

Supplement to Prospectus dated June 22, 1999



\$200,000,000

**Guaranteed Grantor Trust Redeemable/Redemption Certificates
Fannie Mae Grantor Trust 1999-R2**

This is a Supplement to the Prospectus dated June 22, 1999 (the "Prospectus"). Capitalized terms used but not defined herein shall have the meanings assigned to such terms in the Prospectus.

Notwithstanding anything set forth on the cover of the Prospectus, the CUSIP Numbers for the Classes are as follows:

<u>Class</u>	<u>CUSIP Number</u>
A1	31359WSH5
B1	31359WSG7
A2	31359WTX9
B2	31359V7K3

See "Risk Factors" on page 5 for a discussion of certain risks that should be considered in connection with an investment in the Certificates.

The certificates may not be suitable investments for all investors. No investor should purchase certificates unless such investor understands and is able to bear the prepayment, yield, liquidity and other risks associated with such certificates.

The certificates, together with any interest thereon, are not guaranteed by the United States. The obligations of Fannie Mae under its guaranty of the certificates are obligations solely of Fannie Mae and do not constitute an obligation of the United States or any agency or instrumentality thereof other than Fannie Mae. The certificates are exempt from the registration requirements of the Securities Act of 1933 and are "exempted securities" within the meaning of the Securities Exchange Act of 1934.

The date of this Supplement is July 28, 1999

\$200,000,000



**Guaranteed Grantor Trust Redeemable/Redemption Certificates
Fannie Mae Grantor Trust 1999-R2**

Carefully consider the risk factors starting on page 5 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 agency or instrumentality thereof 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 and guarantee the classes of redeemable and redemption certificates listed in the chart on this page.

Payments to Holders of Redeemable Certificates

We will make monthly payments on the redeemable certificates. You, the investor, will receive

- interest accrued on the balance of your redeemable certificate, and
- principal to the extent available for payment on your class.

We may pay principal at rates that vary from time to time. We may not pay principal to the redeemable classes for long periods of time.

The redemption certificates will receive no payments of principal or interest.

Redemption Feature

The holder of each redemption class has the right to direct us to redeem the related redeemable class on any distribution date beginning in January 2000. If the right is exercised, the holder of the related redeemable class is entitled to receive a redemption price equal to

- the outstanding class balance of the related redeemable class, plus
- any unpaid interest through the 24th day of the month in which the redemption occurs.

Upon redemption, the holder of each redemption class will exchange its class for a portion of the Fannie Mae Guaranteed MBS Pass-Through Certificate and other amounts described in this prospectus.

The Fannie Mae Guaranty

We will guarantee that required payments of principal and interest on the redeemable certificates are distributed to investors on time.

We will also guarantee that upon a redemption, the holder of each redemption class will receive all proceeds due to it in connection with the related exchange.

The Trust and its Assets

The trust will indirectly own 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
A1	\$140,000,000	Redeemable/PT	7.5%	FIX	31359V6N8	August 2029
B1	(1)	Redemption	(1)	(1)	31359V6P3	N/A
A2	\$ 60,000,000	Redeemable/PT	7.5%	FIX	31359V6Q1	August 2029
B2	(1)	Redemption	(1)	(1)	31359V7K3	N/A

(1) We will not pay principal or interest on the B1 and B2 Classes. To facilitate the redemption and exchange of those classes, the B1 Class will have a notional principal balance that is always equal to the principal balance of the A1 Class and the B2 Class will have a notional principal balance that is always equal to the principal balance of the A2 Class.

The dealer specified below will offer the certificates from time to time in negotiated transactions at varying prices. We expect the settlement date to be July 30, 1999.

PaineWebber Incorporated

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AVAILABLE INFORMATION

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

- our Prospectus for Guaranteed Mortgage Pass-Through Certificates dated October 1, 1998 (the “MBS Prospectus”),
- our Prospectus for Guaranteed MBS Pass-Through Certificates dated October 1, 1998 (the “Mega Prospectus”), and
- our Information Statement dated March 31, 1999 and its supplements (the “Information Statement”).

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

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

The Disclosure Documents, together with the class factors, are available on our website located at <http://www.fanniemae.com>.

