

PROSPECTUS

\$506,000,000



FannieMae

Guaranteed REMIC Pass-Through Certificates Fannie Mae REMIC Trust 1997-W1

The Guaranteed REMIC Pass-Through Certificates (the “Certificates”) will represent beneficial ownership interests in Fannie Mae REMIC Trust 1997-W1 (the “Trust”). The assets of the Trust will consist of first lien, single-family, fixed-rate, residential mortgage loans (the “Mortgage Loans”) having the characteristics described herein. The Certificates will be issued and guaranteed as to timely distribution of principal and interest by Fannie Mae.

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

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

(Cover continued on next page)

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

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

Class	Original Principal Balance	Principal Type(1)	Interest Rate	Interest Type(1)	CUSIP Number	Final Distribution Date
A	\$ 8,485,000	SEQ	7.00%	FIX	31359P FY 7	October 2010
B	109,220,000	SEQ	7.00	FIX	31359P FZ 4	June 2020
C	47,000,000	SEQ	7.00	FIX	31359PGA8	January 2023
D	30,000,000	SEQ	7.00	FIX	31359PGB6	March 2024
G	33,532,000	SEQ	7.00	FIX	31359PGC4	January 2023
H	25,863,000	SEQ	7.00	FIX	31359PGD2	March 2024
J	44,890,000	SEQ	7.00	FIX	31359PGE0	October 2025
K	51,610,000	SEQ	7.00	FIX	31359PGF7	April 2027
L	75,000,000	SEQ	7.00	FIX	31359PGG5	April 2027
F	58,800,000	STP	(2)	FLT	31359PGH3	April 2027
S	(3)	NTL	(2)	INV/IO	31359PGJ9	April 2027
FA	21,600,000	STP	(2)	FLT	31359PGK6	April 2027
SA	(3)	NTL	(2)	INV/IO	31359PGL4	April 2027
R	0	NPR	0	NPR	31359PGM2	April 2027

- (1) See “Description of the Certificates—Class Definitions and Abbreviations,” “—Distributions of Interest” and “—Distributions of Principal” herein.
- (2) The F, S, FA and SA Classes will bear interest based on “LIBOR” as described under “Description of the Certificates—Distributions of Interest—Floating Rate and Inverse Floating Rate Classes” and “—Calculation of LIBOR” herein.
- (3) The S and SA Classes will be Notional Classes, will not have principal balances and will bear interest on their notional principal balances (initially, \$58,800,000 and \$21,600,000, respectively). The notional principal balance of the Notional Classes will be calculated based upon the principal balances of the Classes specified herein. See “Description of the Certificates—Distributions of Interest—Notional Classes” herein.

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

The Certificates will be offered by the Dealers, subject to issuance by Fannie Mae and to prior sale or to withdrawal or modification of the offer without notice, when, as and if delivered to and accepted by the Dealers, and subject to approval of certain legal matters by counsel. It is expected that the Certificates (except for the R Class) will be available through the book-entry system of The Depository Trust Company on or about April 30, 1997 (the “Settlement Date”). It is expected that the R Class in registered, certificated form will be available for delivery at the offices of Lehman Brothers Inc., Three World Financial Center, New York, New York 10285, on or about the Settlement Date.

LEHMAN BROTHERS

**COUNTRYWIDE SECURITIES
CORPORATION**

March 12, 1997

(Cover continued from previous page)

The yields to investors in the Group 1 Classes (as described herein) will be sensitive in varying degrees to the rate of principal payments of the Group 1, Group 2 and Group 3 Mortgage Loans and the yields to investors in the Group 2 and Group 3 Classes (each as described herein) will be sensitive to the rate of principal payments of the Group 2 and Group 3 Mortgage Loans, respectively. The yield to investors in each Class will also be sensitive to the actual characteristics of the Mortgage Loans, the purchase price paid for the related Class and, in the case of any Floating Rate or Inverse Floating Rate Class, fluctuations in the level of the Index (as defined herein). Accordingly, investors should consider the following risks:

- The Mortgage Loans generally may be prepaid at any time without penalty, and, accordingly, the rate of principal payments thereon is likely to vary considerably from time to time.
- Slight variations in Mortgage Loan characteristics could substantially affect the weighted average lives and yields of some or all of the Classes.
- In the case of any Certificates purchased at a discount to their principal amounts, a slower than anticipated rate of principal payments is likely to result in a lower than anticipated yield.
- In the case of any Certificates purchased at a premium to their principal amounts, a faster than anticipated rate of principal payments is likely to result in a lower than anticipated yield.
- In the case of the Interest Only Classes, a faster than anticipated rate of principal payments is likely to result in a lower than anticipated yield and, in certain cases, an actual loss on the investment.
- The yield on any Floating Rate or Inverse Floating Rate Class will be sensitive to the level of the Index. See “Description of the Certificates—Distributions of Interest—*Floating Rate and Inverse Floating Rate Classes*” herein.

See “Risk Factors” beginning on page 6 herein.

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

- The actual final payment of any Class will likely occur earlier, and could occur much earlier, than the Final Distribution Date for such Class specified on the cover page. See “Description of the Certificates—Weighted Average Lives of the Certificates” herein.
- The rate of principal distributions of the Certificates is uncertain and investors may be unable to reinvest the distributions thereon at yields equaling the yields on the Certificates. See “Risk Factors—Reinvestment Risk” herein.
- Investors whose investment activities are subject to legal investment laws and regulations or to review by regulatory authorities may be subject to restrictions on investment in certain Classes of the Certificates. Investors should consult their legal advisors to determine whether and to what extent the Certificates constitute legal investments or are subject to restrictions on investment. See “Legal Investment Considerations” herein.
- The Dealers intend to make a market for the Certificates but are not obligated to do so. There can be no assurance that such a secondary market will develop or, if developed, that it will continue. Thus, investors may not be able to sell their 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.

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

Investors should purchase the Certificates only if they have read and understood this Prospectus and Fannie Mae’s Information Statement dated February 22, 1996 and any supplements thereto (collectively, the “Information Statement”).

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

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REFERENCE SHEET

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

Assumed Characteristics of the Mortgage Loans (as of April 1, 1997)

<u>Mortgage Loan Group</u>	<u>Approximate Principal Balance</u>	<u>Approximate Weighted Average Remaining Term to Maturity (in months)</u>	<u>Approximate Calculated Loan Age (in months)</u>	<u>Approximate Weighted Average Coupon</u>
Group 1	\$158,000,000	355	4	7.81%
Group 2	\$294,000,000	355	4	8.19%
Group 3	\$ 54,000,000	355	4	8.57%

The actual remaining terms to maturity, calculated loan ages and interest rates of most of the related Mortgage Loans will differ from the weighted averages shown above, perhaps significantly. See “Description of the Certificates—Structuring Assumptions—*Pricing Assumptions*” herein.

Interest Rates

The Fixed Rate Classes will bear interest at the applicable per annum interest rates set forth on the cover.

The Floating Rate and Inverse Floating Rate 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>
F	6.723%	9.50%	1.25%	LIBOR + 125 basis points
S	2.777%	8.25%	0.00%	8.25% – LIBOR
FA.....	6.723%	9.50%	1.25%	LIBOR + 125 basis points
SA.....	2.777%	8.25%	0.00%	8.25% – LIBOR

See “Description of the Certificates—Distributions of Interest—*Floating Rate and Inverse Floating Rate Classes*” herein.

Notional Classes

The notional principal balance of each Notional Class will be equal to the indicated percentage of the outstanding principal balance of the applicable Class specified below immediately prior to the related Distribution Date:

<u>Class</u>	<u>Percentage of Principal Balance of Class</u>
S	100% of F Class
SA	100% of FA Class

See “Description of the Certificates—Distributions of Interest—*Notional Classes*” and “—Yield Tables—*The Interest Only Classes*” herein.

Distributions of Principal

Group 1 Principal Distribution Amount

- (a) On each Distribution Date, commencing in May 2002, to the L Class, in an amount calculated as described herein under “Description of the Certificates—Distributions of Principal,” to zero.
- (b) On each Distribution Date, to the Group 1 Classes in the following order of priority:
 - (i) to the A, B and C Classes, in the proportions of 15.1463762942%, 63.8361299536% and 21.0174937522%, respectively, until the A Class is reduced to zero;
 - (ii) to the B, C and D Classes, in the proportions of 63.8363140240%, 21.0186488694% and 15.1450371066%, respectively, until the B Class is reduced to zero;
 - (iii) to the C, D and G Classes, in the proportions of 21.0158585109%, 15.1464960877% and 63.8376454014%, respectively, until the C and G Classes are reduced to zero;
 - (iv) to the D and H Classes, in the proportions of 15.1448538338% and 84.8551461662%, respectively, to zero;
 - (v) to the J and K Classes, in that order, to zero; and
 - (vi) to the L Class, to zero.

Group 2 Principal Distribution Amount

On each Distribution Date, an amount equal to 20% of the Group 2 Cash Flow Distribution Amount (as defined herein), to the F Class, to zero.

Group 3 Principal Distribution Amount

On each Distribution Date, an amount equal to 40% of the Group 3 Cash Flow Distribution Amount (as defined herein), to the FA Class, to zero.

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

Weighted Average Lives (years) *

Class	PSA Prepayment Assumption				
	0%	100%	180%	350%	500%
A	7.9	1.7	1.2	0.8	0.7
B	15.4	4.1	2.7	1.7	1.4
C	17.6	5.5	3.5	2.2	1.7
D	21.6	7.9	4.8	2.9	2.2
G	24.5	10.2	6.0	3.5	2.7
H	26.3	13.8	8.0	4.3	3.2
J	27.7	17.9	11.0	5.3	3.8
K	29.3	24.8	18.9	8.7	5.0
L	22.2	15.7	13.2	10.4	8.3
F and S	21.6	11.6	8.2	4.9	3.6
FA and SA	21.8	11.6	8.2	4.9	3.6

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

RISK FACTORS

Yield Considerations

The effective yield to Certificateholders in the Trust will depend upon the purchase price of the related Certificates, the rate of principal payments, including prepayments, on the Mortgage Loans, and the actual characteristics of the Mortgage Loans. In particular, the rate of distributions of principal of the Group 1 Classes will be sensitive in varying degrees to the rate of principal payments of the Group 1, Group 2 and Group 3 Mortgage Loans, and the rate of distributions of principal of the Group 2 and Group 3 Classes will be sensitive to the rate of principal payments of the Group 2 and Group 3 Mortgage Loans, respectively. The effective yield to Certificateholders in any Floating Rate or Inverse Floating Rate Classes will also depend upon the level of the Index. An investor should purchase Certificates only after performing an analysis of such Certificates based upon the investor's own assumptions as to future rates of prepayment and, if applicable, levels of the Index.

The timing of changes in the rate of principal payments (including prepayments) or, if applicable, the level of the Index may significantly affect the yield to an investor, even if the average rate of principal prepayments, or the average level of the Index, is consistent with such investor's expectations. In general, the earlier the payment of principal, or change in the level of the Index, the greater the effect on an investor's yield to maturity. As a result, the effect on an investor's yield of principal payments (including prepayments) or the level of the Index occurring at a rate or level higher (or lower) than the rate or level anticipated by the investor during the period immediately following the Settlement Date will not be offset by any subsequent equivalent reduction (or increase) in the rate of principal payments (including prepayments) or the level of the Index.

