

Placement Memorandum

**FEDERAL NATIONAL MORTGAGE ASSOCIATION**

**\$250,000,000**

**9.00% Capital Debentures due 2019**

**Series CD-2019-A**

**(Subordinated as indicated herein)**

**Dated February 1, 1989**

**Due February 1, 2019**

**CUSIP NO. 313586 C64**

**Interest payable on August 1, 1989 and semiannually thereafter on  
February 1 and August 1**

**Price: 96.604857%**

**Description of Capital Debentures**

**General**

The 9.00% Capital Debentures due 2019 (the "Capital Debentures") are the obligations of the Federal National Mortgage Association, a corporation organized and existing under the laws of the United States (the "Corporation"), issued under Section 304(e) of the Federal National Mortgage Association Charter Act (12 U.S.C. § 1716 *et seq.*) (the "Charter Act"). The Capital Debentures are unsecured subordinated obligations of the Corporation and do not contain provisions permitting the holders to accelerate the maturity thereof. The Capital Debentures are not redeemable before maturity.

The Capital Debentures are issued only in book-entry form. The minimum purchase amount for a Capital Debenture is \$10,000 with larger amounts in multiples of \$5,000 thereafter.

The Capital Debentures will bear interest from February 1, 1988 at a rate of 9.00% per annum, payable semiannually in arrears on each February 1 and August 1, beginning August 1, 1989. The principal of, and interest on, the Capital Debentures are payable on the maturity date, and interest payment dates, set forth above. Principal and interest are payable by any Federal Reserve Bank or Branch through the book-entry system.

The Capital Debentures, together with interest thereon, are not guaranteed by the United States and do not constitute a debt or obligation of the United States or of any agency or instrumentality thereof other than the Corporation.

The Secretary of the Treasury has approved the issuance of the Capital Debentures.

**Subordination**

The Capital Debentures are subordinated and junior in right of payment to all obligations of the Corporation issued or to be issued under Section 304(b) of the Charter Act.

In the event and during the continuation of any default in the payment of principal or premium, if any, or interest on any obligation of the Corporation issued or to be issued and outstanding pursuant to

Section 304(b) of the Charter Act beyond any applicable period of grace, then, unless and until such default shall have been cured or waived or shall have ceased to exist, no payment of principal or interest on the Capital Debentures may be made. All statements herein relating to the payment of principal of and interest on the Capital Debentures are qualified in their entirety by reference to such subordination.

### **Transfers, Exchanges and Payment**

The Capital Debentures will be issued and maintained only on the book-entry system of the Federal Reserve System.

The Capital Debentures are freely transferable. The Capital Debentures will be issued in book-entry form only and may be held on the books of any Federal Reserve Bank only in the name of a Holding Institution, which is a financial institution or other entity that has a book-entry account with any Federal Reserve Bank. Book-entry records at the Federal Reserve Banks will reflect the aggregate holdings of each Holding Institution. The Federal Reserve Banks will be responsible only for maintaining the book-entry accounts, effecting transfers on their books, and crediting payment to the Holding Institutions identified on their books. With respect to Capital Debentures, the Federal Reserve Banks will act only upon instructions of the Holding Institutions. Neither the Corporation nor any Federal Reserve Bank has any responsibility to ensure that the Holding Institution credits the designated account maintained by it on behalf of holders or their agents with such securities or any payment.

The Capital Debentures may be transferred or exchanged in whole or in part only in the principal amount of \$10,000 and \$5,000 increments in excess thereof. Other procedures governing the manner in which the Capital Debentures may be transferred or exchanged as to denominations and presented for payment are referred to in "Book-Entry Regulations" in the Federal National Mortgage Association Guide to Debt Securities information statement dated December 12, 1988 (the "Guide").

### **Purpose of Issue**

The net proceeds from the sale of Capital Debentures, which will be approximately \$241,512,000 before deduction of expenses, will be added to the working capital of the Corporation and will be used for general corporate purposes. The Corporation anticipates that additional financing through various types of debt securities will be required from time to time. The amount and nature of such financing are dependent upon a number of factors, including the volume of mortgage loan prepayments and mortgage loans purchased by the Corporation, as well as general market conditions. The sale of the Capital Debentures will increase the amount of additional senior borrowings permitted under Section 304(b) of the Charter Act by approximately \$4.8 billion. See "Business — Corporate Indebtedness" in the Guide.

