

\$50,000,000



FannieMae

Guaranteed Grantor Trust Redeemable/Redemption Certificates Fannie Mae Grantor Trust 1997-T2

The Guaranteed Grantor Trust Redeemable/Redemption Certificates offered hereby (the "Certificates") will represent interests in Fannie Mae Grantor Trust 1997-T2 (the "Trust"). The Certificates consist of the A1 Class and the A2 Class (the "Redeemable Classes" or the "Redeemable Certificates") and the B1 Class and the B2 Class (the "Redemption Classes" or the "Redemption Certificates"). The assets of the Trust will consist of (i) certain Fannie Mae Guaranteed Mortgage Pass-Through Certificates (the "MBS") and (ii) the right to receive certain floating interest rate payments under a swap agreement (the "Swap Agreement") between the Trust and Salomon Swapco Inc, a Delaware corporation (the "Swap Counterparty"). The MBS represent beneficial ownership interests in a pool (the "Pool") containing a single fixed-rate balloon mortgage loan (the "Mortgage Loan") secured by first and second liens on various multifamily projects and having the characteristics described herein. The Redeemable Classes will receive all principal distributed on the MBS and floating rate interest payments received by the Trust pursuant to the Swap Agreement as described herein. As described herein (i) the Redemption Classes will not receive distributions of interest or principal and (ii) subject to certain conditions described herein, each Redemption Class will have the right to direct Fannie Mae to redeem the related Redeemable Class on any Distribution Date commencing with the November 1998 Distribution Date. The redemption price payable by Fannie Mae for a Redeemable Class will be equal to its outstanding principal balance plus accrued and unpaid interest thereon. Upon such redemption, the Holder of the related Redemption Class will receive from Fannie Mae the related MBS in exchange for (i) such Redemption Class and (ii) the related Redemption Amount (each as defined herein). See "Description of the Certificates—Redemption and Exchange" herein. The Redeemable Classes will be issued and guaranteed as to timely distribution of principal and interest by Fannie Mae. The Redemption Classes will be issued and guaranteed by Fannie Mae as to all proceeds due to such Classes in exchange for the related Redemption Amount as described herein.

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

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

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

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

Class	Original Class Balance	Principal Type (1)	Interest Rate	Interest Type (1)	CUSIP Number	Final Distribution Date
A1	\$30,000,000	Redeemable /PT	(2)	FLT	31359Q7G3	April 2008
A2	\$20,000,000	Redeemable /PT	(2)	FLT	31359Q7H1	April 2008
B1	(3)	Redemption	(3)	(3)	31359Q7J7	(4)
B2	(3)	Redemption	(3)	(3)	31359Q7K4	(4)

(1) See "Description of the Certificates—Certain Definitions and Abbreviations," "—Distributions of Interest" and "—Distributions of Principal" herein.

(2) The Redeemable Classes will bear interest based on "LIBOR" as described under "Description of the Certificates—Distributions of Interest" herein.

(3) The Redemption Classes will not receive distributions of principal or interest. For convenience in effecting a redemption and exchange transaction, the B1 and B2 Classes will have notional principal balances equal at all times to the principal balances of the A1 and A2 Classes, respectively (initially, \$30,000,000 and \$20,000,000, respectively). See "Description of the Certificates—Distributions of Principal" herein.

(4) The termination date for the Redemption Classes will be the Distribution Date in April 2008.

The Certificates will be offered by Salomon Brothers Inc (the "Dealer") as set forth herein under "Plan of Distribution."

The Certificates will be offered by the Dealer, subject to issuance by Fannie Mae and to prior sale or to withdrawal or modification of the offer without notice, when, as and if delivered to and accepted by the Dealer, subject to the right of the Dealer to reject any order in whole or in part and subject to approval of certain legal matters by counsel. It is expected that the Redeemable Classes will be available through the book-entry facilities of The Depository Trust Company on or about December 16, 1997 (the "Settlement Date"). It is expected that the Redemption Certificates, in registered, certificated form, will be available for delivery at the offices of the Dealer, Seven World Trade Center, New York, New York 10048, on or about the Settlement Date.

Salomon Smith Barney

The date of this Prospectus is November 7, 1997

(Cover continued from previous page)

The yields to investors in the Redeemable Classes will be sensitive to, among other things, the level of LIBOR from time to time, and the occurrence and timing of principal prepayments, if any, on the Mortgage Loan. The yield to investors in each Redeemable Class will also depend upon whether and, if so, when a redemption of such Class occurs and the purchase price paid for such Class. Accordingly, investors should consider the following risks:

- Subject to certain conditions described herein, each Redeemable Class may be redeemed on any Distribution Date commencing with the Distribution Date in November 1998. Such a redemption is more likely to occur to the extent that prevailing mortgage interest rates have declined or the related MBS otherwise has a market value in excess of its principal balance.
- Subject to the effect of the applicable mortgage prepayment penalty, the Mortgage Loan may be prepaid, in whole or in part, by the related borrower at any time. Depending on other factors present at the time, mortgage loans having prepayment penalties (such as the Mortgage Loan) may be less likely to prepay than otherwise comparable mortgage loans that do not have such penalties. In addition, the full principal balance of the Mortgage Loan may be distributed upon a default thereof, which could take place during the applicable prepayment penalty period. In no event will any prepayment penalty received in connection with a prepayment of the Mortgage Loan be distributed to Certificateholders.
- In the case of any Redeemable Certificates purchased at a discount to their principal amounts, a slower than anticipated rate of principal payments is likely to result in a lower than anticipated yield.
- In the case of any Redeemable Certificates purchased at a premium to their principal amounts, a redemption or a faster than anticipated rate of principal payments is likely to result in a lower than anticipated yield.

The values of the Redemption Classes will depend primarily upon the market value of the MBS from time to time (which will depend on prevailing interest rates and other market and economic conditions), market expectations regarding their likely future values, and the costs associated with any exercise of the right of redemption. In particular, the increased likelihood of prepayment of the Mortgage Loan in a low interest rate environment may inhibit the amount of any premium for the MBS and the corresponding values of the Redemption Classes. As indicated herein, the right associated with a Redemption Class to cause a redemption of the related Redeemable Class may not be exercised prior to November 1998. An investor in a Redemption Class should consider the risk that it may suffer an actual loss of all of its initial investment.

See “Risk Factors” beginning on page 6.

