

\$67,575,436



FannieMae

**Guaranteed Grantor Trust Pass-Through Certificates
Fannie Mae Grantor Trust 1998-T3**

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

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

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

The Certificates

We, the Federal National Mortgage Association or Fannie Mae, will issue the certificates listed in the chart on this page. The certificates will represent beneficial ownership interests in the trust assets.

Payments to Certificateholders

You, the investor, will receive monthly payments on your certificates, including

- interest to the extent accrued as described in this prospectus, and
- principal to the extent available for payment.

We may pay principal at rates which vary from time to time.

The Fannie Mae Guaranty

We will guarantee that required payments of interest and principal on the certificates are paid to investors on time and that any remaining principal balance of the certificates is paid no later than the final distribution date shown below.

The Trust and Its Assets

The trust will own

- certain interest only Fannie Mae SMBS and
- certain principal only REMIC certificates.

The Fannie Mae SMBS and the principal only REMIC certificates are backed directly or indirectly by Fannie Mae MBS. The mortgage loans underlying the Fannie Mae MBS are first lien, single-family, fixed-rate loans.

Class	Original Class Balance	Principal Type	Interest Rate	Interest Type	CUSIP Number	Final Distribution Date
B	\$67,575,436	SC/PT	(1)	PT	31359P7M2	September 2023

(1) We will pay interest on the certificates in an amount equal to the interest required to be paid on the interest only Fannie Mae SMBS.

Salomon Smith Barney Inc. will offer the certificates from time to time in negotiated transactions at varying prices. We expect the settlement date to be December 30, 1998.

Salomon Smith Barney

The date of this Prospectus is December 3, 1998

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ADDITIONAL INFORMATION

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

- our prospectus for Fannie Mae Stripped Mortgage-Backed Securities dated December 22, 1997 and the other disclosure documents relating to the interest only Fannie Mae SMBS listed in Exhibit A (the “Underlying SMBS Disclosure Documents”);
- our prospectus for Fannie Mae Guaranteed Mortgage Pass-Through Certificates (the “MBS Prospectus”) dated October 1, 1998;
- our prospectus for Fannie Mae Guaranteed REMIC Pass-Through Certificates dated September 18, 1998 and the other disclosure documents relating to the principal only REMIC certificates listed in Exhibit A (the “Underlying REMIC Disclosure Documents” and, together with the Underlying SMBS Disclosure Documents, the “Underlying Disclosure Documents”); and
- our current Information Statement dated March 31, 1998 and its supplements (the “Information Statement”).

The Information Statement contains important financial and other information about Fannie Mae which we are incorporating by reference in this prospectus. This means that we are disclosing important information to you by referring to these documents, so you should read them together with this prospectus.

The Information Statement and the class factor for the certificates are available on our website located at <http://www.fanniemae.com>. You can also obtain them by calling the Fannie Mae Helpline at 1-800-237-8627 or 202-752-6547.

You can obtain all the Disclosure Documents by writing or calling:

- Fannie Mae
3900 Wisconsin Avenue, N.W.
Area 2H-3S
Washington, D.C. 20016
(telephone 1-800-237-8627 or 202-752-6547)

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

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

REFERENCE SHEET

This reference sheet highlights information contained elsewhere in this prospectus. As a reference sheet, it speaks in general terms without giving details or discussing any exceptions. You should purchase the certificates only after reading this prospectus and each of the additional disclosure documents listed on page 3.

General

- The certificates will represent beneficial ownership interests in the trust assets.
- The trust assets will consist of certain interest only Fannie Mae SMBS and principal only REMIC certificates backed directly or indirectly by Fannie Mae MBS.
- The mortgage loans underlying the interest only Fannie Mae SMBS and the principal only REMIC certificates are first lien, single-family, fixed-rate mortgage loans.
- Interest payments on the certificates will be equal to the amounts required to be paid on the interest only Fannie Mae SMBS.
- Principal payments on the certificates will be equal to the amounts required to be paid on the principal only REMIC certificates.

Characteristics of the Underlying Mortgage Loans

Exhibit A contains information about the interest only Fannie Mae SMBS and the principal only REMIC certificates, including certain information about the related mortgage loans. You can obtain certain additional information about the interest only Fannie Mae SMBS and the principal only REMIC certificates by reviewing the related underlying disclosure documents. You can obtain these disclosure documents from us as described on page 3 of this prospectus.

Class Factor

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

Settlement Date

We expect to issue the certificates on December 30, 1998.

Distribution Dates

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

Book-Entry Certificates

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

Interest Payments

We will pay interest on the certificates each month in an amount equal to the amount of interest required to be paid on the interest only Fannie Mae SMBS in that month. We will pay interest on the certificates on a pro rata basis.

We will pay interest on the certificates in an amount equal to the required interest payments on the interest only Fannie Mae SMBS. We will not calculate the interest payable on the certificates on their principal balance.

Principal Payments

We will pay principal on the certificates each month in an amount equal to the amount of principal required to be paid on the principal only REMIC certificates in that month. We will pay principal on the certificates on a pro rata basis.

Weighted Average Life (years) *

<u>Class</u>	<u>PSA Prepayment Assumption</u>				
	<u>0%</u>	<u>100%</u>	<u>307%</u>	<u>450%</u>	<u>600%</u>
B	20.5	12.1	5.2	3.3	2.2

* Determined as specified in this prospectus under “Description of the Certificates—Weighted Average Life of the Certificates and Final Distribution Date.”

RISK FACTORS

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

Suitability

The certificates are **not** a suitable investment for every investor.

- Before investing, you should have sufficient knowledge and experience to evaluate the merits and risks of the certificates and the information contained in this prospectus and the other disclosure documents, including the underlying disclosure documents.
- You should thoroughly understand the terms of the certificates.
- You should thoroughly understand the terms of the interest only Fannie Mae SMBS and the principal only REMIC certificates.
- You should be able to evaluate (either alone or with the help of a financial advisor) the economic, interest rate and other factors that may affect your investment.
- In particular, you should be able to bear the risk that the certificates could in the future be backed exclusively by the interest only Fannie Mae SMBS.
- You should have sufficient financial resources and liquidity to bear all risks associated with the certificates.
- You should investigate any legal investment restrictions that may apply to you.

Investors whose investment activities are subject to legal investment laws and regulations, or to review by regulatory authorities, may be unable to buy certain certificates. You should get legal advice in determining whether your purchase of the certificates is a legal investment for you or is subject to any investment restrictions.

Yield Considerations

Your effective yield on the certificates will depend upon:

- the price you paid for the certificates;
- how quickly or slowly borrowers prepay the underlying mortgage loans;
- if and when the underlying mortgage loans are liquidated due to borrower defaults, casualties or condemnations affecting the properties securing those loans;
- if and when the underlying mortgage loans are repurchased; and
- the actual characteristics of the underlying mortgage loans.

