FannieMae

Guaranteed Pass-Through Certificates
Fannie Mae Trust 1999-20

The Certificates
We, the Federal National Mortgage Association or Fannie Mae, will issue the classes of 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 available for payment, subject to the limitations described in this prospectus, and
• principal to the extent available for payment.
Interest payments of the certificates will decline from month to month and may decline sharply in varying degrees. Principal payments on the certificates are likely to fluctuate from month to month and may fluctuate widely.

The Fannie Mae Guaranty
We will guarantee that the payments of monthly interest and principal described in this prospectus supplement are distributed to investors on time and that the remaining principal balance of the certificates on the final distribution date shown below will be paid on that date.

The Trust and its Assets
The trust will own the interest only and principal only REMIC securities listed on Exhibit A. Most of the issuers of the underlying REMIC securities are private label issuers. The underlying REMIC securities represent interests in certain mortgage loans included in the related mortgage pools. These mortgage pools consist of first-lien, single-family, fixed-rate mortgage loans.

The dealer will offer the certificates from time to time in negotiated transactions at varying prices. We expect the settlement date to be March 29, 1999.

Donaldson, Lufkin & Jenrette

The date of this Prospectus Supplement is March 4, 1999
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ADDITIONAL INFORMATION

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

- our Prospectus for Guaranteed REMIC Pass-Through Certificates dated September 18, 1998 (the “REMIC Prospectus”);

- the disclosure documents relating to the underlying REMIC securities (the “Underlying REMIC 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 supplement. This means that we are disclosing important information to you by referring to these documents, so you should read them together with this prospectus supplement.

The Information Statement and the class factors are available on our website located at http://www.fanniemae.com.

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

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

  or

- Donaldson, Lufkin & Jenrette Securities Corporation
  Prospectus Department
  277 Park Avenue, 7th Floor
  New York, New York 10172
  (telephone 212-892-4525).
REFERENCE SHEET

This reference sheet highlights information contained elsewhere in this prospectus supplement. 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 supplement 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 various unrelated interest only and principal only REMIC securities that represent interests in certain mortgage loans included in the mortgage pools.
- Most of the issuers of the underlying REMIC securities are private label issuers.
- The underlying mortgage pools consist of first lien, single-family, fixed-rate mortgage loans.
- The mortgage loans backing the interest only underlying REMIC securities have higher coupons relative to the other mortgage loans in the same pools.
- Interest payments on the certificates generally will be made from amounts paid on the interest only underlying REMIC securities.
- Principal payments on the certificates generally will be made from amounts paid on the principal only underlying REMIC securities.

Assumed Characteristics of the Mortgage Loans Backing the Underlying REMIC Securities (as of February 1, 1999)

Interest Only Underlying REMIC Securities

<table>
<thead>
<tr>
<th>Depositor or Issuer</th>
<th>Series</th>
<th>Class</th>
<th>Approximate Principal Balance of the Related Mortgage Loans (1)</th>
<th>Approximate Weighted Average Original Term to Maturity (in months) of the Related Mortgage Loans (1)</th>
<th>Approximate Weighted Average Remaining Term to Maturity (in months) of the Related Mortgage Loans (1)</th>
<th>Approximate Weighted Average Coupon of the Related Mortgage Loans (1)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Countrywide Home Loans, Inc., Alternative Loan Trust</td>
<td>1998-4</td>
<td>X</td>
<td>$335,482,576</td>
<td>359</td>
<td>347</td>
<td>7.75%</td>
</tr>
<tr>
<td>Fannie Mae</td>
<td>1998-W4</td>
<td>X</td>
<td>245,627,882</td>
<td>358</td>
<td>351</td>
<td>7.78%</td>
</tr>
<tr>
<td>PNC Mortgage Securities Corp.</td>
<td>1998-12</td>
<td>II-X-2</td>
<td>455,376,095</td>
<td>357</td>
<td>354</td>
<td>8.38%</td>
</tr>
<tr>
<td>PNC Mortgage Securities Corp.</td>
<td>1998-12</td>
<td>C-X</td>
<td>112,373,668</td>
<td>349</td>
<td>346</td>
<td>8.74%</td>
</tr>
<tr>
<td>PNC Mortgage Securities Corp.</td>
<td>1998-14</td>
<td>IV-X</td>
<td>207,334,450</td>
<td>357</td>
<td>356</td>
<td>8.22%</td>
</tr>
<tr>
<td>PNC Mortgage Securities Corp.</td>
<td>1999-1</td>
<td>III-X</td>
<td>109,452,936</td>
<td>358</td>
<td>357</td>
<td>8.29%</td>
</tr>
<tr>
<td>PNC Mortgage Securities Corp.</td>
<td>1999-2</td>
<td>II-X</td>
<td>376,183,602</td>
<td>357</td>
<td>357</td>
<td>8.39%</td>
</tr>
<tr>
<td>PNC Mortgage Securities Corp.</td>
<td>1999-2</td>
<td>IV-X</td>
<td>72,413,740</td>
<td>356</td>
<td>356</td>
<td>7.54%</td>
</tr>
</tbody>
</table>

Principal Only Underlying REMIC Securities

<table>
<thead>
<tr>
<th>Depositor or Issuer</th>
<th>Series</th>
<th>Class</th>
<th>Approximate Principal Balance of the Related Mortgage Loans (2)</th>
<th>Approximate Weighted Average Original Term to Maturity (in months) of the Related Mortgage Loans (2)</th>
<th>Approximate Weighted Average Remaining Term to Maturity (in months) of the Related Mortgage Loans (2)</th>
<th>Approximate Weighted Average Coupon of the Related Mortgage Loans (2)</th>
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<tr>
<td>Norwest Integrated Structured Assets, Inc. 1998-3 Trust</td>
<td>1998-3</td>
<td>II-A-2</td>
<td>$147,917,093</td>
<td>356</td>
<td>347</td>
<td>7.84%</td>
</tr>
<tr>
<td>PNC Mortgage Securities Corp.</td>
<td>1998-8</td>
<td>II-A-2</td>
<td>317,212,999</td>
<td>358</td>
<td>352</td>
<td>8.02%</td>
</tr>
<tr>
<td>PNC Mortgage Securities Corp.</td>
<td>1998-10</td>
<td>II-A-2</td>
<td>612,970,239</td>
<td>358</td>
<td>354</td>
<td>8.00%</td>
</tr>
<tr>
<td>PNC Mortgage Securities Corp.</td>
<td>1998-12</td>
<td>II-A-2</td>
<td>803,326,529</td>
<td>358</td>
<td>354</td>
<td>8.00%</td>
</tr>
</tbody>
</table>

(1) The interest only underlying REMIC securities are backed by a limited number of mortgage loans within the related subpools or pools.
(2) The principal only underlying REMIC securities are backed by all the mortgage loans within the related subpools or pools.
Additional Information on the Underlying REMIC Securities

The table contained in Exhibit A contains information about the underlying REMIC securities, including certain information about the related mortgage loans. You can obtain certain additional information about the underlying REMIC securities by reviewing the disclosure documents for the underlying REMIC securities. You can obtain these disclosure documents from us as described on page 3.

Class Factors

The class factors are numbers 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 factors several days after the 25th of each month.

Settlement Date

We expect to issue the certificates on March 29, 1999.

Distribution Dates

We will make payments on the certificates on the third business day following the monthly payment date applicable to the underlying REMIC securities, beginning in April 1999. The monthly payment date applicable to the underlying REMIC securities is the 25th day of each month, or the next business day if the 25th day is not a business day.

Book-Entry and Physical Certificates

We will issue the book-entry certificates through The Depository Trust Company, which will electronically track ownership of those certificates and payments on them. We will issue the physical certificate in registered, certificated form.