You can also obtain the Disclosure Documents by writing or calling the dealer at:

PaineWebber Incorporated
Prospectus Department
1000 Harbor Boulevard
Weehawken, New Jersey 07087
(telephone 201-902-6858).

REFERENCE SHEET

This reference sheet is not a summary of the transaction and does not contain complete information about the certificates. You should purchase the certificates only after reading this prospectus and each of the additional disclosure documents listed on page 3.

Assumed Mortgage Loan Characteristics (as of July 1, 1999)

Approximate Principal Balance	Original Term to Maturity (in months)	Approximate Weighted Average Remaining Term to Maturity (in months)	Approximate Calculated Loan Age (in months)	Approximate Weighted Average Coupon
\$64,000,000	360	357	2	8.030%
96,000,000	360	334	22	8.020%
20,000,000	360	313	39	8.080%
20,000,000	360	288	63	8.020%

The actual remaining terms to maturity, calculated loan ages and interest rates of most of the mortgage loans will differ from the weighted averages shown above, perhaps significantly.

Interest Rates

The Redeemable Classes will bear interest at the annual interest rate shown on the cover.

The Redemption Classes will not bear interest.

Distributions of Principal

Principal Distribution Amount

To the A1 and A2 Classes, pro rata, to zero.

We will not pay principal to the B1 and B2 Classes.

Redemption

If you are a holder of a redemption class, you will have the right to direct us to redeem all (and not less than all) of the related redeemable class on any distribution date beginning in January 2000. However, we will be obligated to redeem a redemption class (x) prior to the distribution date in January 2002 only if, as of the date we receive your direction, the underlying Mega Certificate has a market value that is greater than 102% of its remaining principal balance and (y) on or after the distribution date in January 2002, only if, as of the date we receive your direction, the underlying Mega Certificate has a market value that is greater than 100% of its remaining principal balance.

If redemption occurs, the price we must pay for a redeemable class will be equal to its remaining principal balance, plus interest to the date of redemption. We will not redeem a redeemable class until the holder of the related redemption class has paid us the redemption amount and exchange fee. At that time, we will deliver a proportionate share of the underlying Mega Certificate to the holder of the related redemption class in exchange for such redemption class.

Weighted Average Life (years) *

<u>Class</u>	<u>PSA Prepayment Assumption</u>				
	<u>0%</u>	<u>100%</u>	<u>191%</u>	<u>300%</u>	<u>500%</u>
A1 and A2	21.6	10.8	7.2	5.0	3.1

* Determined as specified under "Weighted Average Life" and "Decrement Table" in this prospectus, and subject to the assumptions and qualifications in those sections, including the assumption that no redemption occurs.

RISK FACTORS

The rate of principal payments on the redeemable certificates will be affected by the rate of principal payments on the underlying mortgage loans. The rate that you receive principal payments on the redeemable certificates will be sensitive to the rate of principal payments on the mortgage loans underlying the MBS, including prepayments. Because borrowers generally may prepay their mortgage loans at any time without penalty, the rate of principal payments on the mortgage loans is likely to vary over time. It is highly unlikely that the mortgage loans will prepay

- at any of the prepayment rates we assumed in this prospectus, or
- at any constant prepayment rate until maturity.

Redeemable certificates are subject to redemption. In general, the redeemable certificates may be redeemed on any distribution date beginning in January 2000. In no event will you be entitled to reimbursement for any premium you may have paid or for any reduction in your effective yield. A redemption will be more likely to occur if prevailing mortgage rates have declined or the underlying MBS have a market value that is greater than their total principal balance.

The holder of a redeemable certificate or the holders of any indirect interest in a redeemable class (including, in the case of the A1 Class, certain certificates that we issue from Fannie Mae REMIC Trust 1999-40) may obtain the right to exercise the redemption of a redeemable class or otherwise try to influence when the redemption right is exercised. Whether and, if so, when any such holders exercise the redemption right may depend on whether they purchased their interests at a premium or at a discount.

Yields on redeemable certificates may be lower than expected due to unexpected rate of principal payments. The actual yield on your redeemable certificates probably will be lower than you expect:

- if you bought your redeemable certificate at a premium and a redemption of your redeemable certificate occurs,

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

You must make your own decisions about the various applicable assumptions, including prepayment assumptions, when deciding whether to purchase the certificates. In particular, investors in the redeemable certificates must make assumptions regarding the likelihood and timing of an early redemption of the redeemable certificates.