The actual yield on your certificates probably will be lower than you expect:

- if you bought your certificates at a premium and principal payments are faster than you expect, or
- if you bought your certificates at a discount and principal payments are slower than you expect.

Furthermore, in the case of certificates purchased at a premium, you could lose money on your investment if prepayments occur at a rapid rate.

Since interest payments on the certificates will be based on required payments on the interest only Fannie Mae SMBS and principal payments on the certificates will be based on required payments on the principal only REMIC certificates, the interest payment rates and principal payment rates are likely to differ.

Even if the underlying mortgage loans are prepaid at a rate that on average is consistent with your expectations, variations in the prepayment rate over time could significantly affect your yield. Generally, the earlier the payment of principal, the greater the effect on the yield to

maturity. As a result, if the rate of principal prepayment during any period is faster or slower than you expect, a corresponding reduction or increase in the prepayment rate during a later period may not fully offset the impact of the earlier prepayment rate on your yield.

We used certain assumptions concerning the underlying mortgage loans in preparing the tabular information in this prospectus. If the actual mortgage loan characteristics differ even slightly from those assumptions, the weighted average life and yield of the certificates will be affected.

You must make your own decision as to the assumptions, including the principal prepayment assumptions, you will use in deciding whether to purchase the certificates.

The actual final payment on the certificates may occur earlier, and could occur much earlier, than the final distribution date listed on the cover page of this prospectus. If you assumed the actual final payment would occur on the final distribution date, your yield could be lower than you expect.

Prepayment Considerations

The rate of principal payments on the certificates generally will depend on the rate of principal payments on the underlying mortgage loans and on the payment sequences affecting the principal only REMIC certificates. The rate of interest payments on the certificates will depend on the rate of principal payments on the underlying mortgage loans, since principal payments will reduce the loan balances on which interest will accrue.

Principal payments on the underlying mortgage loans may occur as a result of scheduled amortization or prepayments. The rate of principal payments is likely to vary considerably from time to time because borrowers generally may prepay the mortgage loans at any time without penalty.

It is highly unlikely that the mortgage loans will prepay:

- at the rates we assume,
- at any constant prepayment rate until maturity, or
- at the same rate.

Many of the underlying mortgage loans provide that the lender can require repayment in full if the borrower sells the property that secures the loan. In this way, property sales by borrowers can affect the rate of prepayment. In addition, borrowers often seek to refinance their loans by obtaining new loans secured by the same properties. Refinancing of loans also affects the rate of prepayment.

In general, prepayment rates may be influenced by:

- the level of current interest rates relative to the rates borne by the underlying mortgage loans,
- homeowner mobility,
- existence of any prepayment penalties or prepayment restrictions,
- borrower sophistication regarding the benefits of refinancing,
- solicitation by competing lenders,
- repurchases of mortgage loans from the related mortgage pools, and
- general economic conditions.

Because so many factors affect the prepayment rate of a pool of mortgage loans, we cannot estimate the prepayment experience of the underlying mortgage loans.

Repurchases Due to Breach of Representations and Warranties

The financial institutions that sold us the underlying mortgage loans made certain representations and warranties covering the loans. If there is a material breach of these representations and warranties, we may require that they repurchase the affected loans. If we do, the mortgage loans will be repurchased at a price equal to their principal balance (plus accrued interest at the pass-through rate). Such repurchases of mortgage loans will have the same effect on the certificateholders as borrower prepayments.

Repurchases Due to Delinquency

We may repurchase from any pool of mortgage loans underlying the interest only Fannie

Mae SMBS and the principal only REMIC certificates those loans that are delinquent by at least four consecutive monthly payments. If we do, we will purchase the mortgage loans at a price equal to their principal balance (plus accrued interest at the pass-through rate). Our repurchase of mortgage loans will have the same effect on the certificateholders as borrower prepayments.

Reinvestment Risk

Generally, a borrower may prepay a mortgage loan at any time. As a result, we cannot predict the amount of principal payments on the principal only REMIC certificates or on the certificates. The certificates may not be an appropriate investment for you if you require a specific amount of principal on a regular basis or on a specific date. Because interest rates fluctuate, you may not be able to reinvest the principal payments on the certificates at a rate of return that is as high as your rate of return on the certificates. You may have to reinvest those funds at a much lower rate of return. You should consider this risk in light of other investments that may be available to you.

Market and Liquidity Considerations

We cannot be sure that a market for resale of the certificates will develop. Further, if a market develops, it may not continue or be sufficiently liquid to allow you to sell your certificates. Even if you are able to sell your certificates, the sale price may not be comparable to similar investments that have a developed market. Moreover, you may not be able to sell small

or large amounts of certificates at prices comparable to those available to other investors.

A number of factors may affect the resale of certificates, including:

- the method, frequency and complexity of calculating principal and interest;
- the characteristics of the underlying mortgage loans;
- past and expected prepayment levels of the underlying mortgage loans and comparable loans;
- the outstanding principal amount of the certificates;
- the amount of certificates offered for resale from time to time;
- any legal restrictions or tax treatment limiting demand for the certificates;
- the availability of comparable securities;
- the level, direction and volatility of interest rates generally; and
- general economic conditions.

Fannie Mae Guaranty Considerations

If we were unable to perform our guaranty obligations, certificateholders would receive only borrower payments and other recoveries on the underlying mortgage loans. If that happened, delinquencies and defaults on the underlying mortgage loans could directly affect the amounts that certificateholders would receive each month.

DESCRIPTION OF THE CERTIFICATES

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

General

Structure. We will create the Fannie Mae Grantor Trust specified on the cover of this prospectus (the “Trust”) pursuant to a trust agreement dated as of December 1, 1998 (the “Trust Agreement”). We will execute the Trust Agreement in our corporate capacity and in our capacity as trustee (the “Trustee”). We will issue the Certificates indicated on the cover of this prospectus pursuant to the Trust Agreement.

The Guaranteed Grantor Trust Pass-Through Certificates offered by this prospectus (the “Certificates”) will represent beneficial ownership interests in the Trust. The assets of the Trust will consist of

- certain interest only Fannie Mae Stripped Mortgage-Backed Securities (the “SMBS”) evidencing beneficial ownership interests in certain interest distributions on certain Fannie Mae Guaranteed Mortgage Pass-Through Certificates (the “MBS”), and
- certain principal only Fannie Mae Guaranteed REMIC Pass-Through Certificates (the “REMIC Certificates”) evidencing beneficial ownership interests in the related Fannie Mae REMIC trusts (each, a “REMIC Trust”). The assets of the REMIC Trusts consist of direct or indirect beneficial ownership interests in the MBS.