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

- The actual final payment of a Redeemable Class may occur earlier, and could occur much earlier, than the Final Distribution Date specified on the cover page.
- The occurrence and timing of principal distributions of a Redeemable Class prior to the Final Distribution Date are uncertain and investors may be unable to reinvest any such distributions thereon at yields comparable to the yield on such Redeemable Class. See “Risk Factors—Reinvestment Risk” herein.
- The likelihood that the Redeemable Classes will sell at premiums in the secondary market will be significantly reduced by the floating rates borne thereby as well as by the potential of a redemption thereof beginning in November 1998.
- Investors whose investment activities are subject to legal investment laws and regulations or to review by regulatory authorities may be subject to restrictions on investment in the Certificates. Investors should consult their legal advisors to determine whether and to what extent the Certificates constitute legal investments or are subject to restrictions on investment. See “Legal Investment Considerations” herein.
- The Dealer intends to make a market for the Certificates but is not obligated to do so. There can be no assurance that a secondary market will develop or, if developed, that it will continue. Thus, investors may not be able to sell their Certificates readily or at prices that will enable them to realize their anticipated yield. No investor should purchase Certificates unless such investor understands and is able to bear the risk that the value of the Certificates will fluctuate over time and that the Certificates may not be readily salable.

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

No REMIC election will be made with respect to the Trust. See “Certain Federal Income Tax Consequences” herein.

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

- Fannie Mae’s Prospectus for Guaranteed Mortgage Pass-Through Certificates dated August 1, 1997, as supplemented by the Prospectus Supplement thereto dated October 1, 1997 (the “MBS Prospectus”); and
- Fannie Mae’s Information Statement dated March 31, 1997 and any supplements thereto (collectively, the “Information Statement”).

The MBS Prospectus and the Information Statement are incorporated herein by reference and may be obtained from Fannie Mae by writing or calling its MBS Helpline at 3900 Wisconsin Avenue, N.W., Area 2H-3S, Washington, D.C. 20016 (telephone 1-800-BEST-MBS or 202-752-6547). Such documents may also be obtained from Salomon Brothers Inc by writing or calling its Prospectus Department at Brooklyn Army Terminal, 140 58th Street, Suite 1-H, Brooklyn, New York 11220 (telephone 718-567-2005).

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REFERENCE SHEET

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

General

Description

The Certificates represent an indirect interest in a Mortgage Loan. The Certificates are guaranteed by Fannie Mae but are not guaranteed by, and are not a debt or obligation of, the United States. See “Description of the Certificates—General—*Fannie Mae Guaranty*” herein.

Investment Objective

Each individual investor should determine, in consultation with his or her investment advisor, whether or not the Certificates satisfy his or her specified investment objectives, particularly in light of the redemption feature described herein. See “Risk Factors—Redemption Risk” herein.

Liquidity

If any Certificate is sold prior to its maturity, an investor may receive sales proceeds (less applicable transaction costs) that are less than the amount originally invested. The Dealer intends to make a market for the purchase and sale of the Certificates, but is not obligated to do so. There can be no assurance that a secondary market will develop or, if it develops, that it will continue. See “Risk Factors” herein.

Federal Income Taxes

A beneficial owner of a Certificate generally will be treated for federal income tax purposes as having purchased an undivided interest in the MBS and as having entered into the applicable Swap Agreement, both to the extent of the beneficial owner’s proportionate interest in the Certificates. A beneficial owner generally will recognize ordinary income in accordance with its method of accounting in an amount equal to its proportionate share of interest payable on the MBS and will take into account a proportionate share of the net payment under the applicable Swap Agreement. Relevant federal income tax information for the preceding calendar year will be mailed to investors, as required by the Internal Revenue Service (“IRS”). Investors should be aware, however, that such information need not be furnished before April 15 of any calendar year following a calendar year in which income accrues on a Certificate. See “Certain Federal Income Tax Consequences” herein.

Maturity

Although the Mortgage Loan underlying the MBS is a non-amortizing balloon loan, prepayment thereof, in whole or in part, may occur at any time. In such event, the amount of any such prepayment will be distributed as principal of the Redeemable Classes. As a result, and subject to the effect of a redemption, the occurrence and timing of principal distributions, if any, prior to the Final Distribution Date may vary based upon a number of factors, including changes in prevailing interest rates. If prevailing interest rates decrease, principal distributions on the Certificates may occur prior to the Final Distribution Date, and any reinvestment of such distributions might be at such lower prevailing interest rates. Conversely, if prevailing interest rates increase, principal distributions on the Certificates may not occur prior to the Final Distribution Date, and investors might not be able to reinvest their principal at such higher prevailing interest rates. In such case, the market value of any such Certificates is likely to have declined. See “Risk Factors” herein.

Certain Mortgage Loan Characteristics (as of December 1, 1997)

<u>Principal Balance</u>	<u>Original Term to Maturity (in months)</u>	<u>Remaining Term to Maturity (in months)</u>	<u>Loan Age (in months)</u>	<u>Coupon</u>
\$50,000,000	126	124	2	6.908%

Interest Rates

The Redeemable Classes will bear interest during the initial Interest Accrual Period at the initial interest rates specified below, and will bear interest during each Interest Accrual Period thereafter, subject to the applicable maximum and minimum interest rates, at rates determined as described below:

<u>Class</u>	<u>Initial Interest Rate</u>	<u>Maximum Interest Rate</u>	<u>Minimum Interest Rate</u>	<u>Formula for Calculation of Interest Rate</u>
A1	6.4% (1)	9.0%	0.4%	LIBOR + 40 basis points
A2	6.5% (1)	8.5%	0.5%	LIBOR + 50 basis points

(1) The initial interest rates are assumed rates. The actual initial interest rates will be calculated on the basis of the applicable formulas on the Index Determination Date occurring on December 12, 1997.

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

The Redemption Classes will bear no interest.

Distributions of Principal

Principal Distribution Amount

To the A1 and A2 Classes, in proportion to their original principal balances, to zero.

The Redemption Classes will receive no principal distributions.

Since either Redeemable Class may be separately redeemed, any such redemption would have no effect on the remaining Redeemable Class and, accordingly, the applicable proportion of all distributions of principal of the MBS following any such redemption would be distributed to the Holders of such remaining Redeemable Class.

Redemption

The Holder of a Redemption Class will have the right to direct Fannie Mae to redeem the related Redeemable Class, in whole but not in part, on any Distribution Date commencing with the November 1998 Distribution Date. However, a redemption of a Redeemable Class will be effected only if, as of the date Fannie Mae receives notice from the Holder of the related Redemption Class directing Fannie Mae to redeem, the related MBS has a market value in excess of its outstanding principal balance.

The price payable by Fannie Mae for a Redeemable Class upon redemption will be equal to its outstanding principal balance plus accrued and unpaid interest thereon. Fannie Mae will redeem a Redeemable Class only upon receipt of payment by the Holder of the related Redemption Class of the Redemption Amount (as defined herein) for such Redeemable Class. The holder of the related Redemption Class will then be entitled to receive from Fannie Mae the related MBS in exchange for such Redemption Class. Each MBS will bear interest at a fixed pass-through rate of 6.568% per annum. Upon any such redemption, the Swap Agreement as it relates to such Redeemable Class will terminate and the definitions of “Floating Interest Amount” and “Fixed Interest Amount” will be adjusted accordingly. No breakage or similar fee will be payable in connection with any such termination. See “Description of the Certificates—Redemption and Exchange” herein.