We will issue the certificates in the following forms:

DTC Book-Entry

All classes of certificates other than the R Class

Physical

R Class

Payments of Interest

Group I Interest Distribution Amount

On each distribution date, we will pay the Group I Interest Distribution Amount as interest to holders of the A1 Class Certificates. Payments to such holders will be made on a pro rata basis.

Weighted Average Coupon Class

Interest payable on the A1 Class will not be calculated based on the principal balance of the A1 Class. Rather, the amount of interest payable on the A1 Class will be equal to a percentage of the aggregate interest amount distributable on the interest only underlying REMIC securities, net of the amount specified in this prospectus supplement.
Group II Interest Distribution Amount

On each distribution date, the Group II Interest Distribution Amount will be applied in the following order of priority:

(i) to the A2 and A3 Classes, pro rata, to their Current Interest Amounts; and

(ii) to the A2 and A3 Classes, pro rata, to their Interest Deficiency Amounts, if any.

Classes with Interest Rates based on LIBOR

During the initial interest accrual period, the A2 and A3 Classes will bear interest at the initial interest rates listed below, subject to the interest limitations described in this prospectus supplement. During subsequent interest accrual periods, these classes will bear interest based on the formulas indicated below, but always subject to the interest limitations described in this prospectus supplement and subject to the specified maximum and minimum interest rates:

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<tr>
<th>Class</th>
<th>Initial Rate</th>
<th>Maximum Rate</th>
<th>Minimum Rate</th>
<th>Formula for Calculation of Interest Rate (1)</th>
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</thead>
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<tr>
<td>A2</td>
<td>5.85%</td>
<td>9.0%</td>
<td>0.8%</td>
<td>LIBOR + 80 basis points</td>
</tr>
<tr>
<td>A3</td>
<td>42.95%</td>
<td>108.6%</td>
<td>2.0%</td>
<td>108.6% – (13 × LIBOR)</td>
</tr>
</tbody>
</table>

(1) We will establish LIBOR on the basis of the “BBA Method.”

Payments of Principal

Group I Principal Distribution Amount

On each distribution date, we will pay the Group I Principal Distribution Amount as principal of the A1 Class. Payments to the holders of such class will be made on a pro rata basis.

Group II Principal Distribution Amount

On each distribution date, the Group II Principal Distribution Amount will be paid as principal of the A2 and A3 Classes, pro rata, until their principal balances are reduced to zero. Payments to the holders of each such class will be made on a pro rata basis.

Weighted Average Lives (years)

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<th>Classes</th>
<th>% of Prepayment Scenario</th>
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<tr>
<td></td>
<td>0%</td>
</tr>
<tr>
<td>A1</td>
<td>20.0</td>
</tr>
<tr>
<td>A2 and A3</td>
<td>19.7</td>
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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 supplement, the disclosure documents for the underlying REMIC securities and the documents incorporated by reference.

- You should thoroughly understand the terms of the certificates.

- You should thoroughly understand the terms of the underlying REMIC securities.

- 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 interest only or exclusively by principal only underlying REMIC securities.

- 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.

If you plan to invest in the A1 Class, you should be able to bear the risk that the interest payment rates and principal payment rates on that Class are likely to differ and may differ sharply since interest payments on the A1 Class will be made from amounts distributable on the interest only underlying REMIC securities and principal payments on that Class will be made from amounts distributable on the principal only underlying REMIC securities.

In addition, you should be able to bear the following risks if you plan to invest in the A2 and A3 Classes:

- On each distribution date interest accrued on the A2 and A3 Classes at their specified rates may not be paid in full or may not be paid at all.

- Any interest deficiency amounts relating to the A2 and A3 Classes may not be paid for extended periods and may not be paid at all.

- No interest will accrue on the interest deficiency amounts relating to the A2 and A3 Classes.

- The timing and amounts of cash flows on each underlying REMIC security will vary over time and will differ from that of each other underlying REMIC security. These variations and differences will affect the timing and amount of payments on the A2 and A3 Classes.

- Certain excess interest distributions on the interest only underlying REMIC securities may be applied to reduce the principal balances of the A2 and A3 Classes, thus causing such classes to amortize faster than the principal only underlying REMIC securities.

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;
- in the case of the A2 and A3 Classes, the level of the index upon which their interest rates are based;
- how quickly or slowly borrowers prepay the mortgage loans backing the interest only underlying REMIC securities;
- when and if the mortgage loans are liquidated due to borrower defaults, casualties or condemnations affecting the properties securing those loans;
- if and when the mortgage loans are repurchased;
- any reductions in the principal balance of the certificates due to certain losses allocated to the principal only underlying REMIC securities; and
- the actual characteristics of the mortgage loans.

The mortgage loans backing the interest only underlying REMIC securities may be more likely to prepay than mortgage loans having lower coupons. If these higher coupon mortgage loans prepaid earlier or in greater amounts than you expect, less interest may be paid on the certificates than you expect and your yield could decline. Moreover, mortgage loans that prepay in full will accrue interest only to the date of prepayment rather than for a full month, and mortgage loans that partially prepay may not be accompanied by any interest on the prepaid amount. If the related master servicers do not make compensating interest payments sufficient to cover any such prepayment interest shortfalls, interest payments on the certificates will be reduced. In the case of interest only underlying REMIC securities, principal losses on the related mortgage loans will have substantially the same effect as prepayments because the aggregate loan balances on which interest accrues will be permanently reduced. As a result of these factors, the interest payable on the certificates could be sharply reduced or even extinguished.

If the mortgage loans backing the principal only underlying REMIC securities prepaid later or in smaller amounts than you expected, principal on the certificates would be paid later than you expected and your yield could decline.

In addition, the rate of principal distributions on the principal only underlying REMIC securities will depend on the distribution priorities of such underlying REMIC securities. As described in the related disclosure documents, certain of the principal only underlying REMIC securities are subsequent in distribution priority to certain other classes in the same trusts. As a result, such other classes may receive principal before the underlying REMIC securities for long periods. Thus, your yield could be lower than you expected.

On any distribution date, distributions on the interest only underlying REMIC securities may exceed the amount required to pay current interest and any interest deficiency amounts to certificateholders on that distribution date. In that event, such excess interest will be used to reduce the principal balances of the A2 and A3 Classes and your yield on those classes could be lower than you expected.

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 expected, 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 yield.

We used certain assumptions concerning the mortgage loans in preparing the tabular information in this prospectus supplement. 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.

Our guaranty will not cover any losses on the certificates resulting from prepayments of the underlying mortgage loans or reductions in the notional balances of the interest only underlying REMIC securities resulting from losses on the related mortgage loans.

Allocation of Certain Losses on the Principal Only Underlying REMIC Securities

Losses on the mortgage loans in the pools may be allocated to the principal only underlying REMIC securities under the circumstances described in the related underlying REMIC disclosure documents. In particular, an allocation of certain bankruptcy, fraud and special hazard losses to these securities will result in a corresponding reduction in the principal balance of the A1 Class and, after exhaustion of any overcollateralization amount, the A2 and A3 Classes. In such event, our guaranty will not provide for any payment to compensate investors for such loss.

Allocation of Certain Losses on the Interest Only Underlying REMIC Securities

Losses on the mortgage loans may be allocated to the related interest only underlying REMIC securities under the circumstances described in the related underlying REMIC disclosure documents. In particular, allocations to these securities of certain bankruptcy, fraud and special hazard losses of interest will result in a reduction of interest distributable on the underlying REMIC securities and, therefore, interest payable on the certificates. In such event, our guaranty will not cover any reductions in interest on the certificates resulting from such losses.