Exhibit A and the Underlying Disclosure Documents further describe the SMBS and the REMIC Certificates.

Each MBS represents a beneficial ownership interest in a pool (each, a “Pool”) of first lien, single-family, fixed-rate residential mortgage loans (the “Mortgage Loans”) described in this prospectus and in the related Underlying Disclosure Documents.

Fannie Mae Guaranty. We guarantee that we will distribute to Certificateholders:

- required installments of principal and interest on the Certificates on time, and
- any remaining principal balance of the Certificates no later than the Final Distribution Date shown on the cover of this prospectus.

In addition, we guarantee that we will distribute to each holder of an MBS:

- scheduled installments of principal and interest on the underlying Mortgage Loans on time, whether or not the related borrowers pay us, and
- the full principal balance of any foreclosed Mortgage Loan, whether or not we recover it.

Our guaranty obligations with respect to the MBS are described under “Description of Certificates—The Fannie Mae Guaranty” in the MBS Prospectus. Our guaranty obligations with respect to the REMIC Certificates are described under “Description of the Certificates —Fannie Mae Guaranty” in the related Underlying REMIC Disclosure Documents. If we were unable to perform our guaranty obligations, Certificateholders would receive only the amounts paid and other recoveries on the Mortgage Loans. If that happened, delinquencies and defaults on the Mortgage Loans would directly affect the amounts that Certificateholders would receive each month. Our guaranties are not backed by the full faith and credit of the United States.

Characteristics of Certificates. We will issue the Certificates in book-entry form on the book-entry system of the U.S. Federal Reserve Banks. We refer to entities whose names appear on the book-entry records of a Federal Reserve Bank as having had Certificates deposited in their accounts as “Holders” or “Certificateholders.” A Holder is not necessarily the beneficial owner of a Certificate. Beneficial owners ordinarily will “hold” Certificates through one or more financial intermediaries, such as banks, brokerage firms and securities clearing organizations.

Authorized Denominations. We will issue the Certificates in minimum denominations of \$1,000 and whole dollar increments.

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

Record Date. On each Distribution Date, we will make each monthly payment to Certificateholders who were Holders of record on the last day of the preceding month or, in the case of the initial

Distribution Date, Holders of record on the date we issue the Certificates, expected to be December 30, 1998.

Class Factor. On or shortly after the 11th day of each month, we will publish a class factor (carried to eight decimal places) for the Certificates. When the factor is multiplied by the original principal balance of a Certificate, the product will equal the current principal balance of the Certificate after taking into account payments on the Distribution Date in that month.

Optional Termination. We will not terminate the Trust by exercising our right to repurchase the Mortgage Loans underlying any MBS unless

- only one Mortgage Loan remains in the related Pool, or
- the principal balance of the Pool is less than one percent of its original level.

See “Description of Certificates—Termination” in the MBS Prospectus.

Voting the SMBS and the REMIC Certificates. If any issue arises under the trust indenture governing the SMBS or the trust agreements governing the REMIC Certificates that requires the vote of holders of the related certificates, the Trustee will vote the SMBS or the REMIC Certificates, as applicable, in accordance with the instructions of the Certificateholders. The Trustee must receive instructions from Holders of Certificates having principal balances totaling at least 51% of the aggregate principal balance of all Certificates. In the absence of such instructions, the Trustee will vote in a manner consistent, in its sole judgment, with the best interests of Certificateholders.

The SMBS

The SMBS evidence beneficial ownership interests in certain interest distributions made on the MBS. Each MBS underlying the SMBS evidences beneficial ownership interests in a Pool of Conventional Level Payment Mortgage Loans secured by first mortgages or deeds of trust on single-family residential properties, as described under “The Mortgage Pools” and “Yield Considerations” in the MBS Prospectus. Distributions of interest on the SMBS will be passed through monthly. The general characteristics of the SMBS are described in the Underlying SMBS Disclosure Documents.

See Exhibit A for additional information about the SMBS.

For further information about the SMBS, call the Fannie Mae Helpline at 1-800-237-8627 or 202-752-6547. You may also obtain certain information in electronic form by calling us at 1-800-752-6440 or 202-752-6000. There may have been material changes in facts and circumstances since the date we prepared the related Underlying Disclosure Document. These may include changes in prepayment speeds, prevailing interest rates and other economic factors. As a result, the usefulness of the information included in the Underlying Disclosure Document could be limited.

The REMIC Certificates

The REMIC Certificates represent beneficial ownership interests in the related REMIC Trusts. The assets of these trusts evidence direct or indirect beneficial ownership interests in the MBS. Each MBS evidences beneficial ownership interests in a Pool of Conventional Level Payment Mortgage Loans secured by first mortgages or deeds of trust on single-family residential properties, as described under “The Mortgage Pools” and “Yield Considerations” in the MBS Prospectus. Distributions of principal on the REMIC Certificates will be passed through monthly. The general characteristics of the REMIC Certificates are described in the related Underlying REMIC Disclosure Documents.

See Exhibit A for additional information about the REMIC Certificates.

For further information about the REMIC Certificates, call the Fannie Mae Helpline at 1-800-237-8627 or 202-752-6547. You also may obtain certain information in electronic form by calling us at 1-800-752-6440 or 202-752-6000. There may have been material changes in facts and circumstances since the dates we prepared the related Underlying Disclosure Documents. These may

include changes in prepayment speeds, prevailing interest rates and other economic factors. As a result, the usefulness of the information included in the Underlying Disclosure Documents may be limited.

Book-Entry Procedures

We will issue the Certificates in book-entry form on the book-entry system of the U.S. Federal Reserve Banks.

The Federal Reserve Bank of New York will act as our fiscal agent. We have a fiscal agency agreement in effect with the Federal Reserve Bank of New York. Under this agreement, the regulations (found at 24 C.F.R. Part 81, Subpart E) that govern our use of the book-entry system and the pledging and transfer of interests apply to the book-entry Certificates. These regulations may be modified, amended, supplemented, superseded, eliminated or otherwise altered without the consent of any Certificateholder. The Federal Reserve Banks' operating circulars and letters also apply. Book-entry Certificates will have a minimum denomination of \$1,000 with additional increments of one dollar. The Certificates have been assigned a CUSIP number and will trade under that CUSIP number. The book-entry Certificates are freely transferable on the records of any Federal Reserve Bank but are not convertible to physical certificates.

Certificates maintained on the book-entry system of a Federal Reserve Bank can be separately traded and owned. Acting on our behalf, the Federal Reserve Bank of New York will make payments on the book-entry Certificates on each Distribution Date by crediting accounts on its records (or on the records of other Federal Reserve Banks). Only entities that are eligible to maintain book-entry accounts with a Federal Reserve Bank may hold Certificates "of record," although these entities will not necessarily be the beneficial owners of the Certificates. We refer to holders of record as "Holders" or "Certificateholders."