RISK FACTORS

Yield Considerations

The effective yield to holders of a Redeemable Class will depend upon the levels of LIBOR from time to time, as well as upon the purchase price of the related Certificates, the occurrence and timing of principal prepayments, if any, on the Mortgage Loan, and whether and, if so, when a redemption of such Class occurs (as described under “Description of the Certificates—Redemption and Exchange” herein). Generally, prepayment, in whole or in part, of the Mortgage Loan could increase the anticipated yield to an investor who purchased a Redeemable Certificate at a discount. Conversely, any such prepayment of the Mortgage Loan could decrease the anticipated yield to an investor who purchased a Redeemable Certificate at a premium. An investor should purchase Certificates only after performing an analysis of such Certificates based upon the investor’s own assumptions as to the likelihood and timing of any prepayment and the likelihood and timing of any redemption. In no event will any prepayment penalty received in connection with a prepayment of the Mortgage Loan be distributed to Certificateholders.

The values of the Redemption Classes will depend primarily upon the market value of the MBS from time to time (which will depend on prevailing interest rates and other market and economic conditions), market expectations regarding their likely future values and the costs associated with any exercise of the right of redemption. In particular, the increased likelihood of prepayment of the Mortgage Loan in a low interest rate environment may inhibit the amount of any premium for the MBS and the corresponding values of the Redemption Classes. Fannie Mae makes no representations regarding the value of an investment in a Redemption Class. An investor in any Redemption Class should consider the risk that it may suffer an actual loss of all of its initial investment.

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

Redemption Risk

A Redeemable Class will also be affected by an early redemption thereof as described herein under “Description of the Certificates—Redemption and Exchange.” There will be no reimbursement to investors for any premium paid by investors, or for any loss in an investor’s yield if such investors receive early payments of principal (including early payments received as a result of an early redemption of a Redeemable Class). Moreover, at any time beginning in November 1998, the Redeemable Classes are more likely to be redeemed to the extent that prevailing mortgage interest rates have declined or the MBS otherwise have a market value in excess of their aggregate principal balance. In addition, the likelihood that the Redeemable Classes will sell at premiums in the secondary market will be significantly reduced by the floating rates borne thereby as well as by the potential of a redemption thereof beginning in November 1998.

Reinvestment Risk

Subject to the effect of the applicable prepayment penalty, the Mortgage Loan may be prepaid at any time. In addition, the principal balance of the Mortgage Loan will be distributed upon a default thereof, which could occur during the applicable prepayment penalty period. Accordingly, it is not possible to predict the likelihood and timing of distributions of principal of the Redeemable Classes. Since prevailing interest rates are subject to fluctuation, there can be no assurance that investors in a Redeemable Class will be able to reinvest the distributions thereon at a yield equalling or exceeding the yield on such Redeemable Class. It is possible that yields on such reinvestments will be lower, and may be significantly lower, than the yield on such Redeemable Class. Prospective investors in a Redeemable Class should carefully consider the related reinvestment risk in light of other investments that may be available to such investors.

Prepayment Considerations and Risks

Subject to the effect of any redemption, the occurrence and timing of distributions of principal of the Redeemable Classes prior to the Final Distribution Date are related directly to the prepayments, if any, of the Mortgage Loan (for this purpose, the term “prepayment” includes prepayments and liquidations resulting from default, casualty or condemnation and payments made pursuant to any guaranty of payment by Fannie Mae, or option to repurchase of Fannie Mae). The Mortgage Loan provides for payment of a mortgage prepayment penalty in connection with any prepayment, in whole or in part, occurring prior to April 2007. Depending on other factors present at the time, mortgage loans having prepayment penalties (such as the Mortgage Loan) may be less likely to prepay than otherwise comparable mortgage loans that do not have such penalties. In general, when the level of prevailing interest rates declines sufficiently relative to the interest rate on fixed-rate mortgage loans, the likelihood of prepayment is generally assumed to increase, although prepayment may be influenced by a number of other factors, including general economic conditions. In no event will any prepayment penalty received in connection with a prepayment of the Mortgage Loan be distributed to Certificateholders. See “Maturity and Prepayment Assumptions” in the MBS Prospectus.

For a discussion of certain additional risks, see “Certain Federal Income Tax Consequences” and “ERISA Considerations” herein.

DESCRIPTION OF THE CERTIFICATES

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

General

Structure. The Certificates will be issued and guaranteed by the Federal National Mortgage Association (“Fannie Mae”), a corporation organized and existing under the laws of the United States, under the authority of the Federal National Mortgage Association Charter Act (12 U.S.C. 1716 et seq.). The Trust will be created pursuant to a trust agreement dated as of December 1, 1997 (the “Trust Agreement”), executed by the Federal National Mortgage Association (“Fannie Mae”) in its corporate capacity and in its capacity as trustee (the “Trustee”), and the Certificates in the Classes and aggregate original principal balance set forth on the cover hereof will be issued by Fannie Mae pursuant thereto. The assets of the Trust will consist primarily of (i) the MBS and (ii) the right to receive certain floating rate interest payments as described herein. A description of Fannie Mae and its business, together with certain financial statements and other financial information, is contained in the Information Statement.

Fannie Mae Guaranty. Fannie Mae guarantees to each holder of the MBS the timely payment of scheduled installments of interest and the scheduled installment of principal on the underlying Mortgage Loan, whether or not received, together with the full principal balance of the Mortgage Loan following any foreclosure thereon, whether or not such balance is actually recovered. In addition, Fannie Mae will be obligated to distribute on a timely basis to the Redeemable Classes required installments of principal and interest and to distribute the principal balances of the Redeemable Classes in full no later than the Final Distribution Date. Fannie Mae will guarantee to each Redemption Class all proceeds due to such Class in exchange for the Redemption Amount as described herein. See “Description of Certificates—The Corporation’s Guaranty” in the MBS Prospectus. The guaranties of Fannie Mae are not backed by the full faith and credit of the United States.

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

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

The Redemption Certificates will not be issued in book-entry form but will be issued in fully registered, certificated form. As to a Redemption Certificate, “Holder” or “Certificateholder” refers to the registered owner thereof. The Redemption Certificates will be transferable at the corporate trust office of the Transfer Agent, or at the agency of the Transfer Agent in New York, New York. The Transfer Agent initially will be State Street Bank and Trust Company in Boston, Massachusetts (“State Street”). A service charge may be imposed for any registration of transfer of a Redemption Certificate and Fannie Mae may require payment of a sum sufficient to cover any tax or other governmental charge. The distribution to the Holder of a Redemption Certificate of the related MBS in a redemption and exchange transaction will be made only upon presentation and surrender of such Redemption Certificate at the office of the Paying Agent. The Paying Agent initially will be State Street.