Prepayment Considerations

The rate of principal payments on the certificates generally will depend on the rate of principal payments on the mortgage loans backing the principal only underlying REMIC securities and, in the case of the A2 and A3 Classes, excess interest applied to pay principal.

The rate of interest payments on the A1 Class generally will depend on the rate of principal payments on the mortgage loans backing the interest only underlying REMIC securities, since principal payments will reduce the loan balances on which interest will accrue. In the case of the A2 and A3 Classes, the rate of interest payments will depend on the amount of interest accrued at the applicable interest rates on the principal balances of such classes, and may be affected by the rate of principal payments on the mortgage loans backing the interest only underlying REMIC securities, since such principal payments will reduce the aggregate loan balances on which interest accrues.

Principal payments will 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 a constant percentage of the specified prepayment scenario until maturity, or
- at the same rate.

Many 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. Furthermore, the institution that forms a mortgage pool may have to repurchase loans from the pool if those loans fail to conform to the representations and warranties that the institution made when forming the pool. These repurchases also affect the rate of prepayment.

In general, the seller or master servicer for an underlying REMIC trust may terminate such trust once the related pool balance is reduced to 5% (or, in some cases, a higher or lower percentage) of its original level. However, that right
generally depends on the aggregate balance of all the mortgage loans in the entire pool for the related underlying REMIC trust, rather than the mortgage loans that back the particular underlying REMIC security. As a result, an early termination may occur when the aggregate balance of the related mortgage loans is more than 5% (or other applicable percentage) of their aggregate original balance. If a seller or master servicer terminates an underlying REMIC trust, it would purchase all of the mortgage loans in the related mortgage pool, having the effect of a prepayment in full of such mortgage loans. Each of the underlying REMIC trusts also may be terminated for failing to qualify as a REMIC and for other reasons. For a further description of the termination risks, you should read the underlying REMIC disclosure documents.

In general, the rates of prepayment may be influenced by:

- the level of current interest rates relative to the rates borne by the mortgage loans backing the underlying REMIC securities,
- homeowner mobility,
- the general creditworthiness of the borrowers,
- 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 rate of prepayment of a pool of mortgage loans, we cannot estimate the prepayment experience of the mortgage loans backing the underlying REMIC securities.

Our guaranty will not cover any losses on the certificates resulting from prepayments of the underlying mortgage loans or reductions in the notional balances of the interest only underlying REMIC securities resulting from principal losses on the related mortgage loans.

### 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 payment to certificateholders of interest and principal in amounts based on the interest and principal required to be paid on the underlying REMIC securities;
- the characteristics of the mortgage loans in the underlying pools;
- past and expected prepayment levels of the 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 payments on the underlying REMIC securities. If that happened, delinquencies and defaults on the mortgage loans backing the underlying REMIC securities could directly affect the amounts that certificateholders would receive each month. Our guaranty does not cover unpaid interest deficiency amounts on the certificates.
DESCRIPTION OF THE CERTIFICATES

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

General

Structure. We will create the Fannie Mae Trust specified on the cover (the “Trust”) pursuant to one or more trust agreements dated as of March 1, 1999 (together, the “Trust Agreement”). We will execute the Trust Agreement in our corporate capacity and as trustee (the “Trustee”). We will issue the Guaranteed Pass-Through Certificates (the “Certificates”) pursuant to the Trust Agreement.

The Trust will in part constitute a “real estate mortgage investment conduit” (“REMIC”) under the Internal Revenue Code of 1986, as amended (the “Code”).

- The A1 Class will represent beneficial ownership of a “regular interest” in the REMIC.
- The A2 and A3 Classes will be “regular interests” in the REMIC.
- The R Class will be the “residual interest” in the REMIC.

The assets of the Trust will consist of various interest only and principal only REMIC securities (the “Underlying REMIC Securities”) evidencing beneficial ownership interests in certain assets held in the related REMIC trusts (the “Underlying REMIC Trusts”) as further described in Exhibit A and in the Underlying REMIC Disclosure Documents.

Fannie Mae Guaranty. We guarantee that on each Distribution Date we will pay:

- the Group I Interest Distribution Amount and Group I Principal Distribution Amount (each as defined herein) to Holders of the A1 Class, and
- the Group II Interest Distribution Amount and Group II Principal Distribution Amount (each as defined herein) to Holders of the A2 and A3 Classes,

whether or not we have received sufficient funds with respect to the Underlying REMIC Securities. In addition, we guarantee that on the Final Distribution Date we will pay the then outstanding principal balance of any Certificate. Furthermore, our guaranty covers the principal portion of losses (other than Excess Losses) allocable to the Certificates on each applicable Distribution Date.

Our guaranty relates only to the Certificates offered under this Prospectus Supplement. We provide no guaranty on the Underlying REMIC Securities. Our guaranty will not cover any Current Interest Amounts (defined herein) on the A2 and A3 Classes in excess of the Group II Underlying Interest Distribution (defined herein) and will not cover any Interest Deficiency Amounts (defined herein). Furthermore, reductions in interest payments on the Certificates due to losses of interest or Relief Act Reductions (defined herein) on the Mortgage Loans backing the interest only Underlying REMIC Securities will not be covered by our guaranty, and reductions in interest payments due to prepayment interest shortfalls will be covered by our guaranty only to the extent of the compensating interest amounts required to be paid by the related master servicers. Moreover, our guaranty will not cover reductions in the principal balances of the Certificates due to Excess Losses (defined herein) allocated to the principal only Underlying REMIC Securities. If we were unable to perform our guaranty obligations, Certificateholders would receive only the amounts paid and other recoveries on the Underlying REMIC Securities. If that happened, delinquencies and defaults on the Mortgage Loans, and defaults under any third-party credit enhancement arrangement for the Underlying REMIC Securities, would directly affect the amounts that Certificateholders would receive each month. Our guaranty is not backed by the full faith and credit of the United States.
Characteristics of Certificates. The Certificates (except the R Class) will be represented by one or more certificates (the “DTC Certificates”), which will be registered in the name of the nominee of The Depository Trust Company (“DTC”). DTC will maintain the Certificates through its book-entry facilities. The “Holder” or “Certificateholder” of a DTC Certificate is the nominee of DTC. A Holder is not necessarily the beneficial owner of a Certificate. Beneficial owners ordinarily will hold Certificates through one or more financial intermediaries, such as banks, brokerage firms and securities clearing organizations. See “Description of the Certificates—Denominations, Certificate Form” in the REMIC Prospectus.

We will issue the R Certificate in fully registered, certificated form. The “Holder” or “Certificateholder” of the R Certificate is its registered owner. The R Certificate can be transferred at the corporate trust office of the Transfer Agent, or at the office of the Transfer Agent in New York, New York. State Street will be the initial Transfer Agent. We may impose a service charge for any registration of transfer of the R Certificate and may require payment to cover any tax or other governmental charge. See also “Characteristics of the R Class.”

The Holder of the R Class will receive the proceeds of any remaining assets of the Trust only by presenting and surrendering the related Certificate at the office of the Paying Agent. Fannie Mae will be the initial Paying Agent.

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

Distribution Date. We will make payments of principal and interest on the Certificates on the third business day following the monthly distribution date applicable to the Underlying REMIC Securities, beginning in April 1999. Each such date for payments on the Certificates is a “Distribution Date.” The monthly distribution date applicable to the Underlying REMIC Securities is 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).

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 month preceding the month of the related distribution date applicable to the Underlying REMIC Securities.

Class Factors. Several days after the 25th day of each month, we will publish a 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 that Certificate after taking into account payments on the Distribution Date in that month.