The effective yields on the Delay Classes (as defined herein) will be reduced below the yields otherwise produced because principal and interest payable on a Distribution Date will not be distributed until the 18th day following the end of the related Interest Accrual Period and will not bear interest during such delay. No interest at all will be paid on any Class after its principal balance or notional principal balance has been reduced to zero. As a result of the foregoing, the market values of the Delay Classes will be lower than would have been the case if there were no such delay. Investors must make their own decisions as to the appropriate assumptions, including prepayment assumptions, to be used in deciding whether to purchase the Certificates.

Reinvestment Risk

Because the Mortgage Loans underlying the Certificates generally may be prepaid at any time without penalty, it is not possible to predict the rate at which distributions of principal of the Certificates will be received. Accordingly, since prevailing interest rates are subject to fluctuation, there can be no assurance that investors in the Certificates will be able to reinvest the distributions thereon at yields equalling or exceeding the yields on such Certificates. It is possible that yields on such reinvestments will be lower, and may be significantly lower, than the yields on such Certificates. Prospective investors in the Certificates should carefully consider the related reinvestment risks in light of other investments that may be available to such investors.

Prepayment Considerations and Risks

The rate of principal payments of the Certificates is related directly to the rate of payments of principal of the Mortgage Loans (or, in the case of the Group 2 and Group 3 Classes, of the Group 2 and Group 3 Mortgage Loans, respectively), which may be in the form of scheduled amortization or prepayments (for this purpose, the term "prepayment" includes prepayments and liquidations resulting from default, casualty or condemnation and payments made pursuant to any guaranty of payment by, or option to repurchase of, Fannie Mae). Generally, if the actual rate of payments on the Mortgage Loans is slower than the rate anticipated by an investor who purchased a Certificate at a discount, the actual yield to such investor will be lower than such investor's anticipated yield. If the

actual rate of payment on the Mortgage Loans is faster than the rate anticipated by an investor who purchased a Certificate at a premium (or who purchased an Interest Only Certificate), the actual yield to such investor will also be lower than such investor's anticipated yield.

In an environment of declining interest rates, lenders servicing mortgage loans often are asked by borrowers to refinance the mortgage loans through issuance of new loans secured by mortgages on the same properties. The resultant prepayments, if they involve the Mortgage Loans, will result in the distribution to Certificateholders of the principal balances of the prepaid Mortgage Loans and their removal from the Trust. Under Fannie Mae's current policy, lenders servicing mortgage loans are permitted to advertise in a general manner their availability to handle refinancings, although they may not specifically target borrowers whose Mortgage Loans are in the Trust. Fannie Mae does not, however, permit the removal of Mortgage Loans from the Trust for the purpose of modifications.

In general, when the level of prevailing interest rates declines sufficiently relative to the interest rate on fixed-rate mortgage loans, the rate of prepayment is likely to increase, although the prepayment rate is influenced by a number of other factors as well, including general economic conditions and homeowner mobility. In addition, it is increasingly difficult to generalize as to the degree to which interest rates must decline before significant prepayments are likely to be experienced. Increased borrower sophistication regarding the benefits of refinancing and extensive solicitation by lenders may result in an increase in the rate at which the Mortgage Loans are prepaid due to refinancing. On the other hand, lenders may have originated certain Mortgage Loans at above-market interest rates to provide a means for the payment of certain closing costs or interest rate buydown deposits. Such Mortgage Loans may have been made to borrowers who, for a variety of reasons, may not seek or readily be able to refinance mortgage loans. Additionally, various lenders (in some cases in conjunction with Fannie Mae) have instituted streamlined procedures and liberalized fee structures and underwriting guidelines that can be expected both to increase the number of Mortgage Loans eligible for refinancing and narrow the interest rate differential that must exist before refinancing is both economical and practical. Moreover, certain rights of Fannie Mae (including its option to purchase Mortgage Loans as to which breaches of representations and warranties have occurred or to purchase delinquent Mortgage Loans) may affect the rate of prepayment of the Mortgage Loans in the Trust. Accordingly, Fannie Mae cannot estimate what the prepayment experience for the Mortgage Loans will be. See the Information Statement for Fannie Mae's most recent mortgage loan prepayment experience of its portfolio.

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

Repurchases Due to Breach of Representations and Warranties

Each seller of Mortgage Loans to Fannie Mae has made certain customary representations and warranties with respect to such Mortgage Loans. In the event of a material breach of any such representations and warranties, Fannie Mae may repurchase each affected Mortgage Loan from the Trust at a price equal to its principal balance together with accrued interest thereon at the Net Mortgage Rate. The effect of any such repurchase will be the same as that of a prepayment in full of the related Mortgage Loan. See "—Prepayment Considerations and Risks" above.

Repurchases Due to Delinquency

Fannie Mae has the option under the Trust Agreement to repurchase from the Trust those Mortgage Loans that are delinquent in whole or in part with respect to four consecutive monthly payments at a price equal to the principal balance thereof plus accrued interest thereon at the Net Mortgage Rate. The effect of any such repurchase will be the same as that of a prepayment in full of the related Mortgage Loan. See “—Prepayment Considerations” above and “The Trust Agreement—Collection and Other Servicing Procedures” herein.

Fannie Mae Guaranty Considerations

If Fannie Mae were unable to perform its guaranty obligations, distributions to the Holders would consist solely of payments and other recoveries on Mortgage Loans and, accordingly, delinquencies and defaults would affect monthly distributions to the Holders. See “General—Fannie Mae’s Guaranty” herein.

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

GENERAL

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 Information Statement and the provisions of the Trust Agreement (defined below). Capitalized terms used and not otherwise defined in this Prospectus have the meanings assigned to such terms in the Information Statement or the Trust Agreement (as the context may require).

Structure. The Certificates will be issued and guaranteed by the Federal National Mortgage Association (“Fannie Mae”), a corporation organized and existing under the laws of the United States, under the authority contained in Section 304(d) of the Federal National Mortgage Association Charter Act (12 U.S.C. 1716 *et seq.*). The Trust will be created pursuant to a trust agreement dated as of April 1, 1997 (the “Trust Agreement”), executed by Fannie Mae in its corporate capacity and in its capacity as trustee (in such capacity, the “Trustee”), and the Certificates in the Classes and aggregate original principal balances set forth on the cover hereof will be issued by Fannie Mae pursuant thereto. A description of Fannie Mae and its business, together with certain financial statements and other financial information, is contained in the Information Statement.

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

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

Characteristics of Certificates. The Certificates, other than the R Certificate, will be represented by one or more certificates (the “DTC Certificates”) to be registered at all times in the name of the nominee of the Depository (as defined herein), which Depository will maintain such certificates through its book-entry facilities. When used herein with respect to a DTC Certificate, the terms “Holders” and “Certificateholders” refer to the nominee of the Depository intermediaries. A Holder is not necessarily the beneficial owner of a DTC Certificate. Beneficial owners will ordinarily hold 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 R Certificate will not be issued in book-entry form but will be issued in fully registered, certificated form. As to the R Certificate, “Holder” or “Certificateholder” refers to the registered owner thereof. The R Certificate will be transferable at the corporate trust office of the Transfer Agent, or at the agency of the Transfer Agent in New York, New York. The Transfer Agent initially will be State Street Bank and Trust Company in Boston, Massachusetts (“State Street”). A service charge may be imposed for any registration of transfer of the R Certificate and Fannie Mae may require payment of a sum sufficient to cover any tax or other governmental charge. See also “Description of the Certificates—Characteristics of the R Class” herein.

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

Fannie Mae Guaranty. Pursuant to its guaranty of the Certificates, Fannie Mae will be obligated to distribute on a timely basis to the Holders of Certificates (i) all interest accrued on the Classes of Certificates during each Interest Accrual Period at the respective interest rates set forth or described on the cover hereof, (ii) the aggregate amount of scheduled installments of principal of the Mortgage Loans, whether or not received, together with the full principal balance of any foreclosed Mortgage Loan, whether or not received, and (iii) the principal balance of each Class of Certificates in full no later than the applicable Final Distribution Date, whether or not sufficient funds are available in the Certificate Account. If Fannie Mae were unable to perform these guaranty obligations, distributions to Certificateholders would consist solely of payments and other recoveries on the Mortgage Loans and, accordingly, delinquencies and defaults on the Mortgage Loans would affect distributions to Certificateholders to a much greater degree. The guaranty of Fannie Mae is not backed by the full faith and credit of the United States.

Distribution Dates. Distributions on the Certificates will be made on the 18th day of each month (or, if such 18th day is not a business day, on the first business day next succeeding such 18th day), (each a “Distribution Date”), commencing in the month following the Settlement Date.

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

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

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

THE MORTGAGE LOANS

General

The Mortgage Loans were originated or purchased by one or more institutions approved by Fannie Mae on the basis of certain criteria, which may include depth of mortgage origination experience, servicing experience and financial capacity. The seller and servicer of the Mortgage Loans will be a party with Fannie Mae to a sale and servicing agreement dated as of April 1, 1997 (the “Sale and Servicing Agreement”).

The Mortgage Loans will be conventional fixed-rate level payment Mortgage Loans secured by first mortgages or deeds of trust on one- to four-family (“single-family”) residential properties and having original maturities of up to 30 years. All of the Mortgage Loans have original principal balances of less than or equal to \$100,000.00 and the current principal balances are all less than or equal to \$100,000.00. The characteristics of the Group 1, Group 2 and Group 3 Mortgage Loans,

including the Net Mortgage Interest Rate with respect to each Mortgage Loan Group (representing the difference in interest for each Mortgage Loan in the applicable Group between the per annum interest rate on such Mortgage Loan (the “Mortgage Interest Rate”) and the amount of such interest remitted to Fannie Mae on account of Trust expenses) and the approximate weighted average of the remaining terms to maturity of the Mortgage Loans in the applicable Group (“WAM”), as of April 1, 1997 (the “Issue Date”) are expected to be as follows:

Group 1 Mortgage Loans

Aggregate Unpaid Principal Balance	\$158,000,000
Net Mortgage Interest Rate	7.00%
Range of Mortgage Interest Rates (per annum percentages)	7.25% to 9.50%
Range of Remaining Terms to Maturity	241 months to 360 months
Approximate WAM	355 months
Approximate CAGE	4 months

Group 2 Mortgage Loans

Aggregate Unpaid Principal Balance	\$294,000,000
Net Mortgage Interest Rate	7.50%
Range of Mortgage Interest Rates (per annum percentages)	7.75% to 10.00%
Range of Remaining Terms to Maturity	241 months to 360 months
Approximate WAM	355 months
Approximate CAGE	4 months

Group 3 Mortgage Loans

Aggregate Unpaid Principal Balance	\$54,000,000
Net Mortgage Interest Rate	8.00%
Range of Mortgage Interest Rates (per annum percentages)	8.25% to 10.50%
Range of Remaining Terms to Maturity	241 months to 360 months
Approximate WAM	355 months
Approximate CAGE	4 months

The “CAGE” for each Mortgage Loan Group will represent the weighted average of the calculated loan age of the Mortgage Loans in such Group. The CAGE of such Mortgage Loans will be determined by subtracting the WAM for such Mortgage Loans (calculated as of the date such Mortgage Loans were originally acquired by Fannie Mae) from the original term to maturity (in months) of such Mortgage Loans, and adding thereto the number of months elapsed since such date with respect to such Mortgage Loans.