Authorized Denominations. The Redeemable Classes will be issued in minimum denominations of \$1,000 and integral multiples of \$1 in excess thereof. Each Redemption Class will be issued as a single Certificate and will not have a principal balance. Each Redemption Class must be maintained and transferred in a denomination equal to the total notional principal balance of such Class, which will be equal at any time to the principal balance of the related Redeemable Class.

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

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

Trust Factors. As soon as practicable prior to each Distribution Date, Fannie Mae will publish or otherwise make available for each Redeemable Class the factor (carried to eight decimal places) which, when multiplied by the original principal balance of a Certificate of such Class, will equal the remaining principal balance of such Certificate after giving effect to the distribution of principal to be made on the following Distribution Date. The factor for each Redemption Class will be the same as that for the related Redeemable Class.

Redemption. A redemption of each Redeemable Class may be effected as described herein under “—Redemption and Exchange.”

Optional Termination. Notwithstanding the policy described under “Description of Certificates—Termination” in the MBS Prospectus, Fannie Mae will agree not to effect indirectly an early termination of the Trust through the exercise of its right to repurchase the Mortgage Loan underlying the MBS unless the principal balance of such Mortgage Loan at the time of repurchase is less than one percent of the original principal balance thereof.

Book-Entry Procedures

General. The Redeemable Certificates of each Class will be represented by one or more DTC Certificates to be registered in the name of the nominee of The Depository Trust Company (“DTC”), a New York-chartered limited purpose trust company, or any successor depository selected or

approved by Fannie Mae. In accordance with its normal procedures, DTC will record the positions held by each DTC participating firm (each, a “Participant”) in the DTC Certificates, whether held for its own account or as a nominee for another person. State Street will act as Paying Agent for, and perform certain administrative functions with respect to, the DTC Certificates.

No person acquiring a beneficial ownership interest in the DTC Certificates (a “beneficial owner” or an “investor”) will be entitled to receive a physical certificate representing such ownership interest. An investor’s interest in the DTC Certificates will be recorded on the records of the brokerage firm, bank, thrift institution or other financial intermediary (a “financial intermediary”) that maintains such investor’s account for such purpose. In turn, the financial intermediary’s record ownership of such interest will be recorded on the records of DTC (or of a Participant that acts as an agent for the financial intermediary if such intermediary is not a Participant). Accordingly, an investor will not be recognized by the Trustee or DTC as a Certificateholder and must rely on the foregoing arrangements to evidence its interest in the DTC Certificates. Beneficial ownership of an investor’s interest in the DTC Certificates may be transferred only by compliance with the procedures of an investor’s financial intermediary and of Participants. In general, beneficial ownership of an investor’s interest in the DTC Certificates will be subject to the rules, regulations and procedures governing DTC and Participants as in effect from time to time.

Method of Distribution. Each distribution on the DTC Certificates will be distributed by the Paying Agent to DTC in immediately available funds. DTC will be responsible for crediting the amount of such distributions to the accounts of the Participants entitled thereto, in accordance with DTC’s normal procedures. Each Participant and each financial intermediary will be responsible for disbursing such distributions to the beneficial owners of the DTC Certificates that it represents. Accordingly, the beneficial owners may experience some delay in their receipt of distributions.

The MBS

The MBS will have the aggregate unpaid principal balance and Pass-Through Rate set forth below and the general characteristics described in the MBS Prospectus. The MBS will provide that principal (if any) and interest on the underlying Mortgage Loan will be passed through monthly, commencing in the month following the month of the initial issuance thereof. The Mortgage Loan will be a conventional non-amortizing balloon Mortgage Loan secured by first and second mortgages or deeds of trust on various multifamily residential properties and having an original maturity of 126 months. The Mortgage Loan is subject to a mortgage prepayment penalty in the event any prepayment thereof occurs prior to April 2007. For a further description, see the MBS Prospectus. The characteristics of the MBS and the Mortgage Loan as of December 1, 1997 (the “Issue Date”) are expected to be as follows:

MBS (Pool No. MY-360600)	
Aggregate Unpaid Principal Balance	\$50,000,000
MBS Pass-Through Rate	6.568%
Mortgage Loan	
Coupon (per annum percentage)	6.908%
Term to Maturity	124 months
Loan Age	2 months

Distributions of Interest

Category of Classes

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

<u>Interest Type*</u>	<u>Classes</u>
Floating Rate	A1 and A2

* See “—Certain Definitions and Abbreviations” herein. The B1 and B2 Classes will bear no interest.

General. The Redeemable Classes will bear interest at the respective per annum interest rates described herein under “Reference Sheet—Interest Rates.” The Redemption Classes will bear no interest. Interest on the Redeemable Classes will be calculated on the basis of a 360-day year consisting of twelve 30-day months and will be distributable monthly on each Distribution Date, commencing in the month after the Settlement Date. Interest to be distributed on each interest-bearing Certificate on a Distribution Date will consist of one month’s interest on the outstanding principal balance of such Certificate immediately prior to such Distribution Date. As stated herein, in no event will any prepayment penalty received in connection with a prepayment of the Mortgage Loan be distributed to Certificateholders.

Interest Accrual Period. Interest to be distributed on a Distribution Date will accrue on the Redeemable Classes during the one month period beginning on the 25th day of the month preceding the month of the Distribution Date (or, in the case of the initial Distribution Date, beginning on December 16, 1997) and ending on the 24th day of the month of the Distribution Date (an “Interest Accrual Period”).

Calculation of LIBOR

On the second business day next preceding an Interest Accrual Period for the Redeemable Classes (an “Index Determination Date”), beginning in December 1997, Fannie Mae or its agent will determine LIBOR for such Interest Accrual Period as described below.

(a) As of each Index Determination Date, Fannie Mae or its agent will determine LIBOR on the basis of the British Bankers’ Association (“BBA”) “Interest Settlement Rate” for one-month deposits in U.S. dollars as found on Telerate page 3750 as of 11:00 a.m. London time on the Index Determination Date. Interest Settlement Rates currently are based on rates quoted by eight BBA designated banks as being, in the view of such banks, the offered rate at which deposits are being quoted to prime banks in the London interbank market. Such Interest Settlement Rates are calculated by eliminating the two highest rates and the two lowest rates, averaging the four remaining rates, carrying the result (expressed as a percentage) out to six decimal places, and rounding to five decimal places.