Termination of the Underlying REMIC Trusts. In general, the seller or master servicer for an Underlying REMIC Trust may terminate such trust when the principal balance of the related Pool is reduced to 5% (or, in some cases, a higher or lower percentage) of its original level. However, that right depends on the aggregate balance of all the mortgage loans in the entire pool for the related Underlying REMIC Trust, rather than the mortgage loans that back the particular Underlying REMIC Security. As a result, an early termination may occur when the aggregate balance of the related Mortgage Loans is more than 5% (or other applicable percentage) of their aggregate original balance. If a seller or master servicer terminates an Underlying REMIC Trust, all of the Mortgage Loans in the related Pool would be purchased, having the effect of a prepayment in full of such Mortgage Loans. Each Underlying REMIC Trust may also be terminated for failing to qualify as a REMIC and for other reasons. For a further discussion of termination of the Underlying REMIC Trusts, see the Underlying REMIC Disclosure Documents.

Voting the Underlying REMIC Securities. Holders of the Underlying REMIC Securities may have to vote on issues arising under the documents governing the Underlying REMIC Trusts (although in some circumstances the Underlying REMIC Securities may have limited or no voting rights under the Underlying REMIC Trusts). In such case, the Trustee will vote the Underlying REMIC Securities as instructed by Holders of Certificates having principal balances aggregating at
least 51% of the 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 Underlying REMIC Securities

The Underlying REMIC Securities are interest only and principal only securities. Most of the issuers of the Underlying REMIC Securities are private label issuers. The Underlying REMIC Securities represent beneficial ownership interests in certain first lien single-family fixed-rate mortgage loans (the “Mortgage Loans”) held by the related trustees in the related Underlying REMIC Trusts. The assets of the Underlying REMIC Trusts consist primarily of the mortgage pools (each, a “Pool”) that include the related Mortgage Loans and certain other mortgage loans. The Mortgage Loans in the various Pools were originated under various programs and guidelines and are serviced under various servicing portfolios. Distributions on the Underlying REMIC Securities will be passed through monthly.

Each of the interest only Underlying REMIC Securities represents an entitlement to monthly interest generally equal to one of the following:

- the excess, if any, of interest accrued at the Net Loan Rate on the principal balance of each related Mortgage Loan over interest accrued at the applicable Structuring Rate on the principal balance of such Mortgage Loan (or a specified percentage of such excess);
- the excess, if any, of interest accrued at the weighted average of the Net Loan Rates on the aggregate principal balance of all related Mortgage Loans over interest accrued at the applicable Structuring Rate on the aggregate principal balance of such Mortgage Loans (or a specified percentage of such an excess); or
- the sum of two or more interest amounts, each of which is calculated according to one of the methods listed above but by reference to a separate sub-group of the related Mortgage Loans.

The “Net Loan Rate” for any Mortgage Loan is equal to the interest rate for such loan less servicing and other similar costs specified in the agreement that governs the related Underlying REMIC Trust. The “Structuring Rate” for any Underlying REMIC Security generally represents the specified rate of interest accruing on the principal balance of the related Mortgage Loans to which other securities issued by the Underlying REMIC Trust are entitled.

However, if a Mortgage Loan is prepaid in whole between due dates, interest will accrue on the prepaid principal only to the date of prepayment (rather than for a full month) and if a Mortgage Loan is partially prepaid between due dates, no interest may accrue on the prepaid principal. The Underlying REMIC Trusts require each related master servicer to pay an amount (commonly referred to as “compensating interest”) of a shortfall in interest resulting from principal prepayments (commonly referred to as “prepayment interest shortfall”), but only up to a specified portion of the master servicing fee earned on mortgage loans in the related Pool and only to the extent necessary to compensate for prepayment interest shortfalls resulting from prepayments in whole (rather than from partial prepayments, for which no payment of compensating interest is required). As a result, amounts payable on each interest only Underlying REMIC Security will be reduced to the extent that any such prepayment interest shortfalls are not covered by compensating interest payments required to be made by the master servicer of the related Underlying REMIC Trust.

Uncovered prepayment interest shortfalls for any Underlying REMIC Trust are calculated by reference not only to the related Mortgage Loans primarily backing the Underlying REMIC Security but also to one or more other groups of mortgage loans contained in the Underlying REMIC Trust. Therefore, the interest payable on an interest only Underlying REMIC Security may be reduced on account of uncovered prepayment interest shortfalls that arise from the prepayment of mortgage loans other than the related Mortgage Loans.
In addition, the amounts distributable on the interest only Underlying REMIC Securities will be reduced to the extent of any reduction in the amount of interest payable on the related Mortgage Loans and some or all of the other mortgage loans contained in the related Pool as a result of the Soldiers’ and Sailors’ Relief Act of 1940, as amended (the “Relief Act,” and any such reduction, a “Relief Act Reduction”).

All or a portion of any bankruptcy, fraud or special hazard losses of principal and interest that occur on the mortgage loans in an Underlying REMIC Trust during any monthly period after the exhaustion of the initial coverage provided by such Underlying REMIC Trust will be allocated to reduce the amount otherwise distributable on the related Underlying REMIC Security and other securities issued by such Underlying REMIC Trust. In general, such an allocation will be made pro rata based either on the amounts otherwise distributable on such securities or on their respective principal balances, as the case may be. The initial coverage provided by an Underlying REMIC Trust is limited to a specified dollar amount (which may decline over time, even in the absence of losses) and is available to absorb bankruptcy, fraud or special hazard losses of principal and interest that are experienced not only on the related Mortgage Loans but also on all other mortgage loans contained in the Underlying REMIC Trust. If such losses are experienced on mortgage loans in an Underlying REMIC Trust (including the related Mortgage Loans), those losses could reduce or fully exhaust the coverage that would otherwise be available if additional losses are subsequently experienced on the mortgage loans (including the related Mortgage Loans). The bankruptcy, fraud and special hazard losses on mortgage loans in the Underlying REMIC Trusts in excess of the limits specified in the Underlying REMIC Disclosure Documents are referred to as “Excess Losses” in this Prospectus Supplement.

In addition, certain other realized losses may be allocated to the interest only Underlying REMIC Securities.

Each of the principal only Underlying REMIC Securities represents an entitlement to monthly principal calculated on the basis of a specific cash flow sequence. Although each such security is primarily backed by the related Mortgage Loans, principal distributions on such security will be determined by the related cash flow provisions of the Underlying REMIC Trust rather than as a fixed percentage of the principal collections on such Mortgage Loans. In general, the cash flow provisions entitle each principal only Underlying REMIC Security to its pro rata share (based on the principal balance of the security compared to other principal balance securities evidencing interests in the related Mortgage Loans) of all scheduled principal payments due on the related Mortgage Loans and a specified percentage of principal prepayments received on the related Mortgage Loans. This latter percentage generally will decline over time.

Certain realized losses may be allocated to the principal only Underlying REMIC Securities.

The Fannie Mae guaranty will not compensate investors for any losses that may be allocated to the interest only Underlying REMIC Securities and, accordingly, to the Certificates. Furthermore, the Fannie Mae guaranty will not compensate investors for any Excess Losses that are allocated to the principal only Underlying REMIC Securities and, accordingly, to the A1 Class and, after exhaustion of the Group II Overcollateralization Amount (as defined herein), the A2 and A3 Classes.