Value of redemption classes depends on MBS value. The value of the redemption classes will depend primarily on

- the market value of the underlying MBS,
- market expectations of the likely future value of the underlying MBS, and
- the costs associated with exercising the redemption right.

The market value of the underlying MBS, in turn, will depend on prevailing interest rates and other market and economic conditions.

In a low interest rate environment, prepayments on the underlying mortgage loans can be expected to increase, which would tend to reduce the amount of any premium for the underlying MBS and, in turn, reduce the corresponding value of the related redemption class. The right of the holder of a redemption class to cause the redemption of the redeemable class may not be exercised before January 2000.

If you purchase a redemption class, you should consider the risk that you could lose all or part of your investment.

Weighted average life and yield on the redeemable certificates are affected by actual characteristics of the underlying mortgage loans. We have assumed that the mortgage loans underlying the MBS have certain characteristics. However, the actual mortgage loans probably will have different characteristics from those we as-

sumed. As a result, your yield could be lower than you expect, even if the mortgage loans prepay at the indicated constant prepayment rates. In addition, slight differences between the assumed mortgage loan characteristics and the actual mortgage loans could affect the weighted average life of the classes of redeemable certificates.

Delay classes have lower yields and market values. Since the redeemable classes do not receive interest immediately following each interest accrual period, these classes have a lower yield and a lower market value than they would if there were no such delay.

Reinvestment of payments on the redeemable certificates may not achieve same yields as the redeemable certificates. The rate of principal payments of the redeemable certificates is uncertain. You may be unable to reinvest the payments on the certificates at the same yields provided by such certificates.

Unpredictable timing of last payment affects yields on redeemable certificates. The actual final payment of the redeemable certificates is likely to occur earlier, and could occur much earlier, than the final distribution date listed on the cover page, especially if a redemption oc-

curs. If you assumed the actual final payment will occur on the final distribution date specified, your yield could be lower than you expect.

Some investors may be unable to buy the certificates. Investors whose investment activities are subject to legal investment laws and regulations, or to review by regulatory authorities, may be unable to buy the certificates. You should get legal advice to determine whether you may purchase the certificates.

Uncertain market for the certificates could make them difficult to sell and cause their values to fluctuate. 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. You should purchase certificates only if you understand and can tolerate the risk that the value of your certificates will vary over time and that your certificates may not be easily sold.

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, as well as in the additional Disclosure Documents and the Trust Agreement. If we use a capitalized term in this Prospectus without defining it, you will find the definition of that term in the applicable Disclosure Documents or in the Trust Agreement.

General

Structure. We will create the Fannie Mae Grantor Trust specified on the cover (the “Trust”) pursuant to a trust agreement dated as of July 1, 1999 (the “Trust Agreement”). We will execute the Trust Agreement in our corporate capacity and as trustee (the “Trustee”). We will issue two classes of Guaranteed Grantor Trust Redeemable Certificates (the “Redeemable Certificates,” “Redeemable Classes” or “A Classes”) and two classes of Guaranteed Grantor Trust Redemption Certificates (the “Redemption Certificates,” “Redemption Classes” or “B Classes” and, together with the Redeemable Certificates, the “Certificates”) pursuant to the Trust Agreement. In general, the term “Classes” includes the Classes of Redeemable Certificates and the Classes of Redemption Certificates. The assets of the Trust will consist primarily of certain Fannie Mae Guaranteed Mortgage Pass-Through Certificates (the “MBS”) held in the form of a Fannie Mae Guaranteed MBS Pass-Through Certificate (the “Mega Certificate”). The terms “MBS” and “Mega Certificate” refer to the assets transferred to the Trust, regardless of whether certain of those assets are redeemed as provided in this prospectus supplement. Each MBS represents a beneficial ownership interest in a pool of first lien,

single-family, fixed-rate residential mortgage loans having the characteristics described herein (the “Mortgage Loans”).

Fannie Mae Guaranty. We guarantee that we will distribute to Holders of Redeemable Certificates:

- required installments of principal and interest on the Redeemable Certificates on time, and
- the principal balance of the Redeemable Certificates no later than the Final Distribution Date, whether or not we have received sufficient payments on the MBS.