(b) If, as of any Index Determination Date, Fannie Mae or its agent is unable to determine LIBOR in accordance with the method set forth in paragraph (a) above, Fannie Mae or its agent will rely on the quotations, as set forth on the Reuters Screen LIBO Page (as defined in the International Swap Dealers Association, Inc. Code of Standard Wording, Assumptions and Provisions for Swaps, 1986 Edition), offered by the principal London office of each of the designated reference banks meeting the criteria set forth herein (the “Reference Banks”) for making one-month United States dollar deposits in leading banks in the London interbank market, as of 11:00 a.m. (London time) on such Index Determination Date. In lieu of relying on the quotations for those Reference Banks that appear at such time on the Reuters Screen LIBO Page, Fannie Mae or its agent will request each of the Reference Banks to provide such offered quotations at such time. LIBOR under this method will be established by Fannie Mae or its agent on each Index Determination Date as follows:

(aa) If on any Index Determination Date two or more Reference Banks provide such offered quotations, LIBOR for the next Interest Accrual Period shall be the arithmetic mean of such offered quotations (rounded upwards if necessary to the nearest whole multiple of $\frac{1}{32}\%$).

(bb) If on any Index Determination Date only one or none of the Reference Banks provides such offered quotations, LIBOR for the next Interest Accrual Period shall be whichever is the higher of (i) LIBOR as determined on the previous Index Determination Date or (ii) the Reserve Interest Rate. The “Reserve Interest Rate” shall be the rate per annum which Fannie Mae or its agent determines to be either (i) the arithmetic mean (rounded upwards if necessary to the nearest whole

multiple of $\frac{1}{32}\%$) of the one-month United States dollar lending rates that New York City banks selected by Fannie Mae or its agent are quoting, on the relevant Index Determination Date, to the principal London offices of at least two of the Reference Banks to which such quotations are, in the opinion of Fannie Mae or its agent, being so made, or (ii) in the event that Fannie Mae or its agent can determine no such arithmetic mean, the lowest one-month United States dollar lending rate which New York City banks selected by Fannie Mae or its agent are quoting on such Index Determination Date to leading European banks.

(cc) If on the initial Index Determination Date Fannie Mae or its agent is required but is unable to determine the Reserve Interest Rate in the manner provided in paragraph (bb) above, LIBOR shall be deemed to be 5.625%.

Each Reference Bank (i) shall be a leading bank engaged in transactions in Eurodollar deposits in the international Eurocurrency market; (ii) shall not control, be controlled by, or be under common control with Fannie Mae; and (iii) shall have an established place of business in London. If any such Reference Bank should be unwilling or unable to act as such or if Fannie Mae should terminate the appointment of any such Reference Bank, Fannie Mae will promptly appoint or cause to be appointed another leading bank meeting the criteria specified above.

The establishment of LIBOR on each Index Determination Date by Fannie Mae or its agent and its calculation of the rate of interest for the Redeemable Classes for the related Interest Accrual Period shall (in the absence of manifest error) be final and binding.

Swap Agreement

The Trust and the Swap Counterparty will enter into the Swap Agreement on the Settlement Date. Under the Swap Agreement, the Swap Counterparty will be obligated, on each Distribution Date, to pay to the Trust the excess, if any, of the “Floating Interest Amount” over the “Fixed Interest Amount” for that Distribution Date (such excess, the “Net Floating Amount”). Conversely, the Trust will be obligated, on each such Distribution Date, to pay to the Swap Counterparty the excess, if any, of the Fixed Interest Amount over the Floating Interest Amount for that Distribution Date (such excess, the “Net Fixed Amount”). The Trust will pay such Net Fixed Amount from payments received on the MBS on the same Distribution Dates.

The *Floating Interest Amount* for any Distribution Date will equal to the sum of one month’s interest at the applicable floating rate on the principal balance of each Redeemable Class then outstanding.

The *Fixed Interest Amount* for any Distribution Date will equal one month’s interest at a rate equal to 6.553% per annum (*i.e.*, the pass-through rate borne by the MBS, less 1.5 basis points) on the aggregate principal balance of the MBS on the Trust.

Distributions of Principal

Categories of Classes

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

<u>Principal Type*</u>	<u>Classes</u>
Redeemable/Pass-Through	A1 and A2
Redemption	B1 and B2

* See “—Certain Definitions and Abbreviations” herein.

Principal Distribution Amount

On each Distribution Date, an amount equal to the aggregate distributions of principal, if any, concurrently made on the MBS (the “Principal Distribution Amount”) will be distributed on the Redeemable Classes.

On each Distribution Date, the Principal Distribution Amount, if any, will be distributed as principal, concurrently, to the A1 and A2 Classes, in proportion to their original principal balances (or 60% and 40%, respectively), until the principal balances thereof are reduced to zero. } Redeemable/
Pass-Through
Classes

Since either Redeemable Class may be separately redeemed, any such redemption would have no effect on the remaining Redeemable Class and, accordingly, the applicable proportion of all distributions of principal of the MBS following any such redemption would be distributed to the Holders of such remaining Redeemable Class.

The Redemption Classes

The Redemption Classes will receive no principal distributions. For convenience in effecting redemption and exchange transactions, the B1 and B2 Classes will have notional principal balances equal at all times to the principal balances of the A1 and A2 Classes, respectively. See “—Redemption and Exchange” below.

Redemption and Exchange

The Holder of a Redemption Class will have the right to direct Fannie Mae to redeem the related Redeemable Class, in whole but not in part, on any Distribution Date commencing with the November 1998 Distribution Date. However, a redemption of a Redeemable Class will be effected only if, as of the date Fannie Mae receives notice from the Holder of the related Redemption Class directing Fannie Mae to redeem, the related MBS has a market value in excess of its outstanding principal balance. For this purpose, the “market value” of an MBS will be determined by reference to bid quotations obtained by Fannie Mae as of the date Fannie Mae receives notice of the intention to direct a redemption. The determination by Fannie Mae of the market value as described above will (in the absence of manifest error) be final and binding.

The price payable by Fannie Mae for a Redeemable Class upon redemption will be equal to its outstanding principal balance plus accrued and unpaid interest thereon. Fannie Mae will redeem a Redeemable Class only upon receipt of payment by the Holder of the related Redemption Class of the Redemption Amount (as defined below) for such Redeemable Class.

The Holder of a Redemption Class proposing to effect a redemption and exchange as of any applicable Distribution Date must so notify Fannie Mae no sooner than the first business day of the month of such Distribution Date and no later than 11:00 a.m. on the fifth business day prior to such Distribution Date. Not later than the fifth business day prior to the applicable Distribution Date, the Holder of a Redemption Class must deposit with Fannie Mae the Redemption Amount, which shall be equal to 100% of the outstanding principal balance of the related Redeemable Class based on the Trust Factor published for such Redeemable Class for the month prior to the month of redemption. Upon delivery of the Redemption Amount and determination of a satisfactory market value for the related MBS as described above, the notice of redemption and exchange will become irrevocable and redemption of the related Redeemable Class will be made on the Distribution Date.

The Trust Factor for the month of redemption for a Redeemable Class and the related Redemption Class will be zero. The redemption of a Redeemable Class will be at a redemption price (the “Redemption Price”) equal to the sum of:

(a) 100% of the outstanding principal balance of such Redeemable Class; and

(b) accrued interest at the applicable rate per annum for such Redeemable Class for the related Interest Accrual Period.