See Exhibit A for certain information about the Underlying REMIC Securities. Additional information relating to the Underlying REMIC Securities, the Underlying REMIC Trusts and the related Pools and Mortgage Loans is contained in the Underlying REMIC Disclosure Documents. Prospective investors are urged to read these documents, which may be obtained as described on page 3. However, it should be noted that there may have been material changes in facts and circumstances since the dates the Underlying REMIC Disclosure Documents were prepared by their respective issuers. These may include changes in prepayment speeds, prevailing interest rates and other economic factors. As a result, the usefulness of the information set forth in such documents over time may be limited.
Book-Entry Procedures

General. The DTC Certificates will be registered in the name of the nominee of DTC, a New York-chartered limited purpose trust company, or any successor depository that we select or approve (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 Bank and Trust Company will act as Paying Agent for, and perform certain administrative functions with respect to, the DTC Certificates.

A person who acquires a beneficial ownership interest in the DTC Certificates (a “beneficial owner” or an “investor”) will not receive a physical certificate representing such 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 the 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. If the intermediary is not a Depository Participant, the intermediary’s record ownership will be recorded on the records of a Depository Participant acting as an agent for the financial intermediary. Accordingly, neither the Trustee nor the Depository will recognize an investor as a Certificateholder. An investor must rely on the foregoing arrangements to evidence its interest in the DTC Certificates. An investor may transfer its beneficial ownership interest in the DTC Certificates only by complying with the procedures of its 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. The Paying Agent will distribute each distribution on the DTC Certificates to the Depository in immediately available funds. The Depository will credit such distributions to the accounts of the Depository Participants entitled to them, in accordance with the Depository’s normal procedures. The Depository currently provides for distributions in same-day funds settled through the New York clearing house. Each Depository Participant and each financial intermediary will disburse such distributions to the beneficial owners of the DTC Certificates that it represents. Accordingly, the beneficial owners may experience a delay in receiving distributions.

Certificated Class

We will issue the R Class in fully registered, certificated form and not in book-entry form. When we use the term “Holder” or “Certificateholder” in connection with the R Class, we mean its registered owner. The R Class can be transferred at the corporate trust office of our transfer agent. We may impose a service charge for any transfer registration and may require payment to cover any tax or other governmental charge.
Interest Payments on the Certificates

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

<table>
<thead>
<tr>
<th>Interest Type*</th>
<th>Classes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Weighted Average Coupon</td>
<td>A1</td>
</tr>
<tr>
<td>Available Funds</td>
<td>A2 and A3</td>
</tr>
<tr>
<td>Floating Rate</td>
<td>A2</td>
</tr>
<tr>
<td>Inverse Floating Rate</td>
<td>A3</td>
</tr>
<tr>
<td>No Payment Residual</td>
<td>R</td>
</tr>
</tbody>
</table>

* See “Description of Certificates—Class Definitions and Abbreviations” in the REMIC Prospectus

The A1 Class. The interest paid on the A1 Class will be based on a portion of the interest distributions required to be made on the interest only Underlying REMIC Securities and will not be calculated based on the principal balance of the Class A1 Certificates. Furthermore, interest payments on the Class A1 Certificates will be reduced to the extent that (i) compensating interest payments from the related master servicers are not required to cover prepayment interest shortfalls caused by mortgage loan prepayments, (ii) Relief Act Reductions occur and (iii) any losses of interest are experienced on the interest only Underlying REMIC Securities. We will treat the A1 Class as a Delay Class for the sole purpose of facilitating trading.

Group I Interest Distribution Amount. On each Distribution Date, we will pay the Group I Interest Distribution Amount as interest to Holders of the Class A1 Certificates. Payments to such Holders will be made on a pro rata basis.

The A2 and A3 Classes. We will pay interest on the A2 and A3 Classes at the applicable annual interest rates, subject to the limitations described in this prospectus supplement. Payments to Holders of each such Class will be made on a pro rata basis. We calculate interest on the A2 and A3 Classes based on an assumed 360-day year consisting of twelve 30-day months. Interest to be paid on each of the A2 and A3 Classes on a Distribution Date will consist of one month’s interest on the outstanding principal balance of that Class immediately before that Distribution Date, subject to the limitations described in this Prospectus Supplement. Interest payments on the A2 and A3 Classes may be reduced to the extent that (i) compensating interest payments from the related master servicers are not required to cover prepayment interest shortfalls caused by mortgage loan prepayments, (ii) Relief Act Reductions occur and (iii) any losses of interest are experienced on the interest only Underlying REMIC Securities.

Interest on the A2 and A3 Classes (collectively, the “No Delay Classes”) to be paid on each Distribution Date will accrue during the calendar month preceding the month of the related distribution date applicable to the Underlying REMIC Securities (the “Interest Accrual Period”). See “Additional Risk Factors.”

Changes in the specified interest rate index (the “Index”) will affect the yields with respect to these Classes. These changes may not correspond to changes in mortgage interest rates. Lower mortgage interest rates could occur while an increase in the level of the Index occurs. Similarly, higher mortgage interest rates could occur while a decrease in the level of the Index occurs.

Our establishment of each Index value and our determination of the interest rate for each applicable Class for the related Interest Accrual Period will be final and binding in the absence of manifest error. You may obtain each such interest rate by telephoning us at 1-800-237-8627 or 202-752-6547.

On each Index Determination Date, we will calculate LIBOR for the related Interest Accrual Period. We will calculate LIBOR on the basis of the “BBA Method,” as described in the REMIC
Prospectus under “Description of the Certificates—Indices Applicable to Floating Rate and Inverse Floating Rate Classes—LIBOR.”

If we are unable to so calculate LIBOR on the initial Index Determination Date, LIBOR for the following Interest Accrual Period will be equal to 5.05%.

Group II Interest Distribution Amount. On each Distribution Date, the Group II Interest Distribution Amount will be applied in the following order of priority:

(i) to the A2 and A3 Classes, up to their Current Interest Amounts (allocated pro rata in accordance with their Current Interest Amounts); and

(ii) to the A2 and A3 Classes, up to their Interest Deficiency Amounts, if any (allocated pro rata in accordance with their Interest Deficiency Amounts).

Our guaranty does not cover Current Interest Amounts on the A2 and A3 Classes in excess of the Group II Underlying Interest Distribution and does not cover any Interest Deficiency Amounts.

If any unpaid Interest Deficiency Amounts remain on the Distribution Date upon which the principal balances of the A2 and A3 Classes are reduced to zero, the Group II Interest Distribution Amount will be applied to pay such Interest Deficiency Amounts on subsequent Distribution Dates.

On each Distribution Date following the reduction of the principal balances of the A2 and A3 Classes to zero and the payment in full of all accrued and unpaid interest on such Classes (including all Interest Deficiency Amounts), their applicable share of all distributions on any remaining Underlying REMIC Securities will be paid to the Holder of the R Class. Once the principal balances and notional principal balances of the Underlying REMIC Securities have been reduced to zero, no further payments will be made on the Certificates.

Principal Payments on the Certificates

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

<table>
<thead>
<tr>
<th>Principal Type*</th>
<th>Classes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Structured Collateral/Pass-Through</td>
<td>A1, A2 and A3</td>
</tr>
<tr>
<td>Available Funds</td>
<td>A2 and A3</td>
</tr>
<tr>
<td>No Payment Residual</td>
<td>R</td>
</tr>
</tbody>
</table>

* See “Description of the Certificates—Class Definitions and Abbreviations” in the REMIC Prospectus.

Group I Principal Distribution Amount. On each Distribution Date, we will pay the Group I Principal Distribution Amount as principal of the A1 Class. On each Distribution Date, the Group I Principal Distribution Amount will be paid to Holders of the Class A1 Certificates on a pro rata basis.

Group II Principal Distribution Amount. On each Distribution Date, the Group II Principal Distribution Amount will be paid, concurrently, as principal of the A2 and A3 Classes, pro rata (or 92.857141857% and 7.142857143%, respectively), until their principal balances are reduced to zero.