Ordinarily, beneficial owners will "hold" Certificates through one or more financial intermediaries, such as banks, brokerage firms and securities clearing organizations. A Certificateholder that is not the beneficial owner of a Certificate will establish and maintain accounts for its customers. In the same way, all the other financial intermediaries in the chain to the beneficial owner of that Certificate will be responsible for establishing and maintaining accounts for their customers. Accordingly, the beneficial owners may experience a delay in receiving payments on the Certificates.

The rights of the beneficial owner of a Certificate with respect to Fannie Mae and the Federal Reserve Banks may be exercised only through a Certificateholder. Neither we nor the Federal Reserve Banks will have any direct obligation to the beneficial owner of a Certificate who is not also a Certificateholder according to the book-entry records maintained by the Federal Reserve Banks. In recording transfers of a Certificate, the Federal Reserve Banks will act only upon the instructions of a Certificateholder.

Distributions of Interest

Interest Type Category. For the purpose of payments of interest, the Certificates will be categorized as a Pass-Through class. See "—Class Definitions and Abbreviations" below.

Interest Distribution Amount. On each Distribution Date, we will pay to the Certificateholders an amount (the "Interest Distribution Amount") equal to the interest amount required to be paid on the SMBS in the month of that Distribution Date. On each Distribution Date, the Interest Distribution Amount will be paid to Certificateholders on a pro rata basis.

As described above, interest paid on the Certificates will be equal to the required interest payments on the SMBS and will not be calculated based on the principal balance of the Certificates.

Distributions of Principal

Principal Type Category. For the purpose of payments of principal, the Certificates will be categorized as a Structured Collateral/Pass-Through class. See “—Class Definitions and Abbreviations” below.

Principal Distribution Amount. On each Distribution Date, we will pay to the Certificateholders an amount (the “Principal Distribution Amount”) equal to the principal amount required to be paid on the principal only REMIC Certificates in the month of that Distribution Date. On each Distribution Date, the Principal Distribution Amount will be paid to Certificateholders on a pro rata basis.

Class Definitions and Abbreviations

The following chart identifies and generally defines the categories specified on the cover of this prospectus and in Exhibit A.

<u>Abbreviation</u>	<u>Category of Class</u>	<u>Definitions</u>
INTEREST TYPES		
IO*	Interest Only	Receives some of the interest payments made on the related Mortgage Loans but no principal. An Interest Only class has a notional principal balance. A notional principal balance is the amount used as a reference to calculate the amount of interest due on an Interest Only class.
PO**	Principal Only	Does not accrue interest and is entitled to receive only payments of principal.
PT	Pass-Through	Is designed to receive interest payments in direct relation to actual or scheduled payments on the SMBS.
PRINCIPAL TYPES		
NTL†	Notional	Has no principal balance and bears interest on its notional principal balance. The notional principal balance is used to determine interest distributions on an Interest Only class that is not entitled to principal.
PT	Pass-Through	Is designed to receive principal payments in direct relation to actual or scheduled payments on the REMIC Certificates.
SC	Structured Collateral	Is designed to receive principal payments based on the actual distributions on the REMIC Certificates.
SUP††	Support (or Companion)	Receives principal payments on any Distribution Date only if scheduled payments have been made on specified PAC (<i>i.e.</i> , planned balance) and TAC classes.
TAC††	TAC (or Targeted)	Is designed to receive principal payments using a predetermined principal balance schedule (a “Targeted Balance”). In most cases, we derive this schedule by assuming a single <i>constant</i> prepayment rate for the underlying mortgage loans.

* This interest type relates solely to the SMBS described in Exhibit A.

** This interest type relates solely to the REMIC Certificates described in Exhibit A.

† This principal type relates solely to the SMBS described in Exhibit A.

†† This principal type relates solely to the REMIC Certificates described in Exhibit A.

Structuring Assumptions

Pricing Assumptions. Except where otherwise noted, the information in the tables in this prospectus was prepared based on the actual characteristics of each Pool of Mortgage Loans underlying the SMBS and the REMIC Certificates, the priority sequences affecting the principal payments on the REMIC Certificates and the following assumptions (such characteristics and assumptions, collectively, the “Pricing Assumptions”):

- the Mortgage Loans prepay at the constant percentages of PSA specified in the related table; and
- the settlement date for the sale of the Certificates is December 30, 1998.

Prepayment Assumptions. Prepayments of mortgage loans commonly are measured relative to a prepayment standard or model. The model used in this prospectus is The Bond Market Association’s standard prepayment model (“PSA”). To assume a specific rate of PSA is to assume a specific rate of prepayments each month of the then-outstanding principal balance of a pool of new mortgage loans. When we refer to “100% PSA,” we mean an annual prepayment rate of 0.2% of the then unpaid principal balance of the pool in the first month after the origination of those mortgage loans and an additional 0.2% each month until the 30th month. (For example, the assumed annual prepayment rate would be 0.4% in month 2, 0.6% in month 3, and so on, and would level out at 6% at month 30 for the remaining term.) Beginning in month 30 and for all later months, “100% PSA” means a constant annual prepayment rate of 6%.

Multiples of PSA are calculated in the same way. Thus, “150% PSA” means an annual prepayment rate of 0.3% in month 1, 0.6% in month 2, 0.9% in month 3 and 9% in month 30 and afterwards. Similarly, “200% PSA” means an annual prepayment rate of 0.4% in month 1, 0.8% in month 2, 1.2% in month 3 and 12% in month 30 and afterwards.

This model does not predict the prepayment experience of the Mortgage Loans or describe the historic performance of any particular pool of mortgage loans. It is highly unlikely that prepayments will occur at any constant PSA rate or at any other constant rate.

Weighted Average Life of the Certificates and Final Distribution Date

The “weighted average life” of the Certificates means the average length of time, weighted by principal, that will elapse from when we issue the Certificates until we pay you the full amount of outstanding principal. The weighted average life of the Certificates is determined by:

- first, calculating the amount of principal to be paid to the Certificateholders on each Distribution Date, based on the applicable prepayment assumption;
- second, multiplying each such amount by the number of years from the Settlement Date to the related Distribution Date;
- third, summing all the results; and
- fourth, dividing the sum by the aggregate amount of principal payments that were calculated in the first step.

The weighted average life of the Certificates will be affected by the rate at which principal payments are made on the underlying Mortgage Loans. Principal payments include scheduled principal payments, voluntary principal prepayments, liquidations due to default, casualty and condemnation, repurchases of Mortgage Loans for breaches of representations and warranties or for other reasons. Each of these types of principal payments on the Mortgage Loans will be applied to payment of principal of the Certificates.