Following the issuance of the Certificates, Fannie Mae will prepare a Final Data Statement setting forth, among other information, the weighted average of the Mortgage Interest Rates (“WAC”) with respect to the Mortgage Loans in each Mortgage Loan Group and the WAM of such Mortgage Loans, based on the current unpaid principal balances of the Mortgage Loans as of the Issue Date. The Final Data Statement will not accompany this Prospectus Supplement but will be made available by Fannie Mae. To request the Final Data Statement, telephone Fannie Mae at 1-800-BEST-MBS or 202-752-6547. The contents of the Final Data Statement and other data specific to the Certificates are available in electronic form by calling Fannie Mae at 1-800-752-6440 or 202-752-6000.

Fannie Mae Mortgage Purchase Program

General

Each Mortgage Loan will be subject to and must comply with the terms of the current Fannie Mae Selling Guide unless Fannie Mae grants an exception with respect to certain requirements. Each Mortgage Loan will be documented by the appropriate FNMA/FHLMC Uniform Instrument in effect at the time of origination, or an FHA or VA mortgage instrument or other instrument acceptable to Fannie Mae, and will comply with all applicable federal and local laws, including laws relating to usury, equal credit opportunity, and disclosure.

There is no requirement that Mortgage Loans be payable on the first day of the month in order to be eligible for inclusion in the Trust. The Mortgage Loans must have had maturities of not more than 30 years from their dates of origination.

Maximum Loan Amounts

Pursuant to the requirements of the Fannie Mae Selling Guide, first lien conventional mortgage loans secured by residential property (as compared to cooperative share loans) must be real property loans secured by first mortgages on residential properties with original principal balances that (when combined with the original principal balance of any second lien mortgage loan in which Fannie Mae has an interest) did not exceed certain federally imposed maximum principal balance limitations applicable to Fannie Mae. Currently, the maximum dollar purchase limitations for residential mortgage loans are subject to adjustment annually effective January 1st and are set forth in the Fannie Mae Selling Guide or an Announcement thereto (current maximum dollar purchase limitations also may be obtained by calling Fannie Mae at 1-800-BEST-MBS). The maximum dollar purchase limitations for mortgages secured by one-to-four-family residences in Alaska, Hawaii and the Virgin Islands are 50 percent higher than the limits for the rest of the country, as set forth in the Selling Guide or Announcement thereto.

Maximum Loan-to-Value Ratios

The maximum loan-to-value ratio at the time of purchase for a conventional mortgage loan secured by a first mortgage on an owner-occupied one-family property (other than a second home) that does not secure any subordinate financing is generally 97%. Where such property also secures subordinate financing, the maximum combined loan-to-value ratio of the first lien and second lien is 90%. In the case of a conventional mortgage loan secured by a first mortgage on an owner-occupied one-family second home that does not secure any subordinate financing, the maximum loan-to-value ratio is 80%. Where such second home property also secures subordinate financing, the maximum combined loan-to-value ratio of the first lien and second lien is 90%.

The maximum combined loan-to-value ratio of the first lien and any second lien at the time of purchase is (i) 90% in the case of an owner-occupied two-family property, (ii) 80% in the case of an owner-occupied three- to four-family property, and (iii) 70% in the case of an investment property. In the case of a mortgage that was originated other than in connection with the purchase of a property, regardless of property type, the maximum combined loan-to-value ratio of the first lien and any second lien at the time of financing is 80%.

First lien conventional mortgage loans with loan-to-value ratios exceeding 80% must, at a minimum, have the principal amount of the indebtedness in excess of 80% of the value of the related mortgaged property insured or guaranteed by a qualified insurer. Any mortgage insurer must be licensed to transact a mortgage guaranty insurance business in the state where the related mortgaged property is located and be acceptable to Fannie Mae as a mortgage insurer. As an alternative, Lenders may (i) contract with Fannie Mae to repurchase such conventional mortgage loans for such period and under such circumstances as Fannie Mae may require in the event the conventional mortgage loans are in default or (ii) retain a participation interest of not less than 10% in such conventional mortgage loans.

Additional Considerations

Pursuant to the requirements of the Fannie Mae Selling Guide, each Lender that sells a conventional mortgage loan to Fannie Mae must assume responsibility for underwriting such conventional mortgage loan using the same underwriting criteria, as from time to time in effect, that must be met by mortgage loans eligible for Fannie Mae portfolio purchases. As provided above, exceptions to these underwriting criteria (including the maximum loan-to-value ratio limitations) may be granted by Fannie Mae from time-to-time. After delivery of the conventional mortgage loans,

Fannie Mae will conduct reviews of the quality of credit and property underwriting used in the origination of certain randomly selected conventional mortgage loans.

DESCRIPTION OF THE CERTIFICATES

Book-Entry Procedures

General. The Certificates, other than the R Certificate, will be represented by one or more DTC Certificates to be registered at all times in the name of the nominee of The Depository Trust Company, a New York-chartered limited purpose trust company, or any successor depository selected or approved by Fannie Mae (the “Depository”). In accordance with its normal procedures, the Depository will record the positions held by each Depository participating firm (each, a “Depository Participant”) in the DTC Certificates, whether held for its own account or as a nominee for another person. State Street will act as Paying Agent for, and perform certain administrative functions with respect to, the DTC Certificates.

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

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

Distributions of Interest

Categories of Classes

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

<u>Interest Type*</u>	<u>Classes</u>
Fixed Rate	A, B, C, D, G, H, J, K and L
Floating Rate	F and FA
Inverse Floating Rate	S and SA
Interest Only	S and SA
No Payment Residual	R

* See “Description of the Certificates—Class Definitions and Abbreviations” herein.

General. The interest-bearing Certificates offered hereby will bear interest at the respective per annum interest rates set forth on the cover or described herein. Interest on the interest-bearing Certificates is calculated on the basis of a 360-day year consisting of twelve 30-day months and is distributable monthly on each Distribution Date, commencing in the month after the Settlement Date. Interest to be distributed on each interest-bearing Certificate offered hereby 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.

Interest Accrual Periods. Interest to be distributed on a Distribution Date will accrue on the interest-bearing Certificates during the one-month periods set forth below (each, an "Interest Accrual Period").

<u>Classes</u>	<u>Interest Accrual Periods</u>
F, S, FA and SA Classes	One month period beginning on the 18th day of the month preceding the month of the Distribution Date and ending on the 17th day of the month of the Distribution Date
All Fixed Rate Classes (collectively, the "Delay Classes")	Calendar month preceding the month in which the Distribution Date occurs

See "Risk Factors—Yield Considerations" herein.

Notional Classes. The S and SA Classes will be Notional Classes. The Notional Classes will have no principal balances and will bear interest at the applicable per annum interest rates described herein during each Interest Accrual Period on the related notional principal balances. The notional principal balance of each Notional Class will be equal to the indicated percentage of the outstanding principal balance of the applicable Class specified below immediately prior to the related Distribution Date:

<u>Class</u>	<u>Percentage of Principal Balance of Class</u>
S	100% of F Class
SA	100% of FA Class

See "Yield Tables—*The Interest Only Classes*" herein.

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

Floating Rate and Inverse Floating Rate Classes. The following Classes will bear interest during their 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>
F	6.723%	9.50%	1.25%	LIBOR + 125 basis points
S	2.777%	8.25%	0.00%	8.25% – LIBOR
FA.....	6.723%	9.50%	1.25%	LIBOR + 125 basis points
SA.....	2.777%	8.25%	0.00%	8.25% – LIBOR

The yields with respect to such Classes will be affected by changes in the index as set forth in the table above (the "Index"), which changes may not correlate with changes in mortgage interest rates. It is possible that lower mortgage interest rates could occur concurrently with an increase in the level of the Index. Conversely, higher mortgage interest rates could occur concurrently with a decrease in the level of the Index.

The establishment of each Index value by Fannie Mae and Fannie Mae's determination of the rate or rates of interest for the applicable Class or Classes for the related Interest Accrual Period shall (in the absence of manifest error) be final and binding. Each such rate of interest may be obtained by telephoning Fannie Mae at 1-800-BEST-MBS or 202-752-6547.

Calculation of LIBOR

On the second business day preceding the first day of each Interest Accrual Period (each, an "Index Determination Date"), commencing in May 1997, until the principal balances and notional principal balance of the F, FA, S and SA Classes have been reduced to zero, 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. (For purposes of calculating LIBOR, "business day" means a day on which banks are open for dealing in foreign currency and exchange in London, Boston and New York City.) 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 will be established by Fannie Mae or its agent on each Index Determination Date as follows:

(a) 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 $\frac{1}{32}\%$).

(b) 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.

(c) 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 (b) above, LIBOR for the next succeeding Interest Accrual Period shall be deemed to be equal to 5.473%.

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.

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>
Group 1 Classes	
Sequential Pay	A, B, C, D, G, H, K, J and L
Group 2 Classes	
Strip	F
Notional	S
Group 3 Classes	
Strip	FA
Notional	SA
No Payment Residual	R

* See “Description of the Certificates—Class Definitions and Abbreviations” herein.

Principal Distribution Amount

Principal will be distributed on each Distribution Date on the Certificates in an amount (the “Principal Distribution Amount”) equal to the sum of (without duplication) (i) the aggregate amount of principal due on the Mortgage Loans during the one-month period ending on the first day of the month of such Distribution Date (each, a “Due Period”), (ii) the principal balance of any Mortgage Loan that was liquidated or prepaid in full during the month preceding the month of such Distribution Date (including as prepaid for this purpose any Mortgage Loan repurchased by Fannie Mae as described herein because of Fannie Mae’s election to repurchase the Mortgage Loan after it is delinquent, in whole or in part, with respect to four consecutive installments of principal and interest), (iii) the principal balance of any Mortgage Loan that Fannie Mae has elected to repurchase under the circumstances described in “The Trust Agreement—Collection and Other Servicing Procedures” herein and (iv) the amount of any partial prepayment of any such Mortgage Loan received during the month preceding the month of such Distribution Date. The timing for the distributions of prepayments is subject to the receipt of information about such prepayment from the servicer of such Mortgage Loan in sufficient time to allow the monthly factors made available by Fannie Mae as described in “General—*REMIC Trust Factors*,” herein, to reflect such prepayment. In the event that timely information is not available, Fannie Mae will distribute such prepayment on the Distribution Date in the next month. For purposes of distributions, a Mortgage Loan will be considered to have been prepaid in full if, in Fannie Mae’s reasonable judgment, the full amount finally recoverable on account of such Mortgage Loan has been received, whether or not such full amount is equal to the principal balance of the Mortgage Loan. Also, for purposes of such distributions, the aggregate amount of principal due on the Mortgage Loans during any Due Period will be calculated by Fannie Mae on the basis of the interest rates and remaining terms to maturity of such Mortgage Loans. All such amounts calculated by Fannie Mae shall (in the absence of manifest error) be final and binding.

For each Distribution Date, the portion of the Principal Distribution Amount allocable to the Group 1 Mortgage Loans is referred to herein as the “Group 1 Cash Flow Distribution Amount,” the portion of the Principal Distribution Amount allocable to the Group 2 Mortgage Loans is referred to herein as the “Group 2 Cash Flow Distribution Amount” and the portion of the Principal Distribution Amount allocable to the Group 3 Mortgage Loans is referred to herein as the “Group 3 Cash Flow Distribution Amount.”