We also guarantee that we will remit to the Holders of the Redemption Certificates all proceeds due to them in exchange for the Redemption Amount as described in 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 guarantees are not backed by the full faith and credit of the United States. See “Description of Certificates—The Fannie Mae Guaranty” in the MBS Prospectus, and “The Mega Certificates—Fannie Mae Guaranty” in the related Mega Prospectus.

Characteristics of Certificates. We will issue the Certificates of the Redeemable Certificates in book-entry form on the book-entry system of the U.S. Federal Reserve Banks. Entities whose names appear on the book-entry records of a Federal Reserve Bank as having had Certificates deposited in their accounts are “Holders” or “Certificateholders.”

A Holder is not necessarily the beneficial owner of a Redeemable Certificate. Beneficial owners ordinarily will hold Redeemable Certificates through one or more financial intermediaries, such as banks, brokerage firms and securities clearing organizations.

We will issue the Redemption Certificates in fully registered, certificated form. The “Holder” or “Certificateholder” of a Redemption Certificate is its registered owner. A Redemption 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 Bank and Trust Company in Boston, Massachusetts (“State Street”) will be the initial Transfer Agent. We may impose a service charge for any registration of transfer of a Redemption Certificate and may require payment to cover any tax or other governmental charge.

The Holder of a Redemption Certificate will receive its proportionate share of the Mega Certificate in a redemption and exchange transaction only by presenting and surrendering the Redemption Certificate at the office of the Paying Agent. State Street will be the initial Paying Agent.

Authorized Denominations. We will issue the Redeemable Certificates in minimum denominations of \$1,000 and whole dollar increments. We will issue each Redemption Certificate as a single Certificate with no principal balance. Each Redemption Class must be maintained and transferred in a denomination equal to the total notional principal balance of such Class, which will be equal at any time to the principal balance of the related Redeemable Class.

Distribution Dates. We will make monthly payments on each Redeemable Class 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). We refer to each such date as a “Distribution Date.” We will make the first payments to Holders of Redeemable Certificates the month after we issue the Certificates.

Record Date. On each Distribution Date, we will make each monthly payment on the Redeemable Certificates to Holders of record on the last day of the preceding month.

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

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

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.

The MBS

The following table contains certain information about the MBS. The MBS will have the aggregate unpaid principal balance and Pass-Through Rate shown below and the general characteristics described in the MBS Prospectus. The MBS are held in the form of a Mega Certificate, the general characteristics of which are described in the Mega Prospectus. The MBS will provide that principal and interest on the related Mortgage Loans will be passed through monthly, beginning in the month after we issue the MBS. The Mortgage Loans underlying the MBS will be conventional Level Payment Mortgage Loans secured by first mortgages or deeds of trust on one- to four-family (“single-family”) residential properties. These Mortgage Loans will have original maturities of up to 30 years. See “The Mortgage Pools” and “Yield Considerations” in the MBS Prospectus. We expect the characteristics of the MBS and the related Mortgage Loans as of July 1, 1999 (the “Issue Date”) to be as follows:

MBS Underlying the Certificates (Mega Certificate CL-323900)

Aggregate Unpaid Principal Balance	\$200,000,000
MBS Pass-Through Rate	7.50%

Related Mortgage Loans

Range of WACs (per annum percentages) (1)	7.75% to 10.00%
Range of WAMs (2)	241 months to 360 months
Approximate Weighted Average WAM	335 months
Approximate Weighted Average CAGE (3)	21 months

(1) “WAC” is defined as the weighted average coupon of the Mortgage Loans in each Pool.

(2) “WAM” is defined as the weighted average remaining term to maturity (in months) of the Mortgage Loans in each Pool. “Adjusted WAM” is defined as the WAM of the Mortgage Loans in each Pool at the issue date of the related MBS, less the number of months elapsed from that issue date through the Issue Date.

(3) “CAGE” is defined as the weighted average calculated loan age of the Mortgage Loans in each Pool. The CAGE of such Mortgage Loans is determined by subtracting the original WAM for a Pool from the original term to maturity (in months) of such Mortgage Loans, and then adding the number of months elapsed since the issue date of the MBS.