The effects of the foregoing factors may vary at different times during the life of the Certificates. Accordingly, we can give no assurance as to the weighted average life of the Certificates. Further,

variability in the weighted average life of the Certificates could result in variability in the yield to maturity. For an example of how the weighted average life of the Certificates may be affected at various constant percentages of PSA, see the Decrement Table below.

On the Final Distribution Date, we will pay the Certificateholders the amount of any principal balance of the Certificates that remains outstanding on that date. We determine the Final Distribution Date based on the payments scheduled to be received on the Mortgage Loans. We do not take our guaranty into account for this purpose.

It is likely that we will pay the full outstanding principal balance of the Certificates earlier, and perhaps much earlier, than the Final Distribution Date. There are two reasons for this. First, the rate at which we pay principal on the Certificates will be affected by the rate at which borrowers pay principal on the Mortgage Loans and on the payment sequences affecting the REMIC Certificates. Second, some of the Mortgage Loans will have stated maturities that occur prior to the dates contained in the assumptions and have interest rates that are lower than the rates contained in the assumptions. We cannot, however, assure that the principal balance of the Certificates will be paid in full before the Final Distribution Date.

Decrement Table

The following table indicates the percentage of original principal balance of the Certificates that would be outstanding after each of the dates shown at various constant percentages of PSA and the corresponding weighted average life of the Certificates. We have prepared the table based on the Pricing Assumptions. However, in the case of the information set forth for the Certificates under 0% PSA, we assumed that the underlying Mortgage Loans have original terms to maturity of 360 months, remaining terms to maturity of 297 months, and bear interest at an annual rate of 9.5%. It is unlikely that all of the underlying Mortgage Loans

- will have the interest rates or remaining terms to maturity assumed or
- will prepay at any constant percentage of PSA.

In addition, the diverse remaining terms to maturity of the Mortgage Loans could produce slower or faster principal distributions than indicated in the table at the specified constant percentages of PSA. This would be the case even if the weighted average remaining terms to maturity of the Mortgage Loans were identical to the remaining terms to maturity specified in the Pricing Assumptions.

Percent of Original Principal Balance Outstanding

<u>Date</u>	B Class				
	PSA Prepayment Assumption				
	<u>0%</u>	<u>100%</u>	<u>307%</u>	<u>450%</u>	<u>600%</u>
Initial Percent	100	100	100	100	100
December 1999	100	100	91	78	64
December 2000	100	100	79	58	39
December 2001	100	100	66	42	25
December 2002	100	100	55	29	16
December 2003	100	98	42	21	10
December 2004	100	91	31	15	6
December 2005	100	83	24	11	4
December 2006	100	75	19	8	2
December 2007	100	66	15	5	2
December 2008	100	58	12	4	1
December 2009	100	51	9	3	1
December 2010	100	44	7	2	*
December 2011	100	38	6	1	*
December 2012	100	31	4	1	*
December 2013	99	27	3	1	*
December 2014	95	23	2	*	*
December 2015	90	20	2	*	*
December 2016	82	16	1	*	*
December 2017	70	13	1	*	*
December 2018	56	10	1	*	*
December 2019	44	7	*	*	*
December 2020	31	4	*	*	*
December 2021	21	1	*	*	*
December 2022	9	*	*	*	0
December 2023	0	0	0	0	0
Weighted Average					
Life (years)**	20.5	12.1	5.2	3.3	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 Life of the Certificates and Final Distribution Date” above.

THE TRUST AGREEMENT

In the sections below, we summarize certain provisions of the Trust Agreement that are not discussed elsewhere in this prospectus. Certain capitalized terms that we use in these summaries are defined in the Trust Agreement. These summaries are, by definition, not complete. If there is ever a conflict between what we have summarized in this prospectus and the actual terms of the Trust Agreement, the terms of the Trust Agreement will prevail.

Reports to Certificateholders

On or as soon as practicable after the 11th calendar day of each month, we will publish (in print or otherwise) the class factor for the Certificates. The “class factor” is a number (carried to eight decimal places) which, when multiplied by the original principal balance of a Certificate, will equal the amount of principal of that Certificate that will still be outstanding after the principal to be paid on the next Distribution Date has been paid.

Within a reasonable time after the end of each calendar year, we will also furnish to each person who was a Certificateholder at any time during that year a statement containing any information required by the federal income tax laws.

We, or a special agent that we engage, will make all the necessary numerical calculations.

Certain Fannie Mae Matters

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

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

The Trust Agreement also provides that we are free to refuse involvement in any legal action that we think will expose us to expense or liability unless the action is related to our duties under the Trust Agreement. On the other hand, we may decide to participate in legal actions if we think our participation would be in the interests of the Certificateholders. In this case, we will pay our legal expenses and costs.

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

Events of Default

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

- if we fail to make a required payment to the Certificateholders and our failure continues uncorrected for 15 days after we receive written notice from Certificateholders who represent ownership interests totaling at least 5% of the Trust that they have not been paid; or
- if we fail in a material way to fulfill any of our obligations under the Trust Agreement and our failure continues uncorrected for 60 days after we receive written notice of our failure from Certificateholders who represent ownership interests totaling at least 25% of the Trust that they have not been paid; or

- if we become insolvent or unable to pay our debts or if other events of insolvency occur.

Rights upon Event of Default

If one of the Events of Default listed above has occurred and continues uncorrected, Certificateholders who represent ownership interests totaling at least 25% of the Trust have the right to terminate, in writing, our obligations under the Trust Agreement both as Trustee and in our corporate capacity. However, our guaranty obligations will continue in effect. The same proportion of Certificateholders that has the right to terminate us may also appoint, in writing, a successor to all of our terminated obligations. In addition, the successor that they appoint will take legal title to the SMBS and the REMIC Certificates and any other assets of the Trust.

Amendment

We may amend the Trust Agreement for any of the following purposes without notifying the Certificateholders:

- to add to our duties;
- to evidence that another party has become our successor and has assumed our duties under the Trust Agreement in our capacity as trustee or in our corporate capacity or both;
- to eliminate any of our rights in our corporate capacity under the Trust Agreement; and
- to cure any ambiguity or correct or add to any provision in the Trust Agreement, so long as no Certificateholder is adversely affected in the case of an addition to any provision.

If the Certificateholders that represent ownership interests totaling at least 66% of the Trust consent, we may amend the Trust Agreement to eliminate, change or add to the terms of the Trust Agreement or to waive our compliance with any of those terms. Nevertheless, we may not terminate or change our guaranty obligations or reduce the percentage of Certificateholders who must consent to the types of amendments listed in the previous sentence. In addition, unless each affected Certificateholder consents, no amendment may reduce or delay the funds that are required to be distributed on any Certificate.