Group 1 Principal Distribution Amount

On each Distribution Date, the sum of (i) the Group 1 Cash Flow Distribution Amount, (ii) 80% of the Group 2 Cash Flow Distribution Amount and (iii) 60% of the Group 3 Cash Flow Distribution Amount (such sum, the “Group 1 Principal Distribution Amount”) will be distributed as principal of the Group 1 Classes as set forth below:

(a) On each Distribution Date, commencing in May 2002, the Group 1 Basic Principal Amount (as defined below) multiplied by a fraction, the numerator of which is the principal balance of the L Class and the denominator of which is the aggregate principal balance of all Group 1 Classes, in each case immediately prior to such Distribution Date, will be distributed as principal of the L Class, until the principal balance thereof is reduced to zero. } Sequential Pay Class

The “Group 1 Basic Principal Amount” for any Distribution Date is the sum of (i) the portion of the Group 1 Cash Flow Distribution Amount consisting of the aggregate amount of principal due on the Group 1 Mortgage Loans during the preceding Due Period, (ii) the Prepayment Percentage (described below) of the remaining portion of the Group 1 Cash Flow Distribution Amount, (iii) 80% of the portion of the Group 2 Cash Flow Distribution Amount consisting of the aggregate amount of principal due on the Group 2 Mortgage Loans during the preceding Due Period, (iv) 80% of the Prepayment Percentage of the remaining portion of the Group 2 Cash Flow Distribution Amount, (v) 60% of the portion of the Group 3 Cash Flow Distribution Amount consisting of the aggregate amount of principal due on the Group 3 Mortgage Loans during the preceding Due Period and (vi) 60% of the Prepayment Percentage of the remaining portion of the Group 3 Cash Flow Distribution Amount.

The “Prepayment Percentage” for any Distribution Date will be as specified below:

<u>Distribution Date</u>	<u>Prepayment Percentage</u>
May 1997 through April 2002	0%
May 2002 through April 2003	30%
May 2003 through April 2004	40%
May 2004 through April 2005	60%
May 2005 through April 2006	80%
May 2006 and thereafter	100%

(b) On each Distribution Date, the excess of the Group 1 Principal Distribution Amount over the amount distributed pursuant to paragraph (a) above will be distributed as principal of the Group 1 Classes in the following order of priority:

- (i) concurrently, to the A, B and C Classes, in the proportions of 15.1463762942%, 63.8361299536% and 21.0174937522%, respectively, until the principal balance of the A Class is reduced to zero;
 - (ii) concurrently, to the B, C and D Classes, in the proportions of 63.8363140240%, 21.0186488694% and 15.1450371066%, respectively, until the principal balance of the B Class is reduced to zero;
 - (iii) concurrently, to the C, D and G Classes, in the proportions of 21.0158585109%, 15.1464960877% and 63.8376454014%, respectively, until the principal balances of the C and G Classes are reduced to zero;
 - (iv) concurrently, to the D and H Classes, in the proportions of 15.1448538338% and 84.8551461662%, respectively, until the principal balances thereof are reduced to zero;
 - (v) sequentially, to the J and K Classes, in that order, until the respective principal balances thereof are reduced to zero; and
 - (vi) to the L Class, until the principal balance thereof is reduced to zero.
- } Sequential Pay Classes

Group 2 Principal Distribution Amount

On each Distribution Date, an amount equal to 20% of the Group 2 Cash Flow Distribution Amount (the “Group 2 Principal Distribution Amount”) will be distributed as principal of the F Class, until the principal balance thereof is reduced to zero.

Group 3 Principal Distribution Amount

On each Distribution Date, an amount equal to 40% of the Group 3 Cash Flow Distribution Amount (the “Group 3 Principal Distribution Amount”) will be distributed as principal of the FA Class, until the principal balance thereof is reduced to zero.

Strip
Classes

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

Class Definitions and Abbreviations

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

<u>Abbreviation</u>	<u>Category of Class</u>	<u>Definition</u>
PRINCIPAL TYPES		
NPR	No Payment Residual	A Residual Class that receives no payments of principal.
NTL	Notional	A Class having no principal balance and bearing interest on the related notional principal balance. The notional principal balance is used for purposes of the determination of interest distributions on an Interest Only Class that is not entitled to principal.
SEQ	Sequential Pay	Classes that receive principal payments in a prescribed sequence, that do not have predetermined schedules and that under all circumstances receive payments of principal continuously from the first Distribution Date on which they receive principal until they are retired. A single Class that receives principal payments before or after all other Classes of Certificates may be identified as a Sequential Pay Class.
STP	Strip	A Class that receives a constant proportion, or “strip,” of the principal payments on the Mortgage Loans within a particular Mortgage Loan Group or Groups.

<u>Abbreviation</u>	<u>Category of Class</u>	<u>Definition</u>
INTEREST TYPES		
FIX	Fixed Rate	A Class whose interest rate is fixed throughout the life of the Class.
FLT	Floating Rate	A Class with an interest rate that resets periodically based upon a designated index and that varies directly with changes in such index.
INV	Inverse Floating Rate	A Class with an interest rate that resets periodically based upon a designated index and that varies inversely with changes in such index.
IO	Interest Only	A Class that receives some or all of the interest payments made on the Mortgage Loans or other assets of the Trust and little or no principal. Interest Only Classes have either a nominal or a notional principal balance. A nominal principal balance represents actual principal that will be paid on the Class. It is referred to as nominal since it is extremely small compared to other Classes. A notional principal balance is the amount used as a reference to calculate the amount of interest due on an Interest Only Class that is not entitled to any principal.
NPR	No Payment Residual	A Residual Class that receives no payments of interest.

Structuring Assumptions

Pricing Assumptions. Unless otherwise specified, the information in the tables in this Prospectus has been prepared on the basis of the following assumptions (the “Pricing Assumptions”):

- the Group 1, Group 2 and Group 3 Mortgage Loans all have original terms to maturity of 360 months and the aggregate principal, remaining terms to maturity, CAGEs and interest rates, respectively, as specified:

Group 1	\$158,000,000	355	4	7.81%
Group 2	\$294,000,000	355	4	8.19%
Group 3	\$ 54,000,000	355	4	8.57%

- payments on all Mortgage Loans are due and received on the first day of each month;
- each year consists of twelve 30-day months;
- the Mortgage Loans prepay at the constant percentages of PSA specified in the related table;
- the closing date for the sale of the Certificates is the Settlement Date; and
- the first Distribution Date for the Certificates occurs in the month following the Settlement Date.

Prepayment Assumptions. Prepayments of mortgage loans commonly are measured relative to a prepayment standard or model. One such model used to measure payments is the Public Securities Association’s standard prepayment model (“PSA”), which represents an assumed rate of prepayment each month of the then outstanding principal balance of a pool of new mortgage loans. 100% PSA assumes prepayment rates of 0.2% per annum of the then unpaid principal balance of such pool of mortgage loans in the first month of the life of such mortgage loans and an additional 0.2% per annum in each month thereafter (for example, 0.4% per annum in the second month) until the 30th month. Beginning in the 30th month and in each month thereafter during the life of such mortgage loans,

100% PSA assumes a constant prepayment rate of 6% per annum. Multiples may be calculated from this prepayment rate sequence. For example, 180% PSA assumes prepayment rates will be 0.36% per annum in month one, 0.72% per annum in month two, and increasing by 0.36% in each succeeding month until reaching a rate of 10.8% per annum in month 30 and remaining constant at 10.8% per annum thereafter. Similarly, 200% PSA assumes prepayment rates will be 0.4% per annum in month one, 0.8% per annum in month two, and increasing by 0.4% in each succeeding month until reaching a rate of 12% per annum in month 30 and remaining constant at 12% per annum thereafter. 0% PSA assumes no prepayments.

The PSA model does not purport to be an historical description of the prepayment experience of any pool of mortgage loans or a prediction of the anticipated rate of prepayment of any pool of mortgage loans, including the Mortgage Loans.

Yield Tables

General. The tables below indicate the sensitivity of the pre-tax corporate bond equivalent yields to maturity of applicable Classes to various constant percentages of the PSA and to changes in the Index. The yields set forth in the tables were calculated by determining the monthly discount rates that, when applied to the assumed streams of cash flows to be paid on the applicable Classes, would cause the discounted present value of such assumed streams of cash flows to equal the assumed aggregate purchase prices of such Classes and converting such monthly rates to corporate bond equivalent rates. Such calculations do not take into account variations that may occur in the interest rates at which investors may be able to reinvest funds received by them as distributions on the Certificates and consequently do not purport to reflect the return on any investment in the Certificates when such reinvestment rates are considered. *There can be no assurance that the pre-tax yields on the Certificates will correspond to any of the pre-tax yields shown herein or that the aggregate purchase prices of the Certificates will be as assumed. In addition, there can be no assurance that the Index will correspond to the levels shown herein. Furthermore, because some of the Mortgage Loans will likely have remaining terms to maturity shorter or longer than those assumed and interest rates higher or lower than those assumed, the principal distributions on the Certificates are likely to differ from those assumed, even if all Mortgage Loans prepay at the indicated constant percentages of PSA. Moreover, it is not likely that the Mortgage Loans will prepay at a constant PSA rate until maturity, that all of such Mortgage Loans will prepay at the same rate or that the level of the Index will remain constant.*

The Interest Only Classes. The yields to investors in the Interest Only Classes will be highly sensitive to the rate of principal payments (including prepayments) of the Mortgage Loans and to the level of the Index. The Mortgage Loans generally can be prepaid at any time. As indicated in the tables below, it is possible that, under certain prepayment and Index scenarios, investors in the Interest Only Classes would not fully recoup their initial investments.

Changes in the Index may not correlate with changes in prevailing mortgage rates. It is possible that lower prevailing mortgage interest rates, which might be expected to result in faster prepayments, could occur concurrently with an increased level of the Index.

The information set forth in the following tables was prepared on the basis of the Pricing Assumptions and the assumptions that (i) the interest rate applicable to the Interest Only Classes for each Interest Accrual Period subsequent to the initial Interest Accrual Period will be based on the indicated level of the Index and (ii) the aggregate purchase prices of the Interest Only Classes (expressed in each case as a percentage of the original notional balance) are as follows:

<u>Class</u>	<u>Price*</u>
S	6.75%
SA	6.25%

* The prices do not include accrued interest. Accrued interest has been added to such prices in calculating the yields set forth in the tables below.

**Sensitivity of the S Class to Prepayments and LIBOR
(Pre-Tax Yields to Maturity)**

<u>LIBOR</u>	<u>PSA Prepayment Assumption</u>				
	<u>50%</u>	<u>100%</u>	<u>180%</u>	<u>350%</u>	<u>500%</u>
3.4375%	77.7%	75.2%	71.3%	62.7%	54.9%
5.4375%	41.6%	39.0%	34.8%	25.6%	17.3%
7.4375%	7.4%	4.6%	(0.0)%	(10.1)%	(19.5)%
8.2500%	*	*	*	*	*

* The pre-tax yield to maturity would be less than (99.9%).