Distribution of the Redemption Price will be in lieu of any distribution of principal and interest that would otherwise be made on that Distribution Date.

On the day Fannie Mae receives the Redemption Amount, subject to the conditions described above, Fannie Mae will exchange the related MBS for the related Redemption Class. On the Distribution Date in the month of redemption, Fannie Mae will remit to the Holder of the related Redemption Class the amount of principal, if any, received on the related MBS in the month of redemption.

The first distribution on the related MBS delivered in an exchange for a Redemption Class will be made on the distribution date therefor in the month following the month of exchange. Such distribution will be made to the holder of record as of the close of business on the last day of the month of exchange.

Certain Definitions and Abbreviations

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

<u>Abbreviation</u>	<u>Category</u>	<u>Definition</u>
PRINCIPAL TYPE		
PT	Pass-Through	Certificates that are designed to receive principal payments based on actual or scheduled payments on the underlying mortgage loans or actual or scheduled distributions on the underlying securities.
INTEREST TYPE		
FLT	Floating Rate	Certificates whose interest rate resets periodically based on a designated index and that varies directly with changes in such index.
OTHER TYPE		
REDEMPTION	Redemption	Certificates whose Holder has the right upon the satisfaction of certain conditions (i) to cause Fannie Mae to redeem a related Redeemable Class and (ii) upon payment of the Redemption Amount and any exchange fee, to receive the securities underlying such Redeemable Class. Such Certificates do not represent beneficial ownership interests in such underlying securities.
REDEEMABLE or RDM	Redeemable	Certificates that are redeemable by Fannie Mae at the direction of the Holder of the related Redemption Class.

Final Distribution Date

The Final Distribution Date for a Redeemable Class is the date by which the principal balance of such Class is required to be fully paid, assuming no prepayments on the Mortgage Loans and no

redemption of such Redeemable Class, and is specified on the cover page hereof. The Final Distribution Date has been determined so that distributions on the MBS will be sufficient to retire each Redeemable Class on or before such Final Distribution Date without the necessity of any call on Fannie Mae under its guaranty of the Certificates.

The termination date for the Redemption Classes is specified on the cover page hereof. The termination date is the latest date by which any payment will be made to the Holders of the Redemption Classes in connection with a redemption of the related Redeemable Classes.

THE TRUST AGREEMENT

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

Reports to Certificateholders

As soon as practicable prior to each Distribution Date, Fannie Mae will publish or otherwise make available the Trust Factors (carried to eight decimal places) for the Redeemable Classes after giving effect to the distribution of principal, if any, to be made on the following Distribution Date. Fannie Mae also will furnish to each person who was a Certificateholder at any time during a calendar year such statements and information as shall be required to be furnished pursuant to the Code (as defined below).

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

Certain Matters Regarding Fannie Mae

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

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

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

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

Events of Default

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

Rights Upon Event of Default

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

Amendment

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

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

Termination

The Trust Agreement will terminate upon the distribution to Certificateholders of all required distributions on the Certificates. The Trust Agreement will terminate also upon repurchase by Fannie Mae, at its option, of the Mortgage Loan underlying the MBS, provided that Fannie Mae will not exercise such option unless the principal balance of such Mortgage Loan at the time of repurchase is less than one percent of the original principal balance thereof. The exercise of such repurchase option will effect retirement of the Certificates.

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

CERTAIN FEDERAL INCOME TAX CONSEQUENCES

General

The following is a general discussion of the anticipated material federal income tax consequences to beneficial owners of the purchase, ownership and disposition of the Certificates. The term “Swap Agreement” when used in this discussion refers to the Swap Agreement allocable to the Class of Certificates beneficially owned by an investor. The discussion is based upon laws, regulations, rulings and decisions now in effect, all of which are subject to change. The discussion does not purport to deal with all federal tax consequences applicable to all categories of investors, some of which may be subject to special rules. Investors should consult their own tax advisors in determining the federal, state, local and any other tax consequences to them of the purchase, ownership and disposition of the Certificates.

Although the Certificates resemble in certain respects variable rate debt instruments, their tax treatment can differ substantially from such an investment. The Certificates may not be a suitable investment for individuals, trusts or estates and certain “pass-thru entities,” the beneficial owners of which are individuals, trusts or estates. The Certificates are not a suitable investment for real estate investment trusts or REMICs. Moreover, other special rules may apply to certain investors, including dealers in securities, dealers in notional principal contracts, persons holding the Certificates as part of a straddle with respect to some other investment position, and certain persons whose functional currency is not the United States dollar.

Classification of Investment Arrangement

The Certificates, evidencing interests in the Trust, will be issued under a book-entry system to Holders acting on behalf of beneficial owners (“Owners”). The arrangement pursuant to which the Trust will be administered by Fannie Mae and the Certificates will be issued will be classified as a grantor trust under subpart E, Part I of subchapter J of the Internal Revenue Code of 1986, as amended (the “Code”), and not as an association taxable as a corporation. The Certificates will be issued in a pair of classes. The A1 and A2 Classes will be the Redeemable Classes, representing the beneficial ownership interest in the MBS, and the B1 and B2 Classes will be the Redemption Classes, representing the right (the “Redemption Right”) to direct Fannie Mae to redeem the related Redeemable Class and to acquire the MBS.

Status of Certificates

An Owner will own both an interest in the MBS and an interest in the Swap Agreement for federal income tax purposes. The interest in the Swap Agreement 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 the Swap Agreement will *not* constitute income described in section 856(c)(3)(B) of the Code for a real estate investment trust, but should constitute income described in section 851(b)(2) of the Code for a regulated investment company.

The Redeemable Classes

Status. An Owner of an interest in a Redeemable Class will be treated as (i) owning an undivided interest in the MBS, (ii) having entered into the Swap Agreement and (iii) writing a call option on such undivided interest at the time of the purchase of the interest in such Redeemable Class. Such call option is represented by a proportionate part of the Redemption Right. The Owner will be treated as having written such call option in exchange for an option premium in an amount equal to the fair market value of the call option.

Allocations. An Owner should be considered to have acquired its interest in the Swap Agreement for an amount equal to the cost of its Certificate multiplied by a fraction, the numerator of which is the fair market value to the Trust of the Swap Agreement and the denominator of which is the sum of the fair market value of the MBS and the fair market value of the Swap Agreement, in each case at the time of acquisition. Generally, the difference between the cost of the Certificate and the portion of such cost allocated to the MBS should be treated as a premium with respect to the Swap Agreement (“Swap Premium”) that is received (if such cost is less than the amount allocated to the MBS), or that is paid (if such cost is greater than the amount allocated to the MBS), by the Owner. In addition, an Owner should be considered to have an initial tax basis in its interest in the MBS equal to (i) the cost of its Certificate, (ii) less the amount allocated to the Swap Agreement (iii) plus the option premium it is deemed to have received.