Repurchase Option

We have the right to repurchase all of the SMBS and the REMIC Certificates if, on any Distribution Date, the total principal balance of the Certificates is less than 1% of the total original principal balance of the Certificates. We refer to this right as the “Repurchase Option.” If we exercise the Repurchase Option, we will purchase the SMBS and the REMIC Certificates at a price equal to the outstanding principal balance of the REMIC Certificates, plus any accrued interest on the SMBS. By exercising the Repurchase Option, we will terminate the Trust.

Termination

The Trust Agreement will terminate

- when the SMBS and the REMIC Certificates have been paid off and their proceeds distributed or
- when we exercise the Repurchase Option, whichever occurs first.

In no event, however, will the Trust continue beyond the expiration of 21 years from the death of the last survivor of the person named in the Trust Agreement.

CERTAIN FEDERAL INCOME TAX CONSEQUENCES

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

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

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

Taxation of Beneficial Owners of Certificates

The Trust will be classified as a grantor trust under subpart E of part I of subchapter J of the Internal Revenue Code of 1986, as amended (the “Code”) and not as an association taxable as a corporation. The SMBS and REMIC Certificates will be the assets of the trust. Each beneficial owner of a Certificate will be considered the beneficial owner of a pro rata interest in each of the SMBS and REMIC Certificates. A beneficial owner of a Certificate will be required to report its pro rata share of the entire income accruing with respect to the SMBS and the REMIC Certificates. Each REMIC Certificate is a “regular interest” in a “real estate mortgage investment conduit” (a “REMIC”) within the meaning of section 860G(a)(1) of the Code. The discussion under “—Regular Interests in a REMIC” describes certain federal income tax consequences to beneficial owners of regular interests. The SMBS represents beneficial ownership of certain interest payments on debt instruments held by a trust, and that trust is classified as a grantor trust under subpart E of part I of subchapter J of the Code. The discussion under “—The SMBS” describes certain federal income tax consequences to beneficial owners of such ownership interests.

A beneficial owner must allocate its cost to acquire a Certificate among the SMBS and each of the REMIC Certificates in proportion to the relative fair market values of the SMBS and each of the REMIC Certificates at the time the beneficial owner acquires the Certificate. A sale or other disposition of a Certificate will constitute a sale or other disposition of a pro rata portion of the corresponding SMBS and REMIC Certificates. When a beneficial owner sells or disposes of a Certificate, the owner must allocate the sale proceeds among the SMBS and each of the REMIC Certificates in proportion to the relative fair market values of the SMBS and each of the REMIC Certificates at the time of sale or other disposition.

Regular Interests in a REMIC

For federal income tax purposes, regular interests in a REMIC are treated as debt instruments issued by a REMIC on the date the regular interests are first sold to the public (the “Settlement Date”) and not as ownership interests in a REMIC or its assets. Original issue discount (“OID”) and market discount with respect to a regular interest represent ordinary income to the beneficial owner of the regular interest. A beneficial owner of a regular interest must report interest on the regular interest using an accrual method of accounting, regardless of whether it otherwise reports income using a cash method of accounting. Rules regarding OID and market discount are discussed below.

Original Issue Discount

Each of the REMIC Certificates was issued with “original issue discount” within the meaning of section 1273(a) of the Code. A beneficial owner must include in gross income the sum of the “daily portions” of OID on each of the REMIC Certificates for each day during its taxable year on which it held the REMIC Certificates, generally in advance of receipt of the cash attributable to that income. We will supply information with respect to the OID accruing on the REMIC Certificates at the time and in the manner required by the Internal Revenue Service (the “IRS”).

In general, a regular interest will be considered to be issued with OID equal to the excess, if any, of its “stated redemption price at maturity” over its “issue price.” The issue price of a regular interest is the initial offering price to the public (excluding bond houses and brokers) at which a substantial amount of the regular interests was sold. The stated redemption price at maturity of a regular interest that is a principal only security is its stated principal amount.

For a regular interest considered to be issued with OID, the daily portion of OID is determined as follows. A calculation is first made of the portion of the OID that accrued during each “accrual period.” The OID accruing during any accrual period is then allocated ratably to each day during the period to determine the daily portion. Final regulations issued by the Treasury Department relating to the tax treatment of debt instruments with OID (the “OID Regulations”) provide that for purposes of measuring the accrual of OID on a debt instrument, a holder of the debt instrument may use an accrual period of any length, up to one year, as long as each distribution of principal or interests occurs on either the final day or the first day of an accrual period.

The portion of OID 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 interest, if any, as of the end of the accrual period and (B) the distribution made on the regular interest during the accrual period of amounts included in the stated redemption price at maturity, over
- (ii) the adjusted issue price of the regular interest at the beginning of the accrual period.

The present value of the remaining distributions will be calculated based on the following:

- the yield to maturity of the regular interest, calculated as of its Settlement Date, giving effect to the assumption that the mortgage loans backing the regular interest prepay at a specified rate (the “Prepayment Assumption”),
- events (including actual prepayments) that have occurred prior to the end of the accrual period, and
- the Prepayment Assumption.

The adjusted issue price of a regular interest at any time will equal the issue price, increased by the aggregate amount of previously accrued OID with respect to the regular interest, and reduced by the amount of any distributions made on the regular interest as of that time of amounts included in the stated redemption price at maturity.

The Code requires that the Prepayment Assumption 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 for each of the REMIC Certificates is discussed in the applicable Underlying REMIC Disclosure Document. We make no representation, however, that the Mortgage Loans underlying each REMIC Certificate will prepay at the rate reflected in the respective Prepayment Assumption. You must make your own decision as to the appropriate prepayment assumption to be used in deciding whether or not to purchase the Certificates.

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

Regular Interests Purchased with Market Discount

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

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

Notwithstanding the above rules, market discount on a regular interest will be considered to be zero if the discount is less than 0.25 percent of the remaining stated redemption price at maturity of the regular interest multiplied by its weighted average remaining life. Weighted average remaining life presumably would be calculated for this purpose as the sum, for all distributions included in the stated redemption price at maturity of the regular interest to be made after the date of acquisition of the regular interest by the subsequent purchaser, of the amounts determined by multiplying (i) the number of complete years (rounding down for partial years) from the date the regular interest is acquired until the date on which each such distribution is expected to be made under 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 interest's stated redemption price at maturity. If market discount on a regular interest is treated as zero under this rule, the actual amount of market discount must be allocated to the remaining distributions of amounts included in the stated redemption price at maturity of the regular interest and, when each such distribution is received, gain equal to the discount allocated to that distribution will be recognized.