Our guaranty does not cover any reduction in the principal balance of the Certificates resulting from the allocation of Excess Losses to the principal only Underlying REMIC Securities.

Certain Definitions Relating to Payments on the Certificates

General

Net Underlying Interest Distribution: For each Distribution Date, (a) the aggregate interest amount distributed on the interest only Underlying REMIC Securities subsequent to the preceding Distribution Date (or in the case of the initial Distribution Date, subsequent to the Settlement Date)
minus (b) one-twelfth of the product of the aggregate principal balance of the Certificates immediately prior to such Distribution Date multiplied by 0.12%.

Underlying Principal Distribution: For each Distribution Date, the aggregate principal amount distributed on the principal only Underlying REMIC Securities subsequent to the preceding Distribution Date (or in the case of the initial Distribution Date, subsequent to the Settlement Date).

Definitions Relating to Payments on the A1 Class

Group I Interest Distribution Amount: For each Distribution Date, an amount equal to the Group I IO Percentage of the Net Underlying Interest Distribution for such Distribution Date.

Group I IO Percentage: 60.7515000000%.

Group I PO Percentage: 64.6049237066%.

Group I Principal Distribution Amount: For each Distribution Date, an amount equal to the Group I PO Percentage of the Underlying Principal Distribution for such Distribution Date.

Definitions Relating to Payments on the A2 and A3 Classes

Current Interest Amount: For any Distribution Date and the A2 Class or A3 Class, an amount equal to the interest accrued during the related Interest Accrual Period at the applicable per annum rate on the principal balance of such Class immediately prior to such Distribution Date.

Group II Available Interest Distribution Amount: For each Distribution Date, the sum of (i) the Group II Underlying Interest Distribution and (ii) the Group II Reallocable Principal Amount.

Group II Basic Principal Amount: For each Distribution Date, the excess, if any, of the Group II Underlying Principal Distribution over the Group II Overcollateralization Amount (but in no event less than zero).

Group II Excess Interest Amount: For each Distribution Date, the excess, if any, of the Group II Available Interest Distribution Amount over the Group II Interest Due Amount.

Group II Interest Due Amount: For any Distribution Date and the A2 and A3 Classes, the sum of the Current Interest Amounts and the Interest Deficiency Amounts relating to such Classes.

Group II Interest Distribution Amount: The lesser of the Group II Available Interest Distribution Amount and the Group II Interest Due Amount.

Group II IO Percentage: 39.2485000000%.

Group II Overcollateralization Amount: For each Distribution Date, the excess, if any, of (x) the Group II PO Percentage of the aggregate principal balance of the principal only Underlying REMIC Securities immediately prior to such Distribution Date plus the Group II Principal Distribution Amount for such Distribution Date over (y) the aggregate principal balance of the A2 and A3 Classes immediately prior to such Distribution Date.

Group II PO Percentage: 35.3950762934%.

Group II Principal Distribution Amount: For each Distribution Date, the sum of the Group II Basic Principal Amount and the Group II Excess Interest Amount.

Group II Reallocable Principal Amount: For each Distribution Date, the lesser of the Group II Underlying Principal Distribution and the Group II Overcollateralization Amount.

Group II Underlying Interest Distribution: For each Distribution Date, an amount equal to the Group II IO Percentage of the Net Underlying Interest Distribution for such Distribution Date.

Group II Underlying Principal Distribution: For each Distribution Date, an amount equal to the Group II PO Percentage of the Underlying Principal Distribution for such Distribution Date.
**Interest Deficiency Amount:** For any Distribution Date and the A2 Class or A3 Class, an amount equal to the excess, if any, of \((x)\) the Current Interest Amounts for such Class for all prior Distribution Dates over \((y)\) the aggregate amount of interest paid on such Class on all prior Distribution Dates.

**Allocation of Certain Losses**

Losses may be allocated to the interest only Underlying REMIC Securities under the circumstances and in the amounts described in the Underlying REMIC Disclosure Documents. On each Distribution Date, the current interest otherwise payable on the A1 Class will, and on the A2 and A3 Classes may, be reduced as a result of any losses of interest, if any, allocated in reduction of the accrued interest otherwise distributable on the related distribution date for the interest only Underlying REMIC Securities.

Losses may be allocated to the principal only Underlying REMIC Securities under the circumstances and in the amounts described in the Underlying REMIC Disclosure Documents. On each Distribution Date, the Excess Losses, if any, allocated to the principal only Underlying REMIC Securities since the previous Distribution Date will be applied to reduce the principal balances of the Certificates as follows:

- the Group I PO Percentage of such Excess Losses will be allocated to the A1 Class, and
- the Group II PO Percentage of such Excess Losses will be allocated, first, to reduce the Group II Overcollateralization Amount to zero, and, then, to the A2 and A3 Classes, pro rata.

**Structuring Assumptions**

**Pricing Assumptions.** Except where otherwise noted, the information in the tables in this Prospectus Supplement was prepared based on the following assumptions (collectively, the “Pricing Assumptions”):

- the Mortgage Loans in the aggregate have the characteristics specified under “Reference Sheet—Assumed Characteristics of the Mortgage Loans Backing the Underlying REMIC Securities;”
- the distributions on the Underlying REMIC Securities in March 1999 will not be paid on the Certificates and the distributions on the Underlying REMIC Securities in April 1999 will be the earliest distributions paid on the Certificates;
- the settlement date for the sale of the Certificates is March 29, 1999;
- the interest rates on the Mortgage Loans are net of servicing fees and certain other fees;
- the related Mortgage Loans’ prepayment rates are the indicated multiple of the Prepayment Scenario;
- all prepayments are prepayments in full, and include 30 days’ interest thereon; and
- no Mortgage Loan is ever delinquent.

**Prepayment Assumptions.** Prepayments of mortgage loans commonly are measured relative to a prepayment standard or model. The model used in this Prospectus Supplement is a prepayment scenario (the “Prepayment Scenario”) which represents an assumed rate of prepayment each month relative to the then outstanding principal balance of a pool of mortgage loans for the life of such mortgage loans. A 100% Prepayment Scenario assumes a conditional prepayment rate of 4% per annum of the then outstanding principal balance of the Mortgage Loans in the first month of the life of the related Mortgage Loans and an additional 1.0909090909% per annum in each month thereafter until the twelfth month. Beginning in the twelfth month and in each month thereafter during the life of related Mortgage Loans, the 100% Prepayment Scenario assumes a conditional prepayment rate of
16% per annum each month. As used in the table below, 0% Prepayment Scenario assumes prepayment rates equal to 0% of the Prepayment Scenario, i.e., no prepayments on the aggregated mortgage pools having the characteristics described above under “Structuring Assumptions.” Correspondingly, 150% Prepayment Scenario assumes prepayment rates equal to 150% of the Prepayment Scenario, and so forth.

The model does not predict the prepayment experience of the Mortgage Loans backing any Underlying REMIC Securities or describe the historic performance of any particular pool of mortgage loans. It is highly unlikely that the Mortgage Loans will repay at any constant percentage of the Prepayment Scenario or at any other constant rate.

Yield Table

**General.** The table below indicates the sensitivity of the pre-tax corporate bond equivalent yields to maturity of the applicable Class to changes in the Index. The yields set forth in the table were calculated by

- determining the monthly discount rates that, when applied to the assumed streams of cash flows to be paid on the applicable class of Certificates, would cause the discounted present value of those assumed streams of cash flows to equal the assumed aggregate purchase prices of those classes and
- converting the monthly rates to corporate bond equivalent rates.