**Sensitivity of the SA Class to Prepayments and LIBOR
(Pre-Tax Yields to Maturity)**

<u>LIBOR</u>	<u>PSA Prepayment Assumption</u>				
	<u>50%</u>	<u>100%</u>	<u>180%</u>	<u>350%</u>	<u>500%</u>
3.4375%	85.2%	82.8%	78.9%	70.3%	62.7%
5.4375%	45.7%	43.1%	38.9%	29.9%	21.6%
7.4375%	8.7%	5.9%	1.3%	(8.8)%	(18.1)%
8.2500%	*	*	*	*	*

* The pre-tax yield to maturity would be less than (99.9%).

Weighted Average Lives of the Certificates

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

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

Final Distribution Dates

The Final Distribution Date for a particular Class is the date by which the principal balance is required to be fully paid and is specified on the cover page hereof. The Final Distribution Date of the respective Classes will be determined so that distributions on the Mortgage Loans will be sufficient to retire each such Class on or before its Final Distribution Date without the necessity of any call on Fannie Mae under its guaranty.

Decrement Tables

The following tables indicate the percentages of original principal balances of the specified Classes that would be outstanding after each of the dates shown at various *constant* PSA levels and the corresponding weighted average lives of such Classes. The tables have been prepared on the basis of the Pricing Assumptions, except that with respect to the information set forth for each such Class under 0% PSA it has been assumed that each Mortgage Loan has an original and remaining term to maturity and bears interest at the per annum rate specified below:

<u>Mortgage Loans relating to the Mortgage Loan Group specified below</u>	<u>Original and Remaining Terms to Maturity</u>	<u>Interest Rates</u>
Group 1	360 months	9.5%
Group 2	360 months	10.0%
Group 3	360 months	10.5%

It is not likely that all of the Mortgage Loans will have the interest rates or remaining terms to maturity assumed or that the Mortgage Loans will prepay at a *constant* PSA level. Moreover, the diverse remaining terms to maturity of the Mortgage Loans (which may include recently originated Mortgage Loans) could produce slower or faster principal distributions than indicated in the tables at the specified *constant* PSA level, even if the distributions of the weighted average maturities of the Mortgage Loans are identical to the distributions of the weighted average maturities specified in the Pricing Assumptions.

Percent of Original Principal Balances Outstanding

Date	A Class					B Class					C Class					D Class				
	PSA Prepayment Assumption					PSA Prepayment Assumption					PSA Prepayment Assumption					PSA Prepayment Assumption				
	0%	100%	180%	350%	500%	0%	100%	180%	350%	500%	0%	100%	180%	350%	500%	0%	100%	180%	350%	500%
Initial Percent	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100
April 1998	96	78	65	38	14	99	93	89	80	72	99	94	91	84	78	100	100	100	100	100
April 1999	91	38	0	0	0	97	80	67	42	20	98	84	75	55	39	100	100	100	78	60
April 2000	86	0	0	0	0	95	64	42	*	0	96	72	56	24	0	100	97	78	42	15
April 2001	80	0	0	0	0	93	49	20	0	0	95	61	38	0	0	100	84	59	14	0
April 2002	73	0	0	0	0	91	35	0	0	0	93	50	23	0	0	100	72	41	0	0
April 2003	67	0	0	0	0	89	23	0	0	0	92	41	11	0	0	100	62	28	0	0
April 2004	61	0	0	0	0	87	12	0	0	0	90	33	1	0	0	100	52	16	0	0
April 2005	54	0	0	0	0	85	2	0	0	0	88	25	0	0	0	100	44	7	0	0
April 2006	46	0	0	0	0	82	0	0	0	0	86	18	0	0	0	100	36	0	0	0
April 2007	37	0	0	0	0	80	0	0	0	0	84	13	0	0	0	100	30	0	0	0
April 2008	28	0	0	0	0	76	0	0	0	0	82	7	0	0	0	100	23	0	0	0
April 2009	18	0	0	0	0	73	0	0	0	0	79	2	0	0	0	100	17	0	0	0
April 2010	6	0	0	0	0	69	0	0	0	0	76	0	0	0	0	100	12	0	0	0
April 2011	0	0	0	0	0	65	0	0	0	0	73	0	0	0	0	98	6	0	0	0
April 2012	0	0	0	0	0	60	0	0	0	0	70	0	0	0	0	94	1	0	0	0
April 2013	0	0	0	0	0	55	0	0	0	0	66	0	0	0	0	90	0	0	0	0
April 2014	0	0	0	0	0	50	0	0	0	0	62	0	0	0	0	85	0	0	0	0
April 2015	0	0	0	0	0	44	0	0	0	0	57	0	0	0	0	80	0	0	0	0
April 2016	0	0	0	0	0	37	0	0	0	0	52	0	0	0	0	74	0	0	0	0
April 2017	0	0	0	0	0	29	0	0	0	0	46	0	0	0	0	67	0	0	0	0
April 2018	0	0	0	0	0	21	0	0	0	0	40	0	0	0	0	60	0	0	0	0
April 2019	0	0	0	0	0	12	0	0	0	0	33	0	0	0	0	52	0	0	0	0
April 2020	0	0	0	0	0	2	0	0	0	0	25	0	0	0	0	43	0	0	0	0
April 2021	0	0	0	0	0	0	0	0	0	0	16	0	0	0	0	34	0	0	0	0
April 2022	0	0	0	0	0	0	0	0	0	0	7	0	0	0	0	23	0	0	0	0
April 2023	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	11	0	0	0	0
April 2024	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
April 2025	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
April 2026	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
April 2027	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Weighted Average Life (years)**	7.9	1.7	1.2	0.8	0.7	15.4	4.1	2.7	1.7	1.4	17.6	5.5	3.5	2.2	1.7	21.6	7.9	4.8	2.9	2.2

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

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

Date	G Class					H Class					J Class					K Class				
	PSA Prepayment Assumption					PSA Prepayment Assumption					PSA Prepayment Assumption					PSA Prepayment Assumption				
	0%	100%	180%	350%	500%	0%	100%	180%	350%	500%	0%	100%	180%	350%	500%	0%	100%	180%	350%	500%
Initial Percent	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100
April 1998	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100
April 1999	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100
April 2000	100	100	100	100	0	100	100	100	100	96	100	100	100	100	100	100	100	100	100	100
April 2001	100	100	100	0	0	100	100	100	91	0	100	100	100	100	28	100	100	100	100	100
April 2002	100	100	98	0	0	100	100	100	0	0	100	100	100	64	0	100	100	100	100	41
April 2003	100	100	47	0	0	100	100	100	0	0	100	100	100	1	0	100	100	100	100	0
April 2004	100	100	4	0	0	100	100	100	0	0	100	100	100	0	0	100	100	100	63	0
April 2005	100	100	0	0	0	100	100	45	0	0	100	100	100	0	0	100	100	100	40	0
April 2006	100	79	0	0	0	100	100	0	0	0	100	100	97	0	0	100	100	100	27	0
April 2007	100	53	0	0	0	100	100	0	0	0	100	100	71	0	0	100	100	100	21	0
April 2008	100	30	0	0	0	100	100	0	0	0	100	100	47	0	0	100	100	100	16	0
April 2009	100	7	0	0	0	100	100	0	0	0	100	100	26	0	0	100	100	100	12	0
April 2010	100	0	0	0	0	100	76	0	0	0	100	100	7	0	0	100	100	100	10	0
April 2011	100	0	0	0	0	100	41	0	0	0	100	100	0	0	0	100	100	92	7	0
April 2012	100	0	0	0	0	100	8	0	0	0	100	100	0	0	0	100	100	79	6	0
April 2013	100	0	0	0	0	100	0	0	0	0	100	85	0	0	0	100	100	68	4	0
April 2014	100	0	0	0	0	100	0	0	0	0	100	65	0	0	0	100	100	58	3	0
April 2015	100	0	0	0	0	100	0	0	0	0	100	46	0	0	0	100	100	50	2	0
April 2016	100	0	0	0	0	100	0	0	0	0	100	28	0	0	0	100	100	42	2	0
April 2017	100	0	0	0	0	100	0	0	0	0	100	11	0	0	0	100	100	35	1	0
April 2018	100	0	0	0	0	100	0	0	0	0	100	0	0	0	0	100	96	29	1	0
April 2019	100	0	0	0	0	100	0	0	0	0	100	0	0	0	0	100	82	24	1	0
April 2020	100	0	0	0	0	100	0	0	0	0	100	0	0	0	0	100	70	19	1	0
April 2021	69	0	0	0	0	100	0	0	0	0	100	0	0	0	0	100	58	15	*	0
April 2022	29	0	0	0	0	100	0	0	0	0	100	0	0	0	0	100	46	11	*	0
April 2023	0	0	0	0	0	74	0	0	0	0	100	0	0	0	0	100	35	8	*	0
April 2024	0	0	0	0	0	0	0	0	0	0	94	0	0	0	0	100	25	5	*	0
April 2025	0	0	0	0	0	0	0	0	0	0	31	0	0	0	0	100	15	3	*	0
April 2026	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	67	5	1	*	0
April 2027	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Weighted Average Life (years)**	24.5	10.2	6.0	3.5	2.7	26.3	13.8	8.0	4.3	3.2	27.7	17.9	11.0	5.3	3.8	29.3	24.8	18.9	8.7	5.0

Date	L Class					F and S† Classes					FA and SA† Classes				
	PSA Prepayment Assumption					PSA Prepayment Assumption					PSA Prepayment Assumption				
	0%	100%	180%	350%	500%	0%	100%	180%	350%	500%	0%	100%	180%	350%	500%
Initial Percent	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100
April 1998	100	100	100	100	100	99	97	95	92	89	99	97	95	92	89
April 1999	100	100	100	100	100	99	92	87	77	68	99	92	87	77	68
April 2000	100	100	100	100	100	98	86	77	60	47	98	86	77	60	47
April 2001	100	100	100	100	100	97	79	68	47	33	98	80	68	47	33
April 2002	100	100	100	100	100	97	74	60	37	23	97	74	60	37	23
April 2003	99	97	95	92	88	96	68	53	29	16	96	69	53	29	16
April 2004	98	93	90	82	61	95	63	46	22	11	95	64	46	22	11
April 2005	97	88	82	70	42	94	59	41	17	7	94	59	41	17	7
April 2006	95	82	74	57	29	92	54	36	13	5	93	55	36	13	5
April 2007	94	76	65	44	20	91	50	31	10	4	92	50	31	10	4
April 2008	92	70	56	34	14	89	46	27	8	2	90	46	27	8	2
April 2009	91	64	49	26	9	88	42	24	6	2	89	43	24	6	2
April 2010	89	59	43	20	6	86	39	20	5	1	87	39	21	5	1
April 2011	87	53	37	16	4	84	35	18	4	1	85	36	18	4	1
April 2012	84	49	32	12	3	82	32	15	3	1	83	32	15	3	1
April 2013	82	44	27	9	2	79	29	13	2	*	80	29	13	2	*
April 2014	79	40	23	7	1	76	26	11	2	*	78	26	11	2	*
April 2015	76	35	20	5	1	73	23	10	1	*	75	24	10	1	*
April 2016	72	31	17	4	1	70	21	8	1	*	71	21	8	1	*
April 2017	68	28	14	3	*	66	18	7	1	*	68	19	7	1	*
April 2018	64	24	12	2	*	62	16	6	*	*	64	16	6	1	*
April 2019	60	21	9	2	*	58	14	5	*	*	59	14	5	*	*
April 2020	54	18	8	1	*	53	12	4	*	*	54	12	4	*	*
April 2021	49	15	6	1	*	47	10	3	*	*	49	10	3	*	*
April 2022	42	12	5	1	*	41	8	2	*	*	43	8	2	*	*
April 2023	36	9	3	*	*	35	6	2	*	*	36	6	2	*	*
April 2024	28	6	2	*	*	27	4	1	*	*	28	4	1	*	*
April 2025	19	4	1	*	*	19	2	1	*	*	20	3	1	*	*
April 2026	10	1	*	*	*	10	1	*	*	*	10	1	*	*	*
April 2027	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Weighted Average Life (years)**	22.2	15.7	13.2	10.4	8.3	21.6	11.6	8.2	4.9	3.6	21.8	11.6	8.2	4.9	3.6

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

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

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

Characteristics of the R Class

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

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

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

Under regulations issued by the Treasury Department on December 23, 1992 (the “Regulations”), a transfer of a “noneconomic residual interest” to a U.S. Person will be disregarded for all federal tax purposes unless no significant purpose of the transfer is to impede the assessment or collection of tax. The R Class will constitute a noneconomic residual interest under the Regulations.