Special Election

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

Sales and Other Dispositions of Regular Interests

Upon the sale, exchange, retirement or other disposition of a regular interest, the beneficial owner of the regular interest generally will recognize gain or loss equal to the difference between the amount realized upon the disposition and the owner's adjusted basis in the regular interest. The adjusted basis of a regular interest generally will equal the cost of the regular interest to the owner, increased by any OID or market discount included in the owner's gross income with respect to the regular interest and reduced by distributions previously received by the owner of amounts included in the regular interest's stated redemption price at maturity.

The gain or loss, if any, will be capital gain or loss, provided the regular interest is held as a "capital asset" (generally, property held for investment) within the meaning of section 1221 of the Code and none of the following exceptions apply. First, gain that might otherwise be capital gain will be treated as ordinary income to the extent that the gain does not exceed the excess, if any, of (i) the amount that would have been includible in the income of the beneficial 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 the beneficial owner's income. Second, gain recognized by a beneficial owner who purchased a regular interest at a market discount will be taxable as ordinary income in an amount not exceeding the portion of the market discount that accrued during the period the regular interest was held by the beneficial owner, reduced by any market discount includible in income under the rules described above under "*Regular Interests Purchased with Market Discount.*" Third, any gain or loss resulting from a sale or exchange described in section 582(c) of the Code (which generally applies to banks) will be taxable as ordinary income or loss.

Termination

In general, no special tax consequences will apply to a beneficial owner of a regular interest in a REMIC upon the termination of the REMIC by virtue of the final payment or liquidation of the last mortgage loan remaining in the REMIC.

Special Tax Attributes

Regular interests in a REMIC will be "regular or residual interests in a REMIC" within the meaning of section 7701(a)(19)(C)(xi) of the Code and "real estate assets" within the meaning of section 856(c)(5)(B) of the Code. If at any time during a calendar year less than 95 percent of the assets of REMIC consist of "qualified mortgages," then the portion of the regular interests in the REMIC that are qualifying assets under those sections during the calendar year may be limited to the portion of the assets of the REMIC that are "qualified mortgages." Similarly, income on regular

interests will be treated as “interest on obligations secured by mortgages on real property” within the meaning of section 856(c)(3)(B) of the Code, subject to the same limitation as set forth in the preceding sentence. For purposes of applying this limitation, a REMIC should be treated as owning the assets represented by the “qualified mortgages” held by the REMIC. In general, a mortgage loan will be a “qualified mortgage” if the mortgage loan is “principally secured by an interest in real property” within the meaning of section 860G(a)(3) of the Code.

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

The SMBS

The tax consequences to a beneficial owner of the SMBS will be determined under section 1286 of the Code. Under section 1286, a beneficial owner of the SMBS will be treated as owning “stripped coupons” to the extent of its share of interest payments represented by the SMBS. The application of section 1286 to the SMBS is described below. In addition, each beneficial owner will be required to include in income its share of the compensation paid to administer the trust in which the SMBS represent an interest. The Underlying SMBS Disclosure Documents describe the amount of this compensation and the method for allocating such amount.

Each beneficial owner can deduct its share of the compensation paid to administer such trust as provided in section 162 or section 212 of the Code, consistent with its method of accounting. A beneficial owner’s ability to deduct its share of these expenses is limited under section 67 of the Code in the case of (i) estates and trusts, and (ii) individuals owning an interest in a Certificate directly or through an investment in a “pass-through entity” (other than in connection with such individual’s trade or business). Pass-through entities include partnerships, S corporations, grantor trusts, and non-publicly offered regulated investment companies, but do not include estates, nongrantor trusts, cooperatives, real estate investment trusts and publicly offered regulated investment companies. Generally, such an owner can deduct its share of these costs only to the extent that these costs, when aggregated with certain of the owner’s other miscellaneous itemized deductions, exceed two percent of the owner’s adjusted gross income. For this purpose, an estate or nongrantor trust computes adjusted gross income in the same manner as in the case of an individual, except that deductions for administrative expenses of the estate or trust that would not have been incurred if the property were not held in such trust or estate are treated as allowable in arriving at adjusted gross income. In addition, section 68 of the Code provides that certain itemized deductions otherwise allowable for a beneficial owner who is an individual are reduced by an amount equal to 3% of the owner’s adjusted gross income in excess of a statutorily defined threshold, but not more than 80% of itemized deductions otherwise allowable. Further, a beneficial owner may not be able to deduct any portion of these costs in computing its alternative minimum tax liability.

Application of Section 1286

Under section 1286, the beneficial owner of the SMBS must treat the SMBS as debt instruments originally issued on the date the owner acquires the SMBS and as having OID equal to the excess, if any, of the “stated redemption price at maturity” for the SMBS over the price paid by the owner to acquire the SMBS. The stated redemption price at maturity for the SMBS is the sum of all distributions to be made under the SMBS after the date the owner acquires it.

For purposes of information reporting the amount and accrual of OID, Fannie Mae intends to treat the SMBS as a single debt instrument. The IRS could contend, however, that these calculations should be done on a Mortgage Loan by Mortgage Loan basis. You should consult your own tax advisors as to the proper treatment of the SMBS in this regard.

A beneficial owner must include the OID in its ordinary income for federal income tax purposes as the OID accrues, which may be prior to the receipt of the cash attributable to that income. Although the matter is not entirely clear, a beneficial owner should accrue OID using a method similar to that described with respect to the accrual of OID on a regular interest under “—Regular Interests in a REMIC—*Original Issue Discount*” above. A beneficial owner, however, determines its yield to maturity based on its purchase price. For a particular beneficial owner, it is not clear whether the prepayment assumption used for calculating OID would be one determined at the time the SMBS is acquired or would be the original prepayment assumption for the SMBS. For purposes of information reporting, Fannie Mae will use the original yield to maturity of the SMBS, calculated based on the original prepayment assumption for the SMBS. You should consult your own tax advisors regarding the proper method for accruing OID on the SMBS.

Sales of the SMBS

Upon the sale of SMBS, a beneficial owner will realize gain or loss on the sale in an amount equal to the difference between the amount realized and its adjusted basis in the SMBS. The owner’s adjusted basis generally is equal to the owner’s cost of the SMBS (or portion of the cost of a Certificate allocable to the SMBS), increased by income previously included, and reduced (but not below zero) by distributions previously received. If the beneficial owner holds the SMBS as a capital asset, any gain or loss realized will be capital gain or loss, except that any gain or loss resulting from a sale or exchange described in section 582(c) of the Code (which generally applies to banks) will be taxable as ordinary gain or loss. A subsequent purchaser of the SMBS also will be required to include in income the daily portion of OID with respect to the SMBS for each day it holds the SMBS. See “—*Application of Section 1286*” above.