These calculations do not take into account variations in the interest rates at which you could reinvest funds received as distributions on the applicable Class. Accordingly, these calculations do not purport to reflect the return on any investment in the applicable Class when such reinvestment rates are considered.

We cannot assure you that

- the pre-tax yields on the applicable Certificates will correspond to any of the pre-tax yields shown here, or
- the aggregate purchase prices of the applicable Certificates will be as assumed.

In addition, it is unlikely that the Index will correspond to the levels shown here. Furthermore, because some of the Mortgage Loans are likely to have remaining terms to maturity shorter or longer than those assumed and interest rates higher or lower than those assumed, the principal payments on the Certificates are likely to differ from those assumed. This would be the case even if all Mortgage Loans prepay at the indicated constant percentages of the Prepayment Scenario. Moreover, it is unlikely that

- the Mortgage Loans will prepay at a constant percentage of the Prepayment Scenario until maturity,
- all of such Mortgage Loans will prepay at the same rate or
- the level of the Index will remain constant.

**The A3 Class.** The yield to investors in the A3 Class will be 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 without penalty. As illustrated in the table below, it is possible that investors in the A3 Class would lose money on their initial investments under certain Index and prepayment scenarios.

Changes in the Index may not correspond to changes in prevailing mortgage interest rates. It is possible that lower prevailing mortgage interest rates, which might be expected to result in faster prepayments, could occur while the level of the Index increased.
The information shown in the yield table has been prepared on the basis of the Pricing Assumptions and the assumptions that

- the interest rate for the A3 Class for the initial Interest Accrual Period and for each following Interest Accrual Period will be based on the specified level of the Index, and
- the aggregate purchase price of such Class (expressed as a percentage of original principal balance) is as follows:

<table>
<thead>
<tr>
<th>Class</th>
<th>Price*</th>
</tr>
</thead>
<tbody>
<tr>
<td>A3</td>
<td>124.0%</td>
</tr>
</tbody>
</table>

* The price does not include interest. Accrued interest has been added to such price in calculating the yields set forth in the table below.

### Sensitivity of the A3 Class to Prepayments and LIBOR (Pre-Tax Yields to Maturity)

<table>
<thead>
<tr>
<th>LIBOR</th>
<th>Prepayment Assumption</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>0%</td>
</tr>
<tr>
<td>3.05%</td>
<td>62.1%</td>
</tr>
<tr>
<td>5.05%</td>
<td>36.9%</td>
</tr>
<tr>
<td>7.05%</td>
<td>13.6%</td>
</tr>
</tbody>
</table>

### Weighted Average Lives of the Certificates

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 lives 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, payments under credit enhancement arrangements affecting the Underlying REMIC Trusts and repurchases for breaches of representations and warranties or for other reasons. Each of these types of principal payments on the Mortgage Loans backing the principal only Underlying REMIC Securities will be applied to payment of principal of the Certificates. In addition, the weighted average lives of the A2 and A3 Classes will be affected by the payment of Group II Excess Interest Amounts in reduction of the principal balances of such Classes.

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 lives of the Certificates. Further, variability in the weighted average lives of the Certificates could result in variability in the yield to maturity. For an example of how the weighted average lives of the Certificates may be affected at various constant percentages of the Prepayment Scenario, see the Decrement Tables below.
Maturity Considerations and Final Distribution Date

The original maturities of substantially all of the Mortgage Loans are expected to be between 15 and 30 years. Each Mortgage Loan will provide for amortization of principal according to a schedule that, in the absence of prepayments or defaults would result in repayment of the Mortgage Loan by its maturity date.

On the Final Distribution Date, we will pay the Certificateholders the remaining principal balance of the Certificates on that date. We determine the Final Distribution Date based on the payments scheduled to be received on the Mortgage Loans backing the Underlying REMIC Securities.

Decrement Tables

The following tables indicate the percentage of original principal balance of the specified Classes of Certificates that would be outstanding after each of the dates shown at various constant percentages of the Prepayment Scenario and the corresponding weighted average lives of those Classes. We have prepared the table on the basis of the Pricing Assumptions. 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 the Prepayment Scenario.

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 the Prepayment Scenario. 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 Balances Outstanding

<table>
<thead>
<tr>
<th>Date</th>
<th>A1 Class Prepayment Assumption</th>
<th>A2 Class Prepayment Assumption</th>
<th>A3 Class Prepayment Assumption</th>
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<tr>
<td></td>
<td>0% 75% 100% 150% 175%</td>
<td>0% 75% 100% 150% 175%</td>
<td>0% 75% 100% 150% 175%</td>
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<td>Initial Percent</td>
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<tr>
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<td>20.0 6.6 5.1 3.3 2.8</td>
<td>19.7 5.7 4.4 3.0 2.5</td>
<td>19.7 5.7 4.4 3.0 2.5</td>
</tr>
</tbody>
</table>

* 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” herein.
Characteristics of the R Class

The R Class will not have a principal balance and will not bear interest. If there are any remaining assets of the REMIC after the principal balances of all the classes of Certificates have been reduced to zero and any remaining interest entitlements have been fully satisfied, we will pay the Holder of the R Class the proceeds from those assets.

The R Class will be subject to certain transfer restrictions. We will not permit transfer of record or beneficial ownership of an R Certificate to a “disqualified organization.” In addition, we will not permit transfer of record or beneficial ownership of an R Certificate to any person that is not a “U.S. Person” without our written consent. Treasury Department regulations (the “Regulations”) provide that a transfer of a “noneconomic residential 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 may constitute a noneconomic residual interest under the Regulations. Any transferee of an R Certificate must execute and deliver an affidavit and an Internal Revenue Service Form W-9 on which the transferee provides its taxpayer identification number. See “Description of the Certificates—Additional Characteristics of Residual Certificates” and “Certain Federal Income Tax Consequences—Taxation of Beneficial Owners of Residual Certificates” in the REMIC Prospectus. 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” in the REMIC Prospectus. Pursuant to the Trust Agreement, we will be obligated to provide to such Holder (i) information 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.

CERTAIN FEDERAL INCOME TAX CONSEQUENCES

The Certificates and payments on the Certificates are not generally exempt from taxation. Therefore, you should consider the tax consequences of holding a Certificate before you acquire one. The following tax discussion supplements the discussion under the caption “Certain Federal Income Tax Consequences” in the REMIC Prospectus. When read together, the two discussions describe the current federal income tax treatment of beneficial owners of Certificates. These two tax discussions do not purport to deal with all federal tax consequences applicable to all categories of beneficial owners, some of which may be subject to special rules. In addition, these discussions may not apply to your particular circumstances for one of the reasons explained in the REMIC Prospectus. 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.

REMIC Election and Special Tax Attributes

We will elect to treat a portion of the Trust as a REMIC for federal income tax purposes (the “REMIC Trust”). The assets of the REMIC Trust will be the Underlying REMIC Securities. Assuming compliance with the Trust Agreement, the REMIC Trust will qualify as a REMIC if each of the Underlying REMIC Securities qualifies as a “regular interest” in a REMIC. Qualification as a REMIC requires initial and ongoing compliance with certain conditions. The Underlying REMIC Disclosure Documents state that each Underlying REMIC Security qualified as a “regular interest” in a REMIC as of the date of the applicable Disclosure Document and that each Underlying REMIC Security will continue to qualify as a regular interest in a REMIC, provided that certain requirements are met after that date. We are relying on the correctness of these statements in electing to treat the REMIC Trust as a REMIC, and the remainder of this discussion assumes that each of the Underlying REMIC Securities is, and will continue to be, a regular interest in a REMIC. You should consult your
tax advisors regarding the tax consequences to a beneficial owner of a Certificate if an Underlying REMIC Security were to fail to qualify as a regular interest in a REMIC.