### **Issuance of Capital Debentures**

The First Boston Corporation has agreed to purchase all of the Capital Debentures at the price set forth above as principal and not for distribution on the Corporation's behalf. The Capital Debentures will be available in book-entry form on the settlement date, February 1, 1989, against payment therefor in federal funds. There will be no definitive securities available.

### **Additional Information**

Information on the Capital Debentures and the Corporation is contained in the Guide, which accompanies this Placement Memorandum and which is incorporated by reference herein.

The Corporation's Section 304(b) debt-to-capital ratio described in the Guide and established by the Charter Act and Department of Housing and Urban Development regulations (in which subordi-

nated capital debentures are considered capital), as adjusted for the issuance of the Capital Debentures, would have been 18.3:1 as of December 31, 1988.

As adjusted to reflect the sale of the Capital Debentures, the Corporation would have had outstanding as of December 31, 1988, approximately \$2,875,600,000 of Capital Debentures (net of unamortized discount).

No person has been authorized to give any information or to make any representation not contained in or incorporated by reference in this Placement Memorandum. If given or made, such information or representation must not be relied upon as having been authorized by the Corporation. This Placement Memorandum does not constitute an offering of any securities other than the securities to which it relates or an offer to any person in any jurisdiction where such an offer would be unlawful. Neither delivery of the Placement Memorandum or the accompanying Guide nor any sale made hereunder shall under any circumstances create an implication that information contained herein or in the Guide is correct as of any time subsequent to their respective dates.

**The date of this Placement Memorandum is February 1, 1989.**

only in minimum denominations of \$10,000 and \$5,000 increments in excess thereof. Payment for ISFDs must be made in federal funds.

Payment in full of an ISFD may occur prior to its maturity date as a result of mandatory sinking fund redemptions. Beginning on a date specified in a supplement hereto relating to the applicable series of ISFDs and on each semiannual date for payment of interest on such ISFDs thereafter (each a "Sinking Fund Date"), the Corporation will redeem, as a mandatory sinking fund redemption, a pro rata portion of the then outstanding principal amount of each such ISFD, determined as described in the supplement. The redemption price will be 100 percent of the principal amount redeemed. The principal amount of the ISFDs to be redeemed will vary based on the difference between a rate ("Average Treasury Rate") for the preceding six-month period, calculated and defined as provided in the supplement relating to such ISFDs, and a base rate specified in such supplement ("Base Rate"). As the Average Treasury Rate decreases by specified amounts compared with the Base Rate, the percentage of the outstanding principal amount of ISFDs to be redeemed on a Sinking Fund Date will increase; conversely, as such average increases by specified amounts compared with the Base Rate, such percentage will decrease. Such variations in the rate of redemption of the principal of ISFDs may be significant. There will be no redemptions on a Sinking Fund Date if the Average Treasury Rate for the preceding six months exceeds a percentage specified in the supplement for such ISFDs. The supplement for any ISFD series will contain a table setting forth the percentage of the outstanding principal amount that will be redeemed for changes in the Average Treasury Rate relative to the Base Rate within specified ranges. If the aggregate outstanding principal amount of an issue of ISFDs immediately after any Sinking Fund Date would be less than five percent of the aggregate original principal amount of such ISFDs, the Corporation will redeem the entire remaining principal amount of such ISFDs on such Sinking Fund Date. The average amount of time that will elapse from the date of issuance of ISFDs until the date on which each dollar amount of principal of the ISFDs is repaid will be dependent on increases or decreases in the percentage redeemed on each Sinking Fund Date. The Corporation has no optional redemption rights with respect to ISFDs. This brief summary of redemptions of the principal of ISFDs should be read in conjunction with the applicable supplement, which contains additional information regarding the means by which redemption amounts are calculated.

ISFDs bear interest at fixed rates per annum, payable semiannually in arrears and computed on the basis of a 360-day year of twelve 30-day months. The interest rate and interest payment dates for ISFDs will be included in the supplement relating to such ISFDs. They also will be announced over various news wire services on the afternoon prior to the offering date and will be advertised in certain newspapers and financial publications on the offering date.