Special Tax Attributes

Several Code sections provide beneficial treatment to certain taxpayers that invest in mortgage loans of the type that make up the Pools underlying the SMBS. With respect to these Code sections, no specific authority exists regarding whether the character of the SMBS for federal income tax purposes will be the same as that of the Mortgage Loans. Although the characterization is not clear, policy considerations indicate that SMBS owned by applicable taxpayers should be considered to represent “real estate assets” within the meaning of section 856(c)(5)(B) of the Code, and “loans secured by an interest in real property” within the meaning of section 7701(a)(19)(C)(v) of the Code, and OID on SMBS, at least to the extent such discount is attributable to principal payments on the underlying Mortgage Loans, should be considered to represent “interest on obligations secured by mortgages on real property” within the meaning of section 856(c)(3)(B) of the Code, provided that in each case the Mortgage Loans and interest on such Mortgage Loans qualify for such treatment.

Information Reporting and Backup Withholding

Fannie Mae will furnish or make available, within a reasonable time after the end of each calendar year, to each Holder of a Certificate at any time during such year, such information as is required by Treasury regulations and such other information as Fannie Mae deems necessary or desirable to assist Holders in preparing their federal income tax returns, or to enable Holders to make such information available to beneficial owners or other financial intermediaries for which such Holders hold Certificates as nominees.

Distributions of interest and principal, as well as distributions of proceeds from the sale of 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

Additional rules apply to a beneficial owner of a Certificate that is not a U.S. Person (a “Non-U.S. Person”). 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 of its political subdivisions,
- an estate the income of which is subject to U.S. federal income tax regardless of the source of its income, or
- a trust if a court within the United States can exercise primary supervision over its administration and at least one United States person has the authority to control all substantial decisions of the trust.

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

- the beneficial owner is not subject to U.S. tax as a result of a connection to the United States other than ownership of the Certificate,
- the beneficial owner signs a statement under penalties of perjury certifying that it is a Non-U.S. Person, and provides the name, address and taxpayer identification number, if any, of the beneficial owner,
- the last U.S. Person in the chain of payment to the beneficial owner receives such statement from the beneficial owner or a financial institution holding on behalf of the beneficial owner and does not have actual knowledge that such statement is false, and
- the Mortgage Loans underlying the SMBS were originated after July 18, 1984.

You should be aware that the IRS might take the position that this exemption does not apply to a beneficial owner that also owns 10 percent or more of the residual interest in any of the REMIC Trusts or of the voting stock of Fannie Mae, or to a beneficial owner that is a “controlled foreign corporation” described in section 881(c)(3)(C) of the Code.

LEGAL INVESTMENT CONSIDERATIONS

If you are an institution whose investment activities are subject to legal investment laws and regulations or to review by certain regulatory authorities, you may be subject to restrictions on investment in the Certificates. If you are a financial institution that is subject to the jurisdiction of the Comptroller of the Currency, the Board of Governors of the Federal Reserve System, the Federal Deposit Insurance Corporation, the Office of Thrift Supervision, the National Credit Union Administration or other federal or state agencies with similar authority, you should review the rules, guidelines and regulations that apply to you prior to purchasing any Certificates. In addition, if you are a financial institution, you should consult your regulators concerning the risk-based capital treatment of any Certificate. **Investors should consult their own legal advisors in determining whether and to what extent the Certificates constitute legal investments or are subject to restrictions on investment and whether and to what extent the Certificates can be used as collateral for various types of borrowings.**

LEGAL OPINION

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

ERISA CONSIDERATIONS

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

On November 13, 1986, the U.S. Department of Labor issued a final regulation covering the acquisition by a Plan of a “guaranteed governmental mortgage pool certificate,” defined to include certificates which are “backed by, or evidencing an interest in specified mortgages or participation interests therein” and are guaranteed by Fannie Mae as to the payment of interest and principal. Under the regulation, investment by a Plan in a “guaranteed governmental mortgage pool certificate” does not cause the assets of the Plan to include the mortgages underlying the certificate or the sponsor, trustee and other servicers of the mortgage pool to be subject to the fiduciary responsibility provisions of ERISA or the prohibited transaction provisions of ERISA or section 4975 of the Code in providing services with respect to the mortgages in the pool. Our counsel, Brown & Wood LLP, has advised us that the Certificates qualify under the definition of “guaranteed governmental mortgage pool certificates” and, as a result, the purchase and holding of Certificates by Plans will not cause the underlying Mortgage Loans or the assets of Fannie Mae to be subject to the fiduciary requirements of ERISA or to the prohibited transaction provisions of ERISA and the Code.

PLAN OF DISTRIBUTION

Pursuant to a Fannie Mae commitment, we will deliver the Certificates to Salomon Smith Barney Inc. (the “Dealer”) in exchange for the SMBS and the REMIC Certificates. The Dealer proposes 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 Dealer may effect these transactions to or through other dealers.

LEGAL MATTERS

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

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SMBS and REMIC Certificates

SMBS or REMIC Trust	Class	Date of Issue	CUSIP Number	Interest Rate	Interest Type (1)	Final Distribution Date	Principal Type (1)	Original Principal or Notional Principal Balance of Class	December 1998 Class Factor	Principal or Notional Principal Balance in the Trust	Approximate Weighted Average WAC (in months)	Approximate Weighted Average WAM (in months)	Approximate Weighted Average CAGE (in months)	Underlying Security Type
CL-240		September 1993	31364HC62	7.00%	IO	September 2023	NTL	\$3,450,000,000	0.603415240	\$105,246,844	7.480%	282	65	MBS
1993-213	J	October 1993	31359EYD7	(2)	PO	September 2023	SUP	87,080,000	0.967931740	22,134,302	7.480	282	65	MBS
1993-228	E	October 1993	31359ED57	(2)	PO	September 2023	TAC	15,300,000	0.964551420	9,934,879	7.480	282	65	MBS
1993-228	G	October 1993	31359ED65	(2)	PO	September 2023	SUP	25,220,000	0.954764370	20,050,051	7.480	282	65	MBS
1993-235	H	November 1993	31359E7C9	(2)	PO	September 2023	TAC	37,365,847	0.409485000	6,957,150	7.480	282	65	MBS
1996-024	J	June 1996	31359KHW0	(2)	PO	January 2022	SC/PT	8,499,052	1.000000000	8,499,052	7.480	282	65	MBS

(1) See “Description of the Certificates—Class Definitions and Abbreviations” in this prospectus.

(2) These classes are Principal Only classes and will not bear interest.

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

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

\$67,575,436



FannieMae

Guaranteed Grantor Trust Pass-Through Certificates

Fannie Mae Grantor Trust 1998-T3

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Salomon Smith Barney

Prospectus

Dated December 3, 1998