The Regulations provide that a significant purpose to impede the assessment or collection of tax exists if, at the time of the transfer, a transferor of a residual certificate has “improper knowledge” (*i.e.*, either knew, or should have known, that the transferee would be unwilling or unable to pay taxes due on its share of the taxable income of the applicable REMIC). A transferor is presumed not to have improper knowledge if (i) the transferor conducts, at the time of a transfer, a reasonable investigation of the financial condition of the transferee and, as a result of the investigation, the

transferor finds that the transferee has historically paid its debts as they come due and finds no significant evidence to indicate that the transferee will not continue to pay its debts as they come due in the future; and (ii) the transferee makes certain representations to the transferor in the affidavit relating to disqualified organizations discussed above. Transferors of an R Certificate should consult with their own tax advisors for further information regarding such transfers.

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

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.

Transfer of Mortgage Loans to the Trust

The Mortgage Loans transferred to the Trust will be identified in a Fannie Mae Security Schedule appearing as an exhibit to the Trust Agreement. In addition, Fannie Mae in its capacity as Trustee of the Trust, will hold on behalf of Certificateholders the original promissory note or similar evidence of indebtedness evidencing the Mortgage Loan (the “Mortgage Note”), endorsed in blank, and an assignment to Fannie Mae of the mortgage instrument. Usually assignments are in a form suitable for recording but they are not recorded. However, a blanket assignment may be used for the transfer of a large number of Mortgage Loans, even if the properties are not located in the same recording jurisdiction, depending on the Lender’s servicing experience and its financial condition. The document custody requirements described above are subject to change at any time; provided that any such change will not, in Fannie Mae’s determination, materially or adversely affect the interests of Certificateholders.

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

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

Servicing Through Lenders

Pursuant to the Trust Agreement, Fannie Mae is responsible for servicing and administering the Mortgage Loans but, in its discretion, is permitted to contract with the originator of each Mortgage Loan, or another eligible servicing institution, to perform such functions under the supervision of Fannie Mae as more fully described herein (each, a “Lender”). Any servicing contract or arrangement by Fannie Mae with a Lender for the direct servicing of Mortgage Loans is a contract solely

between Fannie Mae and that Lender, and the Certificateholders are not deemed to be parties thereto and have no claims, rights, obligations, duties, or liabilities with respect to such Lender.

Except as otherwise agreed upon by Fannie Mae, Lenders will be obligated pursuant to the applicable Guide to perform diligently all services and duties customary to the servicing of mortgages, as well as those specifically prescribed by the applicable Guide. Fannie Mae will monitor the Lender's performance and has the right to remove any Lender for cause at any time it considers such removal to be in the best interest of Certificateholders. The duties performed by Lenders include general loan servicing responsibilities, collection and remittance of principal and interest payments, administration of mortgage escrow accounts, collection of insurance claims, and, if necessary, foreclosure.

An amount calculated as to each Mortgage Loan as the difference in interest between the Mortgage Interest Rate borne by the Mortgage Loan and 7.00% with respect to the Group 1 Mortgage Loans, 7.50% with respect to the Group 2 Mortgage Loans and 8.00% with respect to the Group 3 Mortgage Loans will be retained by Fannie Mae on a monthly basis on account of Trust expenses. Fannie Mae is also entitled to retain prepayment fees, late charges, assumption fees, and similar charges to the extent they are collected from borrowers. Fannie Mae will compensate Lenders in an amount up to, but never exceeding, the amount of interest retention described above, less a prescribed minimum amount to be retained by Fannie Mae for itself in consideration of its guaranty obligations and servicing responsibilities.

Distributions on Mortgage Loans; Deposits in the Certificate Account

Fannie Mae will deposit or credit to one or more accounts (collectively, the "Certificate Account") an amount equal to the sum of the distributions of the principal of and interest on the Mortgage Loans as the same are received.

Amounts credited to the Certificate Account as of a Distribution Date will be available to be distributed to Holders on such date to the extent of interest accrued and distributable on the related Certificates and principal distributions reflected in the REMIC Trust Factors. Any reinvestment earnings on amounts so deposited will be used by Fannie Mae to pay the expenses of the Trust and will not be included in the calculation of amounts distributable to Certificateholders.

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

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

Reports to Certificateholders

As soon as practicable following the eleventh calendar day of each month, Fannie Mae will publish or otherwise make available the REMIC Trust Factor (carried to eight decimal places) for each Class of Certificates after giving effect to the distribution of principal to be made on the following Distribution Date. The principal balance of a Certificate of any Class after giving effect to such principal distribution will be the product of the applicable REMIC Trust Factor and the applicable denomination or initial principal balance of such Certificate. With respect to each distribution on Certificates of each Class, Fannie Mae will cause to be forwarded to each Holder thereof a statement

setting forth the total principal and interest distributions on such Distribution Date with respect to the Certificates in each Class held by such Holder. Fannie Mae also will furnish to each person who was a Certificateholder at any time during a calendar year such statements and information as shall be required to be furnished pursuant to the Code.

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

Servicing Compensation and Payment of Certain Expenses by Fannie Mae

As compensation for its activities and obligations under the Trust Agreement, Fannie Mae will be entitled to retain the amounts applicable to interest that are described under “Servicing Through Lenders” above. In addition, Fannie Mae is entitled to retain any amounts by which the proceeds of the liquidation of a Mortgage Loan exceed (i) the principal balance of that Mortgage Loan and (ii) interest thereon at the Mortgage Interest Rate through the end of the month of such liquidation. Fannie Mae will pay all expenses incurred by it in connection with its servicing activities, including, without limitation, the fees to Lenders, and is not entitled to reimbursement therefor out of the assets of the Trust.

Additional servicing compensation in the form of prepayment charges, assumption fees, late payment charges, or otherwise will be retained by Fannie Mae.

Collection and Other Servicing Procedures

Fannie Mae is responsible for servicing the Mortgage Loans and may, as set forth above, conduct such servicing through Lenders or through other Fannie Mae approved mortgage servicers. In connection with its servicing activities, Fannie Mae has full power and authority to do or cause to be done any and all things as it may deem necessary or appropriate in its sole discretion, including the foreclosure or comparable conversion of a defaulted Mortgage Loan. In lieu of undertaking any such foreclosure, Fannie Mae may, in its discretion and without obligation, repurchase from the Trust any Mortgage Loan that is delinquent, in whole or in part, as to four consecutive installments of principal and interest. It is currently Fannie Mae’s intention to exercise such option when available (although there can be no assurance that such policy will remain unchanged). The purchase price will be equal to the principal balance of the delinquent Mortgage Loan together with accrued interest at the Net Mortgage Rate and will be distributed to Certificateholders in the same manner as full prepayments of Mortgage Loans. See “Description of the Certificates—Distributions of Principal.”

With respect to each Mortgage Loan, the Lender makes certain warranties to Fannie Mae concerning such matters as the recordation of the original Mortgage, the validity of the Mortgage Loan as a first or second lien (as the case may be) on the Mortgaged Property, and compliance by such Mortgage Loans with applicable state and federal laws. In the event of a material breach of any such warranty or a material defect in the Mortgage Loan documentation, Fannie Mae may withdraw such Mortgage Loan from the Trust at a price equal to its principal balance together with interest thereon at the Net Mortgage Rate. Alternatively, Fannie Mae may, at its option, substitute a new Mortgage Loan for a defective Mortgage Loan; provided, however, that no such substitution may take place more than two years subsequent to the date of the original issue of the related Certificates, and any such substitute Mortgage Loan must satisfy certain eligibility criteria designed to assure that the nature of the Mortgage Loans generally will not be altered by any such substitution. Any amount by which the principal balance of the defective Mortgage Loan exceeds the principal balance of the substitute Mortgage Loan (the substitute Mortgage Loan may not be larger than the Mortgage Loan it is replacing) will be passed through to Certificateholders.

Subject to the following paragraphs, Fannie Mae in its discretion may enforce or waive enforcement of any of the terms of any Mortgage Loan or enter into an agreement for the modification of any of the terms of any Mortgage Loan, or take any action or refrain from taking any action in servicing any Mortgage Loan. (However, certain modifications are prohibited by the Trust Agree-

ment, *e.g.*, reducing the Mortgage Interest Rate or extending the term of a Mortgage Loan, except as may be required by the terms of the Mortgage Note.) In such connection, Fannie Mae may waive any prepayment charge, assumption fee, or late payment charge or may exercise or refrain from exercising any “call option rider.” Notwithstanding the foregoing, the decision by Fannie Mae to take or refrain from taking any such action must be consistent with then-current policies or practices employed by Fannie Mae respecting comparable mortgage loans held in its own portfolio and must be without consideration of the ownership status of the related Mortgage Loan.

In connection with the transfer or prospective transfer of title to a Mortgaged Property, Fannie Mae is obligated to accelerate the maturity of the related Mortgage Loan where that Mortgage Loan contains a “due-on-sale” clause permitting acceleration under those conditions unless Fannie Mae is restricted by law from enforcing the “due-on-sale” clause, the transfer is from one co-borrower to another co-borrower under the circumstances specified in Fannie Mae’s published guidelines or Fannie Mae elects to withdraw such Mortgage Loan from the Trust.

In the event that, for any reason, Fannie Mae is not obligated to accelerate the maturity of a Mortgage Loan upon the transfer, or prospective transfer, of title to the underlying Mortgaged Property, Fannie Mae may enter into a transaction by which the borrower is released from liability on the related Mortgage Loan and the transferee assumes such liability; provided, however, that no such transaction shall (i) be entered into which would not have been entered into had the Mortgage Loan been held in Fannie Mae’s own portfolio or (ii) provide for reduction of the Mortgage Interest Rate.