Final Data Statement

After issuing the Certificates, we will prepare a Final Data Statement containing certain information, including the Pool number, the current WAC (or original WAC, if the current WAC is not available) and the current WAM (or Adjusted WAM, if the current WAM is not available) of the Mortgage Loans underlying the MBS. The Final Data Statement will also include the weighted averages of all the current or original WACs and the weighted averages of all the current or Adjusted WAMs, based on the current unpaid principal balances of the Mortgage Loans underlying the MBS as of the Issue Date. You may obtain the Final Data Statement by telephoning us at 1-800-237-8627 or 202-752-6547. The contents of the Final Data Statement and other data specific to the Certificates are available in electronic form by calling us at 1-800-752-6440 or 202-752-6000.

Distributions of Interest

Category of Classes

For the purpose of interest payments, the A1 and A2 Classes will be categorized as Fixed Rate Classes. See “—Certain Definitions and Abbreviations” in this prospectus.

The B1 and B2 Classes will bear no interest.

General. We will pay interest on the Redeemable Certificates at the applicable annual interest rate shown on the cover. We calculate interest based on a 360-day year consisting of twelve 30-day months. We pay interest monthly on each Distribution Date, beginning in the month after the Settlement Date specified in the Reference Sheet.

We will not pay interest on the Redemption Classes.

Interest to be paid on each Redeemable Certificate on a Distribution Date will consist of one month’s interest on the outstanding balance of that Redeemable Certificate immediately prior to such Distribution Date. In addition, if a Redeemable Class is redeemed, the final distribution on that Class will include an amount representing interest accrued and unpaid to the date of redemption. See “—Redemption and Exchange” below.

Interest Accrual Period. Interest to be paid on each Distribution Date will accrue on each Redeemable Class during the calendar month preceding the month in which the Distribution Date occurs (the “Interest Accrual Period”). See “Risk Factors.”

Distributions of Principal

Categories of Classes

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

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

* See “—Certain Definitions and Abbreviations” in this prospectus.

Principal Distribution Amounts

On each Distribution Date, for so long as the A1 Class is outstanding, we will pay an amount equal to 70% of the aggregate payment of principal concurrently made on the MBS as principal of the A1 Class, until its principal balance is reduced to zero.

On each Distribution Date, for so long as the A2 Class is outstanding, we will pay an amount equal to 30% of the aggregate payment of principal concurrently made on the MBS as principal of the A2 Class, until its principal balance is reduced to zero.

} Redeemable/
Pass-Through
Classes

The Redemption Classes

We will not pay principal or interest on the B Classes. To facilitate a redemption, the B1 Class will have a notional principal balance that is always equal to the principal balance of the A1 Class and the B2 Class will have a notional principal balance that is always equal to the principal balance of the A2 Class. See “—Redemption and Exchange” below.

Redemption and Exchange

Beginning in January 2000, the Holder of a Redemption Class will have the right to direct us to redeem the related Redeemable Class, in whole but not in part, on any Distribution Date. (The related Redemption Class and Redeemable Class bear the same number as part of their class designations.) However, we will redeem a Redeemable Class (x) prior to the Distribution Date in January 2002 only if the market value of the Mega Certificate exceeds 102% of its outstanding principal balance as of the date we receive the notice directing us to redeem (the “redemption notice”) and (y) on or after the Distribution Date in January 2002 only if the market value of the Mega Certificate exceeds 100% of its outstanding principal balance as of the date we receive the redemption notice. We will determine the market value of the Mega Certificate by referring to bid quotations we obtain as of the date we receive the redemption notice. Our determination of the market value will be final and binding in the absence of manifest error.

The price we will pay for a Redeemable Class upon redemption will be equal to its outstanding principal balance plus accrued and unpaid interest to the date of redemption, calculated as described below. We will redeem a Redeemable Class only when the Holder of the related Redemption Class pays

- the Redemption Amount (as defined below) for that Redeemable Class, and
- an exchange fee (the “Exchange Fee”) equal to the greater of
 - \$5,000 or
 - the lesser of \$15,000 or 1/32 of 1% of the outstanding principal balance of the related Redeemable Class.

