....	316,969,967	July 2004 .....	315,076,353	December 2004 .....	313,229,698

***IO Class (Continued)***

<u>Distribution Date</u>	<u>Balance</u>	<u>Distribution Date</u>	<u>Balance</u>	<u>Distribution Date</u>	<u>Balance</u>
January 2005 .....	\$312,872,665	October 2007 .....	\$299,240,807	July 2010 .....	\$283,549,037
February 2005 .....	312,514,042	November 2007 .....	298,821,420	August 2010 .....	283,059,638
March 2005 .....	312,024,502	December 2007 .....	298,358,930	September 2010.....	282,568,055
April 2005.....	311,662,095	January 2008 .....	297,935,611	October 2010 .....	282,035,267
May 2005 .....	311,255,086	February 2008 .....	297,510,406	November 2010 .....	281,539,112
June 2005 .....	310,889,251	March 2008 .....	297,001,192	December 2010 .....	281,001,871
July 2005 .....	310,478,904	April 2008.....	296,571,818	January 2011 .....	280,501,103
August 2005 .....	310,109,612	May 2008 .....	296,099,601	February 2011 .....	279,998,100
September 2005.....	309,738,676	June 2008 .....	295,666,205	March 2011 .....	279,376,869
October 2005 .....	309,323,361	July 2008 .....	295,190,073	April 2011.....	278,868,842
November 2005 .....	308,948,922	August 2008 .....	294,752,621	May 2011 .....	278,320,042
December 2005 .....	308,530,196	September 2008.....	294,313,219	June 2011 .....	277,807,297
January 2006 .....	308,152,223	October 2008 .....	293,831,239	July 2011 .....	277,253,902
February 2006 .....	307,772,567	November 2008 .....	293,387,727	August 2011 .....	276,736,396
March 2006 .....	307,263,841	December 2008 .....	292,901,745	September 2011.....	276,216,580
April 2006.....	306,880,221	January 2009 .....	292,454,087	October 2011 .....	275,656,302
May 2006 .....	306,452,555	February 2009 .....	292,004,433	November 2011 .....	275,131,663
June 2006 .....	306,065,319	March 2009 .....	291,431,862	December 2011 .....	274,566,687
July 2006 .....	305,634,132	April 2009.....	290,977,642	January 2012 .....	274,037,182
August 2006 .....	305,243,249	May 2009 .....	290,481,234	February 2012 .....	273,505,314
September 2006.....	304,850,624	June 2009 .....	290,022,773	March 2012 .....	272,895,527
October 2006 .....	304,414,192	July 2009 .....	289,522,236	April 2012.....	272,358,557
November 2006 .....	304,017,872	August 2009 .....	289,059,496	May 2012 .....	271,781,575
December 2006 .....	303,577,841	September 2009.....	288,594,693	June 2012 .....	271,239,629
January 2007 .....	303,177,793	October 2009 .....	288,087,980	July 2012 .....	270,657,803
February 2007 .....	302,775,964	November 2009 .....	287,618,842	August 2012 .....	270,110,838
March 2007 .....	302,247,014	December 2009 .....	287,107,908	September 2012.....	269,561,430
April 2007.....	301,841,030	January 2010 .....	286,634,396	October 2012 .....	268,972,338
May 2007 .....	301,391,589	February 2010 .....	286,158,773	November 2012 .....	268,417,845
June 2007 .....	300,981,791	March 2010 .....	285,562,514	December 2012 .....	267,823,800
July 2007 .....	300,528,636	April 2010.....	285,082,102	January 2013 .....	267,264,176
August 2007.....	300,114,990	May 2010 .....	284,560,190	February 2013 .....	266,702,052
September 2007.....	299,699,502	June 2010 .....	284,075,304	March 2013 .....	0

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No one is authorized to give information or to make representations in connection with the certificates other than the information and representations contained in this prospectus and the additional disclosure documents. You must not rely on any unauthorized information or representation. This prospectus and the additional disclosure documents do not constitute an offer or solicitation with regard to the certificates if it is illegal to make such an offer or solicitation to you under state law. By delivering this prospectus and the additional disclosure documents at any time, no one implies that the information contained in them is correct after their respective dates.

The Securities and Exchange Commission has not approved or disapproved the certificates or determined if this prospectus is truthful and complete. Any representation to the contrary is a criminal offense.

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\$318,359,919



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## PROSPECTUS

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### TABLE OF CONTENTS

	<u>Page</u>
Available Information . . . . .	3
Reference Sheet . . . . .	4
Risk Factors . . . . .	6
Description of the Certificates . . . . .	7
Description of the Mortgage Loans . . . . .	16
The Trust Agreement . . . . .	17
Certain Federal Income Tax Consequences	19
ERISA Considerations . . . . .	36
Legal Investment Considerations . . . . .	37
Legal Opinion . . . . .	37
Plan of Distribution . . . . .	37
Legal Matters . . . . .	37
Exhibit A . . . . .	A-1
Exhibit B . . . . .	B-1

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**Citigroup**  
**Credit Suisse First Boston**

October 7, 2003

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