Certain Matters Regarding Fannie Mae

The Trust Agreement provides that Fannie Mae may not resign from its obligations and duties thereunder, except upon determination that those duties are no longer permissible under applicable law. No such resignation will become effective until a successor has assumed Fannie Mae’s obligations and duties under the Trust Agreement; provided, however, that no successor will succeed to Fannie Mae’s guaranty obligations described above. Fannie Mae will continue to be responsible under its guaranty notwithstanding any termination of its other duties and responsibilities under the Trust Agreement. In the event that Fannie Mae is unable to fulfill its continuing guaranty obligations, the Trust Agreement may be modified to provide for monthly distributions to be made from then-available Mortgage Loan payments and other recoveries in a manner similar to practices and procedures followed in the servicing of whole loans for institutional investors. See “Rights Upon Event of Default” below.

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

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

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

Events of Default

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

Rights Upon Event of Default

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

Amendment

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

The Trust Agreement also may be amended by Fannie Mae with the consent of the Holders of Certificates of each Class representing principal balances aggregating not less than 66 percent of the aggregate principal balances of all Certificates of such Class so as to waive compliance by Fannie Mae with any terms of the Trust Agreement, or to allow Fannie Mae to eliminate, change, add to or modify the terms of the Trust Agreement. However, no such waiver or amendment may, without the consent of all 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 Mortgage Loans or other assets in the Trust that are required to be distributed on any Certificate, or without the consent of all Holders of any residual interest in the Trust, adversely affect the rights of the Holders of such residual interest.

Termination

The Trust Agreement terminates upon the final payment or liquidation of the last Mortgage Loan remaining in the Trust and distribution of all proceeds thereof. The Trust Agreement will terminate also upon repurchase by Fannie Mae, at its option, of all remaining Mortgage Loans in the Trust at a price equal to 100 percent of the outstanding principal balance of each such Mortgage Loan together with one month's interest thereon at the Net Mortgage Rate, provided that Fannie Mae will not exercise such option unless the aggregate principal balance of the remaining Mortgage Loans at the time of repurchase is less than one percent of the aggregate principal balance of all the Mortgage Loans as of the Issue Date. The exercise of such option will effect retirement of the Certificates. In addition, Fannie Mae does not intend to exercise such option in respect of the Trust if (i) it has knowledge that any related Certificate has been pledged to secure an issue of cash flow obligations or is included in assets underlying an issue of cash flow obligations and (ii) the exercise of such option would take place prior to the earliest date upon which the issuer of such cash flow obligations can exercise an option to redeem such obligations or purchase such Certificates without premium. In no event, however, will the Trust continue beyond the expiration of 21 years from the death of the last survivor of the persons named in the Trust Agreement. Fannie Mae will give written notice of termination of the Trust Agreement as it relates to each affected Certificateholder, and the final distribution will be made to the person entitled thereto.

CERTAIN FEDERAL INCOME TAX CONSEQUENCES

General

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

The Regulations provide some guidance regarding the federal income tax consequences associated with the purchase, ownership and disposition of the Certificates. While certain material provisions of the Regulations are discussed below, investors should consult their own tax advisors regarding the possible application of the Regulations in their specific circumstances.

REMIC Election

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

The Trust will not be subject to federal income tax except with respect to income from prohibited transactions and in certain other instances described below. See "Taxes on the Trust" below. Generally, the total income of the Mortgage Loans in the Trust will be taxable to the beneficial owners of the Certificates, as described below.

Taxation of Beneficial Owners of Regular Certificates

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

Original Issue Discount

The Notional Classes will be, and certain other Regular Certificates may be, issued with “original issue discount” within the meaning of section 1273(a) of the Code. Regular Owners should be aware that for federal income tax purposes they must include in gross income original issue discount as it accrues under a method that takes account of the compounding of interest, generally in advance of receipt of the cash attributable to such income. Fannie Mae will supply, at the time and in the manner required by the IRS, to Holders of Regular Certificates, brokers and middlemen information with respect to the original issue discount accruing on the Regular Certificates.

In general, a Regular Certificate will be considered to be issued with original issue discount equal to the excess, if any, of its “stated redemption price at maturity” over its “issue price.” The issue price of a Regular Certificate is the initial offering price to the public (excluding bond houses and brokers) at which a substantial amount of the Regular Certificates was sold. The issue price also includes any accrued interest attributable to the period between the beginning of the first Interest Accrual Period and the Settlement Date. The stated redemption price at maturity of a Regular Certificate that is a Notional Certificate is equal to the sum of all distributions to be made under such Regular Certificate. The stated redemption price at maturity of any other Regular Certificate is its stated principal amount, plus an amount equal to the excess (if any) of the interest payable on the first Distribution Date over the interest that accrues for the period from the Settlement Date to the first Distribution Date. The stated redemption price at maturity of a Regular Certificate does not include any qualified stated interest which is defined in the OID Regulations (as defined herein) as stated interest that is unconditionally payable at least annually at a single fixed rate.

Notwithstanding the general definition, original issue discount will be treated as zero in the case of a Regular Certificate if such discount is less than 0.25 percent of the stated redemption price at maturity of such Certificate multiplied by its weighted average life. The weighted average life of a Regular Certificate is apparently computed for this purpose as the sum, for all distributions included in the stated redemption price at maturity of the Certificate, of the amounts determined by multiplying (i) the number of complete years (rounding down for partial years) from the Settlement Date until the date on which each such distribution is expected to be made under the assumption that the Mortgage Loans prepay at 180% PSA (as defined under “Description of the Certificates—Structuring Assumptions—*Prepayment Assumptions*” herein and, for purposes of this discussion, the “Prepayment Assumption”) by (ii) a fraction, the numerator of which is the amount of such distribution and the denominator of which is the Regular Certificate’s stated redemption price at maturity. If original issue discount is treated as zero under this rule, the actual amount of original issue discount must be allocated to the principal distributions on the Regular Certificate and, when each such distribution is received, gain equal to the discount allocated to such distribution will be recognized.

Section 1272(a)(6) of the Code contains special original issue discount rules applicable to the Regular Certificates. Under these rules, (i) it is anticipated that the amount and rate of accrual of original issue discount on the Regular Certificates will be based on the Prepayment Assumption, and (ii) adjustments will be made in the amount of discount accruing in each taxable year in which the actual prepayment rate differs from the Prepayment Assumption.

Section 1272(a)(6)(B)(iii) of the Code requires that the prepayment assumption used to calculate original issue discount be determined in the manner prescribed in Treasury regulations. To date, no such regulations have been promulgated. The legislative history of this Code provision indicates that the regulations will provide that the assumed prepayment rate must be the rate used by the parties in pricing the particular transaction. The Prepayment Assumption would satisfy such a requirement. Fannie Mae makes no representation, however, that the Mortgage Loans underlying the Certificates will prepay at the rate reflected in the Prepayment Assumption or at any other rate. Each investor must make its own decision as to the appropriate prepayment assumption to be used in deciding whether or not to purchase any of the Certificates.

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

The OID Regulations define and provide special rules to determine the amount and accrual of original issue discount and qualified stated interest on variable rate debt instruments (“VRDIs”). Fannie Mae intends to apply these rules to the accrual of original issue discount on those Regular Certificates that are VRDIs. If a VRDI is issued with original issue discount, the rate of accrual of the original issue discount is determined by first substituting an equivalent fixed rate for the variable rate. The portion of original issue discount treated as accruing for any accrual period will equal the *excess*, if any, of (i) the sum of (A) the present values of all the distributions remaining to be made on the Regular Certificate, if any, as of the end of the accrual period and (B) the distribution made on such Certificate during the accrual period of amounts included in the stated redemption price at maturity, over (ii) the adjusted issue price of such Certificate at the beginning of the accrual period. The present value of the remaining distributions referred to in the preceding sentence will be calculated based on (i) the yield to maturity of the Regular Certificate, calculated as of the Settlement Date, giving effect to the Prepayment Assumption, (ii) events (including actual prepayments) that have occurred prior to the end of the accrual period and (iii) the Prepayment Assumption. The adjusted issue price of a Regular Certificate at any time will equal the issue price of such Certificate, increased by the aggregate amount of previously accrued original issue discount with respect to such Certificate, and reduced by the amount of any distributions made on such Certificate as of that time of amounts included in the stated redemption price at maturity. The original issue discount accruing during any accrual period will then be allocated ratably to each day during the period to determine the daily portion of original issue discount.

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

Certificates Purchased at a Premium

A purchaser of a Regular Certificate that purchases such Certificate at a cost greater than its remaining stated redemption price at maturity will be considered to have purchased such Certificate

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

Market Discount

A Regular Owner that purchases a Regular Certificate at a market discount, that is, at a purchase price less than the remaining stated redemption price at maturity of such Certificate, or in the case of a Regular Certificate issued with original issue discount, less than the adjusted issue price of such Certificate, will be required to allocate each principal distribution first to accrued market discount on the Regular Certificate, and recognize ordinary income to the extent such distribution does not exceed the aggregate amount of accrued market discount on such Certificate that was not previously included in income. With respect to Regular Certificates that have unaccrued original issue discount, such market discount must be included in income in addition to original issue discount includible under the rules described above under “*Original Issue Discount*.” A Regular Owner that incurs or continues indebtedness to acquire a Regular Certificate at a market discount may also be required to defer the deduction of all or a portion of the interest on such indebtedness until the corresponding amount of market discount is included in income. In general terms, market discount on a Regular Certificate may be treated as accruing either (i) under a constant yield method, taking into account the Prepayment Assumption, or (ii) in proportion to remaining accruals of original issue discount, if any, or if none, in proportion to remaining distributions of interest on the Regular Certificate. Fannie Mae will make available, as required by the IRS, to Holders of Regular Certificates information necessary to compute the accrual of market discount.

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

Special Election

For any Regular Certificate acquired on or after April 4, 1994, the OID Regulations permit a Regular Owner to elect to include in gross income all “interest” that accrues on the Regular Certificate by using a constant yield method. For purposes of the election, the term “interest” includes stated

interest, acquisition discount, original issue discount, *de minimis* original issue discount, market discount, *de minimis* market discount and unstated interest, as adjusted by any amortizable bond premium or acquisition premium. A Regular Owner should consult its own tax advisor regarding the time and manner of making and the scope of the election and the implementation of the constant yield method.

Taxation of Beneficial Owners of Residual Certificates

Daily Portions

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

The requirement that the Residual Owner report its daily portion of the taxable income or net loss of the Trust will continue until there are no Certificates of any Class outstanding.

Taxable Income or Net Loss of the Trust

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

A Residual Owner may be required to recognize taxable income without being entitled to receive a corresponding amount of cash. This could occur, for example, if the Mortgage Loans are considered to be purchased by the Trust at a discount, some or all of the Regular Certificates are issued at a discount, and the discount included as a result of a prepayment on a Mortgage Loan that is used to pay

principal on the Regular Certificates exceeds the Trust's deduction for unaccrued original issue discount relating to such Regular Certificates. Taxable income may also be greater in earlier years because interest expense deductions, expressed as a percentage of the outstanding principal amount of the Regular Certificates, may increase over time as the earlier Classes of Regular Certificates are paid, whereas interest income with respect to any given Mortgage Loan, expressed as a percentage of the outstanding principal amount of that Mortgage Loan, will remain constant over time.