The Holder of a Redemption Class must notify us when it proposes to effect a redemption and exchange. We must be notified no sooner than the first business day and no later than 11:00 a.m. on the fifth business day of the month of the Distribution Date proposed for redemption. By the end of the fifth business day in the month of redemption, the Holder of a Redemption Class must deposit the Redemption Amount with us. The “Redemption Amount” shall equal the sum of

- 100% of the outstanding principal balance of the related Redeemable Class based on the Class Factor (defined herein) published for that Redeemable Class for the month prior to the month of redemption, and
- an amount equal to interest on that Redeemable Class, for the period from the 1st through 24th calendar days calculated based on the Class Factor published for that Redeemable Class for the month prior to the month of redemption.

Upon delivery of the Redemption Amount and the Exchange Fee, and determination of a satisfactory market value for the Mega Certificate as described above, the redemption notice will become irrevocable. We will then redeem the related Redeemable Class on the related Distribution Date.

For a Redeemable Class and the related Redemption Class, the Class Factor for the month of redemption will be zero. The price we will pay for the redemption of a Redeemable Class (the "Redemption Price") will be equal to the sum of:

- 100% of the outstanding principal balance of that Redeemable Class, **plus**
- accrued interest at the annual rate for that Redeemable Class for the related Interest Accrual Period, **plus**
- accrued interest at the applicable annual rate for that Redeemable Class for the period from the 1st through 24th calendar days of the month of redemption, calculated on the principal balance of that Redeemable Class that would have remained outstanding immediately after the Distribution Date if the redemption had not occurred.

We will pay the Redemption Price to the Holder of the related Redeemable Class in lieu of paying any principal and interest that would otherwise be paid on the Distribution Date on which the redemption occurs.

On the day we receive the Redemption Amount, subject to the conditions described above, we will exchange a proportionate share of the Mega Certificate for the related Redemption Class and the Exchange Fee. The proportionate share of the Mega Certificate to be so exchanged is 70% in the case of the B1 Class, and 30% in the case of the B2 Class. On the Distribution Date in the month of redemption, we will pay the Holder of the related Redemption Class

(a) the excess of

(i) the Redemption Amount paid to us by the Holder of that Redemption Class and the payments received on the MBS in the month of redemption **over**

(ii) the Redemption Price for the related Redeemable Class, **and**

(b) interest on the Redemption Amount from the date the Redemption Amount is received by Fannie Mae through the 24th day of the month in which the redemption of the related Redeemable Class occurs. Such interest will be calculated for each day at an annual rate equal to the prevailing daily Federal Funds rate determined as of the close of business on the date of calculation, less 25 basis points. We will provide instructions for delivery of the related Redemption Class and the Exchange Fee to the dealer through which delivery will be made.

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

Certain Definitions and Abbreviations

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

<u>Abbreviation</u>	<u>Category</u>	<u>Definition</u>
PRINCIPAL TYPE		
PT	Pass-Through	Is designed to receive principal payments in direct relation to actual or scheduled payments on the underlying securities.
INTEREST TYPE		
FIX	Fixed Rate	Has an interest rate that is fixed throughout the life of the Class.
OTHER TYPE		
REDEEMABLE	Redeemable	A Certificate that is redeemable by Fannie Mae at the direction of the Holder of the related Redemption Class.
REDEMPTION	Redemption	A Certificate whose Holder has the right, if certain conditions are satisfied, (i) to cause Fannie Mae to redeem the related Redeemable Class and (ii) after the Redemption Amount and Exchange Fee are paid, to receive a proportionate share of the Mega Certificate underlying the related Redeemable Class.

Structuring Assumptions

Pricing Assumptions. Except where otherwise noted, the information in the tables in this prospectus has been prepared on the basis of the following assumptions (the “Pricing Assumptions”):

- the Mortgage Loans have the original terms to maturity, remaining terms to maturity, CAGEs and interest rates specified under “Reference Sheet—Assumed Mortgage Loan Characteristics”;
- 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 July 30, 1999.

Prepayment Assumptions. Prepayments of mortgage loans commonly are measured relative to a prepayment standard or model. The model used here is The Bond Market Association’s standard prepayment model (“PSA”). PSA represents an assumed rate at which a pool of new mortgage loans will prepay. 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.