The same method would apply in allocating an amount received by an Owner upon a sale of a Certificate or upon termination of the Trust between the MBS and the Swap Agreement, using fair market values at the time of sale or termination. Any amount so allocated to the Swap Agreement would be considered a termination payment. In the case of a sale, the sale price should also be deemed to include an amount equal to the fair market value, at the time of the sale, of the call option, which amount the Owner is deemed to have paid to be relieved from the obligation under the call option.

As described more fully below, the fair market value of the Swap Agreement initially will be negative as to the Trust, reflecting the fact that the Swap Agreement will initially be a net economic liability of the Trust. See “*Taxation of Swap Agreement—Nonperiodic Payments*” herein. The fair market value of the Swap Agreement at any later time may be either positive or negative, depending on whether the Floating Interest Amount is greater or less than the Fixed Interest Amount.

Taxation of an Interest in the MBS. Except as described below under “Application of the Straddle Rules,” the anticipated material federal income tax consequences to an Owner of the purchase, ownership and disposition of an interest in the MBS are as described under “Certain Federal Income Tax Consequences” in the MBS Prospectus. Fannie Mae will determine the issue price of the MBS by allocating the initial price at which a substantial portion of the Certificates are sold between the MBS and the Swap Agreement as described above under “*Allocations*.” Based in part on assumptions regarding the initial price at which a substantial portion of the MBS would sell to the public, as well as the initial fair market value of the Swap Agreement, Fannie Mae expects to report income to the IRS and to the Owners assuming that the MBS are purchased at a price equal to approximately 101.4% of the original principal amount. Thus, the MBS will be treated as having been purchased at a premium for federal income tax purposes. See “Certain Federal Income Tax Consequences—Taxation of the Certificates—*Premium*” in the MBS Prospectus.

Taxation of Redemption Option Premium. An Owner of an interest in a Redeemable Class will not be required to include immediately in income the option premium that it is deemed to receive when it purchases such interest. Instead, the Owner must account for such premium when the Redemption Right lapses, is exercised or is otherwise terminated with respect to such Owner. As discussed under “*Allocations*,” an Owner’s basis in the MBS includes the option premium such Owner is deemed to have received. An Owner’s recovery of such basis will not occur at the same rate as its inclusion in income of the option premium.

If the Redemption Right is exercised, an Owner of an interest in the related Redeemable Class will include in its amount realized from the sale of the MBS an amount equal to the unamortized portion of the option premium. If an Owner transfers its interest in such Redeemable Class, such transfer will be treated as a “closing transaction” with respect to the call option the Owner is deemed to have written. Accordingly, such Owner will recognize a short-term capital gain or loss equal to the difference between the unamortized amount of option premium and the amount such Owner is deemed to pay to be relieved from the obligation under the call option.

Taxation of Swap Agreement

In General. An Owner will also be treated for federal income tax purposes as having entered into a notional principal contract in the form of an interest rate swap on the date it purchases its Certificate. Income or deduction with respect to the Swap Agreement may be attributable to the periodic payments thereunder, the Swap Premium or termination payments.

Periodic Payments. Treasury Department Regulations under section 446 of the Code relating to notional principal contracts (the “Swap Regulations”) provide that all taxpayers must recognize periodic payments with respect to a notional principal contract under the accrual method of accounting. The periodic payments would be netted over the Owner’s taxable year, rather than accounted for on a gross basis. Net income or deduction with respect to periodic payments under a notional principal contract for a taxable year should constitute ordinary income or ordinary deduction.

In the Case of an Owner that is an individual, estate or trust, section 67 of the Code will allow a deduction for a net payment made under the Swap Agreement, but only to the extent that such payment, along with certain of such Owner’s other miscellaneous itemized deductions, exceeds 2 percent of such Owner’s adjusted gross income. Also, a net payment may not be deductible by such Owner for purposes of the alternative minimum tax. An Owner that is an individual, estate or trust should consult its tax advisor regarding the application of section 67 of the Code and the alternative minimum tax to an investment in the Certificates.

Nonperiodic Payment. An initial Owner should be considered to have received a Swap Premium, reflecting the fact that the Swap Agreement will initially represent a net economic liability of the Trust. Assuming that an Owner purchases its Certificate at par (without regard to accrued interest), the amount of the Swap Premium will equal the amount of the premium on the MBS. Under the Swap Regulations, a nonperiodic payment that relates to a swap must be recognized over the term of the contract by allocating it in accordance with the economic substance of the transaction. For tax information reporting purposes, Fannie Mae intends (i) to assume that all of the Certificates will be purchased on the Settlement Date, and (ii) to amortize the initial Swap Premium under a constant yield method in the same manner as if the Swap Premium were premium on the MBS. This method should be treated as reflecting the economic substance of the Swap Premium under the Swap Regulations. The amount of the initial Swap Premium that is amortized in any taxable year will be treated as a periodic payment deemed made under the Swap Agreement. Owners that purchase a Certificate and are deemed either to receive or pay a Swap Premium should consult with their tax advisors regarding the appropriate method of amortization of that premium.

A nonperiodic payment made under a notional principal contract is treated as a loan for federal income tax purposes if the payment is a “significant” nonperiodic swap payment. Owners should

consult with their own tax advisors regarding whether a Swap Premium that they are deemed to pay or to receive as a result of their purchase may be treated as a loan under the Swap Regulations.

Termination Payments. Any amount that is considered to be allocated to the Swap Agreement in connection with the sale of a Certificate as described above under “*Allocations*,” and any swap breakage fee that is payable to or by the Swap Counterparty in connection with the termination of the Swap Agreement, would be considered “termination” payments under the Swap Regulations. Under the Swap Regulations, an Owner will have gain or loss from termination of the Swap Agreement equal to (i) the sum of the unamortized portion of any Swap Premium received by the Owner upon entering into the Swap Agreement and any termination payment it receives or is deemed to have received, less (ii) the sum of the unamortized portion of any Swap Premium paid by the Owner upon entering into the Swap Agreement and any termination payment it pays or is deemed to have paid. Regulations under section 1092 of the Code provide that certain interest rate swaps are “actively traded” property for purposes of section 1092 of the Code. It would appear that these regulations apply to the Swap Agreement, therefore, under section 1234A of the Code, gain or loss upon the termination of the Swap Agreement will generally be treated as capital gain or loss, assuming the MBS constitute a capital asset in the hands of the Owner. Moreover, in the case of a bank or thrift, section 582(c) of the Code will likely not apply to treat such gain or loss as ordinary.

An Owner that recognizes capital loss upon termination of the Swap Agreement generally will be able to offset that loss against any gain recognized with respect to the MBS only if such gain is capital gain.