Basis Rules and Distributions

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

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

Excess Inclusions

Any excess inclusions with respect to a Residual Certificate are subject to certain special tax rules. With respect to a Residual Owner, the excess inclusion for any calendar quarter is defined as the excess (if any) of the daily portions of taxable income over the sum of the "daily accruals" for each day during such quarter that such Residual Certificate was held by such Residual Owner. The daily accruals are determined by allocating to each day during a calendar quarter its ratable portion of the product of the "adjusted issue price" of the Residual Certificate at the beginning of the calendar quarter and 120 percent of the "Federal long-term rate" in effect on the Settlement Date, based on quarterly compounding, and properly adjusted for the length of such quarter. For this purpose, the adjusted issue price of a Residual Certificate as of the beginning of any calendar quarter is equal to the issue price of the Residual Certificate, increased by the amount of daily accruals for all prior quarters and decreased by any distributions made with respect to such Residual Certificate before the beginning of such quarter. The issue price of a Residual Certificate is the initial offering price to the public (excluding bond houses and brokers) at which a substantial amount of the Residual Certificates was sold. The Federal long-term rate is a blend of current yields on Treasury securities having a maturity of more than nine years, computed and published monthly by the IRS on or about the 20th day.

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

In the case of any Residual Certificates that are held by a real estate investment trust, the aggregate excess inclusions with respect to such Residual Certificates reduced (but not below zero) by

the real estate investment trust taxable income (within the meaning of section 857(b)(2) of the Code, excluding any net capital gain) will be allocated among the shareholders of such trust in proportion to the dividends received by such shareholders from such trust, and any amount so allocated will be treated as an excess inclusion with respect to a Residual Certificate as if held directly by such shareholder. Similar rules will apply in the case of regulated investment companies, common trust funds and certain cooperatives that hold a Residual Certificate.

Pass-Through of Trust Administrative Expenses to Individuals

A Residual Owner who is an individual will be required to include in income a share of the trust's administrative expenses. A deduction for such expenses will be allowed to such Owner only to the extent that such expenses, along with certain of such Owner's other miscellaneous itemized deductions exceed 2 percent of such Owner's adjusted gross income. In addition, a Residual Owner may not be able to deduct any portion of such expenses in computing such Residual Owner's alternative minimum tax liability. A Residual Owner's share of such expenses will generally be determined by (i) allocating the amount of such expenses for each calendar quarter on a pro rata basis to each day in the calendar quarter, and (ii) allocating the daily amount among the Owners in proportion to their respective holdings on such day.

Special Tax Attributes

As a consequence of the qualification of the Trust as a REMIC, the Certificates generally will be treated as "regular interests in a REMIC" (within the meaning of section 7701(a)(19)(C)(xi) of the Code) for domestic building and loan associations, "real estate assets" (within the meaning of section 856(c)(5)(A) of the Code) for real estate investment trusts, and, except for the R Class, as "qualified mortgages" (within the meaning of section 860G(a)(3) of the Code) for other REMICs. If at any time during a calendar year less than 95 percent of the assets of the Trust consist of qualified mortgages, then the portion of the Certificates that are qualifying assets under these Code sections during such calendar year may be limited to the portion of the assets of the Trust that are qualified mortgages. Similarly, income on the Certificates will be treated as "interest on obligations secured by mortgages on real property" within the meaning of section 856(c)(3)(B) of the Code, subject to the same limitation as set forth in the preceding sentence. For purposes of applying this limitation, the Trust should be treated as owning the assets represented by the qualified mortgages. The assets of the Trust will include, in addition to the Mortgage Loans, payments on the Mortgage Loans held pending distribution on the Regular Certificates and any reinvestment income thereon. Regular and Residual Certificates held by a financial institution to which section 585 or 586 of the Code applies will be treated as evidences of indebtedness for purposes of section 582(c)(1) of the Code.

The Small Business Job Protection Act of 1996 repeals the bad debt reserve method of accounting for mutual savings banks and domestic building and loan associations for tax years beginning after December 31, 1995. As a result, section 593(d) of the Code is no longer applicable to treat the Certificates as "qualifying real property loans."

Taxes on the Trust

Prohibited Transactions

The Code imposes a tax on a REMIC equal to 100 percent of the net income derived from "prohibited transactions." In general, a prohibited transaction means the disposition of a qualified mortgage other than pursuant to certain specified exceptions, the receipt of investment income from a source other than a Mortgage Loan or certain other permitted investments, the receipt of compensation for services, or the disposition of an asset purchased with the payments on the qualified mortgages for temporary investment pending distribution on the regular and residual interests.

Contributions to a REMIC after the Startup Day

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

Net Income from Foreclosure Property

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

Application to the Trust

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

Sales of Certificates

In General

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

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

If a Residual Owner sells its Residual Certificate at a loss, the loss will not be recognized if, within six months before or after the sale of the Residual Certificate, such Residual Owner purchases another

residual interest in any REMIC or any interest in a taxable mortgage pool (as defined in section 7701(i) of the Code) comparable to a residual interest in a REMIC. Such disallowed loss would be allowed upon the sale of the other residual interest (or comparable interest) if the rule referred to in the preceding sentence does not apply to that sale. While this rule may be modified by Treasury regulations, no such regulations have yet been published.

Residual Certificates Transferred to or Held by Disqualified Organizations

Section 860E(e) of the Code imposes a substantial tax, payable by the transferor (or, if a transfer is through a broker, nominee, or other middleman as the transferee's agent, payable by that agent) upon any transfer of a Residual Certificate to a disqualified organization and upon a pass-through entity (including regulated investment companies, real estate investment trusts, common trust funds, partnerships, trusts, estates, certain cooperatives, and nominees) that owns a Residual Certificate if such pass-through entity has a disqualified organization as a record holder. For purposes of the preceding sentence, a transfer includes any transfer of record or beneficial ownership, whether pursuant to a purchase, a default under a secured lending agreement or otherwise. The term "disqualified organization" is defined above under "Description of the Certificates—Characteristics of the R Class."

A transferor of a Residual Certificate (or an agent of a transferee of a Residual Certificate, as the case may be) will be relieved of such tax liability if (i) the transferee furnishes to the transferor (or the transferee's agent) an affidavit that the transferee is not a disqualified organization, and (ii) the transferor (or the transferee's agent) does not have actual knowledge that the affidavit is false at the time of the transfer. Similarly, no such tax will be imposed on a pass-through entity for a period with respect to an interest therein owned by a disqualified organization if (i) the record holder of such interest furnishes to the pass-through entity an affidavit that it is not a disqualified organization, and (ii) during such period, the pass-through entity has no actual knowledge that the affidavit is false.

Termination

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

Reporting and Other Administrative Matters

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

Each Residual Owner is required to treat items on its return consistently with the treatment on the return of the Trust, unless the Residual Owner either files a statement identifying the inconsistency or establishes that the inconsistency resulted from incorrect information received from the Trust. The IRS may assert a deficiency resulting from a failure to comply with the consistency

requirement without instituting an administrative proceeding at the Trust level. Fannie Mae does not intend to register the Trust as a tax shelter pursuant to section 6111 of the Code.

Backup Withholding

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

Foreign Investors

Regular Certificates

Distributions made on a Regular Certificate to, or on behalf of, a Regular Owner that is not a U.S. Person (a “Non-U.S. Person”) generally will be exempt from U.S. federal income and withholding taxes, provided (a) the Regular Owner is not subject to U.S. tax as a result of a connection to the United States other than ownership of the Certificate, (b) the Regular Owner signs a statement under penalties of perjury that certifies that such Regular Owner is a Non-U.S. Person, and provides the name and address of such Regular Owner, and (c) the last U.S. Person in the chain of payment to the Regular Owner receives such statement from such Regular Owner or a financial institution holding on its behalf and does not have actual knowledge that such statement is false. Regular Owners should be aware that the IRS might take the position that this exemption does not apply to a Regular Owner that also owns 10 percent or more of the Residual Certificates or of the voting stock of Fannie Mae, or to a Regular Owner that is a “controlled foreign corporation” described in section 881(c)(3)(C) of the Code.

Residual Certificates

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

Under the Regulations, the transfer of a Residual Certificate that has tax avoidance potential is disregarded for all Federal tax purposes if the transferee is a foreign person. A Residual Certificate has tax avoidance potential unless, at the time of the transfer, the transferor reasonably expects that, for each excess inclusion, the REMIC will distribute to the transferee Holder an amount that will equal at least 30 percent of the excess inclusion, and that each such amount will be distributed at or after the time at which the excess inclusion accrues and not later than the close of the calendar year following the calendar year of accrual. It is not anticipated that the Holder of the R Class will receive any distributions.

LEGAL INVESTMENT CONSIDERATIONS

Institutions whose investment activities are subject to legal investment laws and regulations or to review by certain regulatory authorities may be subject to restrictions on investment in certain Classes of the 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

The Employee Retirement Income Security Act of 1974, as amended (“ERISA”) and the Code impose certain requirements on employee benefit plans and certain other retirement plans and arrangements, as well as on collective investment funds and separate accounts in which such plans or arrangements are invested (all of which are hereinafter referred to as a “Plan”) and on persons who are fiduciaries with respect to such Plans. Any Plan fiduciary which proposes to cause a Plan to acquire any Certificates would be required to determine whether such an investment is permitted under the governing Plan instruments and is prudent and appropriate for the Plan in view of its overall investment policy and the composition and diversification of its portfolio. In addition, ERISA and the Code prohibit certain transactions involving the assets of a Plan and “disqualified persons” (within the meaning of the Code) and “parties in interest” (within the meaning of ERISA) who have certain specified relationships to the Plan. Therefore, a Plan fiduciary considering an investment in Certificates should also consider whether such an investment might constitute or give rise to a prohibited transaction under ERISA or the Code.

The United States Department of Labor (“Labor”) issued a final regulation on November 13, 1986 (the “Regulation”), which provides that in the case where a Plan acquires a “guaranteed governmental mortgage pool certificate” then, for purposes of the fiduciary responsibility provisions of ERISA and the prohibited transaction provisions of the Code, the Plan’s assets include the certificate and all of its rights with respect to such certificate under applicable law, but do not, solely by reason of the Plan’s holding of such certificate, include any of the mortgages underlying such certificate. Under

the Regulation, the term “guaranteed governmental mortgage pool certificate” is specifically defined to include a certificate “backed by, or evidencing an interest in specified mortgages or participation interests therein” and with respect to which interest and principal payable pursuant to the certificate are guaranteed by Fannie Mae. The effect of the Regulation is to make clear that the sponsor (that is, the entity that organizes and services the trust, in this case Fannie Mae), the trustee, and other persons, in providing services with respect to the assets in the trust, would not be subject to the fiduciary responsibility provisions of Title I of ERISA, nor be subject to the prohibited transaction provisions of section 4975 of the Code, merely by reason of the Plan’s investment in a certificate. At the time the Regulation was originally issued, certificates similar to the Certificates were not in existence. However, Fannie Mae has been advised by its counsel, Brown & Wood LLP, that the Certificates qualify as “guaranteed governmental mortgage pool certificates,” and thus the acquisition and holding of the Certificates by Plans should not be considered to be the acquisition and holding of the Mortgage Loans underlying the Certificates.

PLAN OF DISTRIBUTION

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

LEGAL MATTERS

Cleary, Gottlieb, Steen & Hamilton will serve as counsel for the Dealers.

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

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Guaranteed REMIC
Pass-Through Certificates
Fannie Mae REMIC Trust 1997-W1

PROSPECTUS

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LEHMAN BROTHERS
COUNTRYWIDE SECURITIES
CORPORATION

March 12, 1997