The supplement for any series of ISFDs will describe provisions regarding the matters set forth above and other matters. A series of ISFDs is offered solely by means of a Guide plus the applicable supplement.

#### Subordinated Capital Debentures

The Corporation offers Subordinated Capital Debentures ("Capital Debentures") from time to time when announced by the Corporation. They are unsecured general obligations of the Corporation issued pursuant to section 304(e) of the Charter Act and are subordinated and junior in right of payment to all obligations of the Corporation issued or to be issued under section 304(b) of the Charter Act. The Corporation generally offers Capital Debentures through the same group of dealers and dealer banks through which it offers its Debentures. Capital Debentures generally are issued in minimum denominations of \$10,000 and integral multiples of \$5,000 in excess thereof. Payment for Capital Debentures must be made in federal funds.

The maturities of Capital Debentures will be announced over various news services prior to their issuance and will be advertised on the offering date in the same publications as for Debentures.

Excerpt  
From  
guide

Capital Debentures bear interest from their date of issuance to their maturity date at fixed rates per annum. Interest is payable semiannually in arrears and computed on the basis of a 360-day year of twelve 30-day months. Prior to their issuance, the Corporation advertises the interest rate on Capital Debentures in the same manner as it advertises their maturity date.

Certain series of Capital Debentures may be subject to redemption at the option of the Corporation, as a whole or in part, on any date on or after a date specified for such Securities by the Corporation, at a redemption price of 100 percent of their principal amount plus interest accrued thereon to the date of redemption or other redemption price specified by the Corporation. The terms of Capital Debentures, including their maturity date, interest rate, and any redemption provision are described in offering circulars relating to the Capital Debentures.

In the event and during the continuation of any default in the payment of principal or premium, if any, or interest on any obligation of the Corporation issued or to be issued and outstanding pursuant to section 304(b) of the Charter Act beyond any applicable period of grace, then, unless and until such default shall have been cured or waived or shall have ceased to exist, no payment of principal or interest on the Capital Debentures may be made. All statements herein relating to the payment of principal of and interest on Capital Debentures are qualified in their entirety by reference to such subordination.

On September 30, 1988, the amount of obligations outstanding under section 304(b) of the Charter Act (face amount net of unamortized discount) senior in right of payment to Capital Debentures was \$102.3 billion. Under the Charter Act and regulations adopted by the Department of Housing and Urban Development ("HUD") currently in effect, the aggregate amount of obligations that may be outstanding at any time under section 304(b) is subject to the limitations on section 304(b) indebtedness discussed under "Business — Corporate Indebtedness." The amount of obligations that may be outstanding under section 304(b) is subject to increase or decrease depending on the ratio established by the Secretary of HUD and the future earnings of the Corporation, and may be increased through the sale of common or preferred stock or Capital Debentures by the Corporation. The amount of obligations that may be outstanding under section 304(b) also is subject to increase or decrease depending on the amount of cash, mortgages and certain other assets of the Corporation.

By virtue of their subordination and pursuant to section 304(e) of the Charter Act, Capital Debentures constitute "capital" of the Corporation for the purpose of computing the ratio limiting the amount of obligations of the Corporation that may be at any time outstanding pursuant to section 304(b) of the Charter Act. The sale of Capital Debentures generally increases the amount of borrowings permitted under section 304(b) of the Charter Act. See "Business — Corporate Indebtedness."

#### **Master Notes**

Master Notes are variable principal amount notes issued from time to time under section 304(b) of the Charter Act. Investors have the option of increasing or decreasing the principal amount outstanding on these notes on a daily basis, usually within a range of 80 percent to 120 percent of an agreed amount. Master Notes have a specific maturity ranging between three and eighteen months, although they generally are payable upon at least a specified number of days advance notice from the investor or the Corporation. The Corporation's consent generally is required for transfers of Master Notes.

The Corporation sells Master Notes directly and through members of the Selling Group for Debentures and Capital Debentures. See "Selling Groups." Payment for Master Notes must be made in federal funds.

Master Notes carry a floating interest rate tied to the 91-day U.S. Treasury bill rate. The interest rate on these notes is adjusted weekly on the day following the weekly 91-day Treasury bill auction. Interest generally is payable monthly in arrears.