Taxation of Foreign Investors. In general, foreign investors will not be subject to U.S. withholding tax on income or gain from the Swap Agreement.

The Redemption Classes

Status. The Owner of a Redemption Class will be treated as having purchased a call option on all of the MBS for an option premium in an amount equal to the price paid for such Redemption Class. It would appear that if the Owner of a Redemption Class acquired an interest in the related Redeemable Class, such call option would be proportionately extinguished for at least as long as the Owner of such Redemption Class held such interest, and the Owner would be treated as holding solely its proportionate share of the MBS.

Taxation of Redemption Option Premium. Because the price paid by the Owner of a Redemption Class to purchase such Class will be treated as an option premium for the Redemption Right, it will be added to the purchase price of the MBS (in addition to the exchange fee, as discussed under “*Description of the Certificates—Redemption and Exchange*”) if the MBS are purchased upon exercise of the Redemption Right, and will be treated as a loss as the Redemption Right lapses. For a discussion of when the Redemption Right may be deemed to lapse, see “*The Redeemable Classes—Taxation of Redemption Option Premium*” above. If the MBS, if acquired, would be a capital asset in the hands of the Owner, then loss recognized with respect to such lapse will be a capital loss.

Application of the Straddle Rules

With respect to an Owner of an interest in a Redeemable Class, the IRS might take the position that the Owner’s interest in the MBS, the Swap Agreement and call option constitute positions in a straddle. If this position were sustained, the straddle rules of section 1092 of the Code would apply. Under those rules, an Owner selling its interest in a Redeemable Class would be treated as selling its interest in the MBS at a gain or loss. Such gain or loss would be short-term because the Owner’s holding period would be tolled. In addition, the straddle rules might require an Owner to capitalize, rather than deduct, a portion of any interest and carrying charges allocable to such Owner’s interest in a Redeemable Class. Further, if the IRS were to take the position that an Owner’s interest in the MBS and the call option constituted a “conversion transaction” as well as a straddle, then a portion of the gain with respect to the MBS or the call option might be characterized as ordinary income. Each

Owner of an interest in a Redeemable Class is advised to consult its own tax advisor regarding these issues.

LEGAL INVESTMENT CONSIDERATIONS

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

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

LEGAL OPINION

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

ERISA CONSIDERATIONS

A Department of Labor regulation provides that, if an employee benefit plan subject to the Employee Retirement Income Security Act of 1974, as amended (“ERISA”), acquires a “guaranteed governmental mortgage pool certificate,” then, for purposes of the fiduciary responsibility and prohibited transaction provisions of ERISA and the Code, the plan’s assets include the certificate and all of its rights with respect to the certificate, but do not, solely by reason of the plan’s holding of the certificate, include any of the mortgages underlying the certificate. Under this regulation, the term “guaranteed governmental mortgage pool certificate” includes a certificate “backed by, or evidencing an interest in, specified mortgages or participation interests therein” if interest and principal payable on the certificate are guaranteed by Fannie Mae. The effect of the regulation is to make clear that the sponsor (that is, the entity that organizes and services the pool, in this case Fannie Mae) and other persons, in providing services with respect to the assets in the pool, would not be subject to the fiduciary responsibility provisions of Title 1 of ERISA, or the prohibited transaction provisions of Section 406 of ERISA or Code Section 4975, merely by reason of the plan’s investment in a certificate.

Because the assets of the Trust include the right to receive variable rate interest payments under the Swap Agreement, the Redeemable Classes might not qualify as “guaranteed governmental mortgage pool certificates” under the regulation described in the preceding paragraph. Therefore,

depending upon facts and circumstances, such as the aggregate number of Certificates beneficially owned by ERISA plans, the assets of the Trust might be deemed to be assets of such ERISA plans for all purposes under Title I of ERISA. In light of this possibility, ERISA plans with respect to which the Swap Counterparty is or might become a party in interest (as defined in Section 3(14) of ERISA) ought not to consider purchasing a Redeemable Certificate, unless they are represented in this regard by a “qualified professional asset manager” (“QPAM”) as that term is defined in U.S. Department of Labor Prohibited Transaction Exemption (“PTE”) 84-14, and the other conditions to the applicability of PTE 84-14 to the purchase and holding of Redeemable Certificates are satisfied, or unless the conditions to the applicability of some other similar prohibited transaction exemption would be satisfied. Similarly, ERISA plans which hold or contemplate acquiring debt obligations of Fannie Mae ought not to consider purchasing a Redeemable Certificate, unless they were represented or would be represented (as appropriate) by a QPAM in connection with the purchase of such debt obligations, and the other conditions to the applicability of PTE 84-14 to the purchase and holding of such obligations were and are, or would be satisfied, or unless the conditions to the applicability of some other similar prohibited transaction exemption are or would be satisfied.

The acquisition of the Redemption Right (as defined in “Certain Federal Income Tax Consequences”) by the beneficial owner of a Redemption Class, as well as the consequences of the exercise of the Redemption Right by such a beneficial owner, might be treated under ERISA as principal transactions between the beneficial owners of the related Redeemable Class and the beneficial owner of such Redemption Class. Thus, in theory, the acquisition or exercise of the Redemption Right could be characterized under certain circumstances as an ERISA prohibited transaction between a plan and a “party in interest” (assuming that such plan holds a Redeemable or Redemption Class and such “party in interest” holds the related Redemption or Redeemable Class), unless the conditions to the applicability of an ERISA prohibited transaction exemption, such as PTE 84-14, are satisfied. A Redemption Class may be deemed to be an option to acquire a guaranteed governmental mortgage pool certificate rather than such a certificate. ERISA plan fiduciaries should consult with their counsel concerning these issues.

PLAN OF DISTRIBUTION

General. The Dealer will receive the Certificates in exchange for the MBS pursuant to a Fannie Mae commitment. The Dealer proposes to sell the Redeemable Classes directly to the public from time to time in negotiated transactions at varying prices to be determined at the time of sale. The Dealer proposes to offer each Redemption Class in a negotiated transaction with a single purchaser at a price to be determined at the time of sale. The Dealer may effect such transaction to or through dealers.

Increase in Certificates. Before the Settlement Date, Fannie Mae and the Dealer may agree to offer hereby Certificates in addition to those contemplated as of the date hereof. In such event, the MBS will be increased in principal balance, but it is expected that all additional MBS will have the same characteristics as described herein under “Description of the Certificates—The MBS.”

LEGAL MATTERS

Certain legal matters will be passed upon for the Dealer by Cleary, Gottlieb, Steen & Hamilton. The material federal income tax consequences of the Certificates will be passed upon for Fannie Mae by Dewey Ballantine.

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

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FannieMae

**Guaranteed Grantor Trust
Redeemable / Redemption
Certificates**

Fannie Mae Grantor Trust 1997-T2

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Salomon Smith Barney

**Prospectus
Dated November 7, 1997**