Our special tax counsel, Arnold & Porter, will deliver its opinion that, assuming compliance with the Trust Agreement, the REMIC Trust will be treated as a REMIC for federal income tax purposes. In delivering this opinion, Arnold & Porter will assume that each of the Underlying REMIC Securities is, and will continue to be, a regular interest in a REMIC.

The A2 Class and the A3 Class will be designated as “regular interests,” and the R Class will be designated as the “residual interest,” in the REMIC constituted by the REMIC Trust. The A1 Class will represent beneficial ownership of a Certificate that will be designated as a third “regular interest” in the REMIC constituted by the REMIC Trust (the “Additional Regular Certificate”), as further described below.

The Certificates generally will be treated as “regular or residual interests in a REMIC” for domestic building and loan associations, “real estate assets” for real estate investment trusts, and, except for the R Class, as “qualified mortgages” for other REMICs. See “Certain Federal Income Tax Consequences—REMIC Election and Special Tax Attributes” in the REMIC Prospectus.

**Taxation of Beneficial Owners of the A1 Certificates**

The A1 Class will be created, sold and administered pursuant to an arrangement that will be classified as a grantor trust under subpart E of part I of subchapter J of the Code (the “Grantor Trust”). The Additional Regular Certificate will be the asset of the Grantor Trust, and the A1 Certificates will represent beneficial ownership of the Additional Regular Certificate.

Each beneficial owner of an A1 Certificate will be considered the beneficial owner of a pro rata interest in the Additional Regular Certificate. Consequently, a beneficial owner of an A1 Certificate will be required to report its pro rata share of the entire income accruing with respect to the Additional Regular Certificate and to report a sale or other disposition of an A1 Certificate as a sale or other disposition of a pro rata share of the Additional Regular Certificate. For a general discussion of the federal income tax treatment of a beneficial owner of a regular interest in a REMIC, see “Certain Federal Income Tax Consequences—Taxation of Beneficial Owners of Regular Certificates” in the REMIC Prospectus and “—Taxation of Beneficial Owners of Regular Certificates” below. For federal income tax purposes, principal of and interest on the Additional Regular Certificate will be payable in the same amounts and at the same time and subject to the same limitations as distributions of principal of and interest on the A1 Class, except that interest payments on the Additional Regular Certificate shall be determined as if the Group I Interest Distribution Amount were determined by reference to the aggregate interest amount distributed on the interest only Underlying REMIC Securities rather than by reference to the Net Underlying Interest Distribution. The excess, if any, of the interest payments on the Additional Regular Certificate over the interest payments on the Class A1 will be used by the Grantor Trust to pay expenses.

A beneficial owner can deduct its pro rata share of the expenses paid by the Grantor 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 a beneficial 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 beneficial 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.

We will furnish or make available, within a reasonable time after the end of each calendar year, to each Holder of an A1 Certificate at any time during such year, information required by Treasury regulations and other information we deem necessary or desirable to assist such Holders in preparing their federal income tax returns, or to enable such Holders to make that information available to beneficial owners or other financial intermediaries for which such Holders hold A1 Certificates as nominees.

**Taxation of Beneficial Owners of Regular Certificates**

Certain Classes of Certificates may be issued with original issue discount (“OID”). If a Class is issued with OID, a beneficial owner of a Certificate of that Class generally must recognize some taxable income in advance of the receipt of the cash attributable to that income. See “Certain Federal Income Tax Consequences—Taxation of Beneficial Owners of Regular Certificates—Treatment of Original Issue Discount” in the REMIC Prospectus. In addition, certain Classes of Certificates may be treated as having been issued at a premium. See “Certain Federal Income Tax Consequences—Taxation of Beneficial Owners of Regular Certificates—Regular Certificates Purchased at a Premium” in the REMIC Prospectus.

The Prepayment Assumption that will be used in determining the rate of accrual OID will be the 100% Prepayment Scenario. See “Certain Federal Income Tax Consequences—Taxation of Beneficial Owners of Regular Certificates—Treatment of Original Issue Discount—Daily Portions of Original Issue Discount” in the REMIC Prospectus. No representation is made as to whether the Mortgage Loans will prepay at that rate or any other rate. See “Description of the Certificates—Weighted Average Lives of the Certificates” in this prospectus supplement and “Description of Certificates—Weighted Average Life and Final Distribution Date” in the REMIC Prospectus.

The A3 Class will not, and the A2 Class may not, qualify as a variable rate debt instrument (a “VRDI”) under the OID Regulations. See “Certain Federal Income Tax Consequences—Taxation of Beneficial Owners of Regular Certificates—Interest and Original Issue Discount on Floating Rate and Inverse Floating Rate Classes” in the REMIC Prospectus. Under the OID Regulations, a debt instrument that provides for a variable rate of interest but that does not qualify as a VRDI is a contingent payment debt instrument. The regulations governing contingent payment debt instruments, however, do not apply to the Certificates. In addition, the tax treatment of the Additional Regular Certificate under the OID Regulations is unclear, because the Additional Regular Certificate may provide for the payment of interest after its principal balance has been reduced to zero. In the absence of further guidance, we intend, with respect to each Class of Certificates, (i) to compute accruals of interest and OID on the Class by applying the principles of the OID Regulations applicable to VRDIs and (ii) to treat all interest payments as included in the stated redemption price at maturity of the Class.

A beneficial owner of an A2 or A3 Certificate may be required to include in gross income the Current Interest Amount with respect to its Certificate without giving effect to any related Interest Deficiency Amount until it can be established that any Interest Deficiency Amount will not be recoverable. As a result, the amount of taxable income reported in a period by a beneficial owner of an A2 or A3 Certificate could exceed the amount of economic income actually realized by the holder in that period. If a beneficial owner is required to include in gross income an amount attributable to any Interest Deficiency Amount, the beneficial owner eventually will recognize a loss or reduction in income if the Interest Deficiency Amount is not recovered, although the law is unclear with respect to
the timing and character of such loss or reduction in income. Beneficial owners of A2 and A3 Certificates should consult their own tax advisors concerning the treatment of Interest Deficiency Amounts in their specific circumstances.

Under section 166 of the Code, a beneficial owner of an A1, A2 or A3 Certificate that acquired such Certificate in connection with a trade or business should be allowed to deduct, as ordinary losses, any losses sustained during a taxable year in which the Certificate becomes wholly or partially worthless as a result of credit losses with respect to the Underlying REMIC Securities. It appears, however, that a beneficial owner that is not a corporation and that does not acquire such Certificate in connection with a trade or business will not be entitled to deduct any loss under section 166 until the holder’s Certificate becomes wholly worthless and that the loss will be characterized as a short-term capital loss.

Taxation of Beneficial Owners of Residual Certificates

For purposes of determining the portion of the taxable income of the Trust that generally will not be treated as excess inclusions, the rate to be used is 6.23% (which is 120% of the “federal long-term rate”). See “Certain Federal Income Tax Consequences—Treatment of Excess Inclusions” and “—Foreign Investors—Residual Certificates” in the REMIC Prospectus.

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 Donaldson, Lufkin & Jenrette Securities Corporation (the “Dealer”) in exchange for the Underlying REMIC Securities. 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. Sidley & Austin will provide legal representation for the Dealer.
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* For a more detailed description of the Underlying REMIC Securities and the related Mortgage Loans, see “Description of the Certificate—The Underlying REMIC Securities” in this Prospectus Supplement.

** Based on the particular Mortgage Loans backing each related Underlying REMIC Security.
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