It is highly unlikely that prepayments will occur at any constant PSA rate or at any other constant rate.

Yield Tables

The tables below illustrate the sensitivity of the pre-tax corporate bond equivalent yields to maturity of the Redeemable Classes to various constant percentages of PSA. We calculated the yields set forth in the tables by

- determining the monthly discount rates that, when applied to the assumed streams of cash flows to be paid on the Redeemable Classes, would cause the discounted present values of such assumed streams of cash flows to equal the assumed aggregate purchase prices of such Classes, and
- converting such monthly rates to corporate bond equivalent rates.

These calculations do not take into account variations in the interest rates at which you could reinvest payments on the Redeemable Certificates. Accordingly, these calculations do not illustrate the return on any investment in the Redeemable Certificates when such reinvestment rates are taken into account.

We cannot assure you that

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

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 Redeemable 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 PSA. Moreover, it is unlikely that

- the Mortgage Loans will prepay at a constant PSA rate until maturity, or
- all of such Mortgage Loans will prepay at the same rate.

Finally, we do not know whether a redemption of the Redeemable Classes will occur or, if it does, when it will occur.

The information shown in the yield tables has been prepared on the basis of the Pricing Assumptions and the assumptions that

- redemption of each Redeemable Class either does not occur or occurs on the Distribution Date shown,
- we pay interest through the 24th day of the month in which a redemption occurs, and
- the aggregate purchase prices of such Classes (expressed in each case as a percentage of original principal balance) are as follows:

<u>Class</u>	<u>Price*</u>
A1	100%
A2	100%

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

A1 Class
(Pre-Tax Yields to Maturity)

<u>Distribution Date On Which Assumed Redemption Occurs</u>	<u>50% PSA</u>	<u>100% PSA</u>	<u>191% PSA</u>	<u>300% PSA</u>	<u>500% PSA</u>
January 2000	7.6%	7.6%	7.5%	7.5%	7.5%
No Redemption	7.6%	7.5%	7.5%	7.5%	7.4%

A2 Class
(Pre-Tax Yields to Maturity)

<u>Distribution Date On Which Assumed Redemption Occurs</u>	<u>50% PSA</u>	<u>100% PSA</u>	<u>191% PSA</u>	<u>300% PSA</u>	<u>500% PSA</u>
January 2000	7.6%	7.6%	7.5%	7.5%	7.5%
No Redemption	7.6%	7.5%	7.5%	7.5%	7.4%

Weighted Average Life

The weighted average life of a Certificate is determined by

- (a) multiplying the amount of the reduction, if any, of the principal balance of such Certificate from one Distribution Date to the next Distribution Date by the number of years from the Settlement Date to the second such Distribution Date,
- (b) summing the results, and
- (c) dividing the sum by the aggregate amount of the reductions in principal balance of such Certificate referred to in clause (a).

In general, the weighted average life of a Redeemable Class will be shortened if the level of prepayments of principal of the related Mortgage Loans increases. However, the weighted average life will depend upon a variety of other factors, including

- the timing of changes in such rate of principal payments, and
- whether a redemption of that Class occurs, and if so, when it occurs.

See “Risk Factors” in this prospectus.

The effect of these factors may differ and the effects may vary at different times during the life of a Redeemable Class. Accordingly, we can give no assurance as to the weighted average life of those Classes. Further, to the extent the prices of the Redeemable Certificates represent discounts or premiums to their original principal balances, variability in the weighted average lives of such Certificates could result in variability in the related yields to maturity. For an example of how the weighted average life of a Redeemable Class may be affected at various constant prepayment rates, see the Decrement Table below.

Final Distribution Date

The Final Distribution Date for a Redeemable Class is the date by which we must pay Holders the full outstanding principal balance of such Class, assuming no prepayments on the Mortgage Loans and no redemption. We determine the Final Distribution Date based on the payments scheduled to be received on the MBS. A Redeemable Class could be retired substantially earlier than the Final Distribution Date, especially if a redemption occurs.

Decrement Table

The following table indicates the percentage of original principal balance of the Redeemable Classes that would be outstanding after each date shown at various constant PSA rates and the corresponding weighted average lives of such Classes. The table has been prepared on the basis of the Pricing Assumptions. However, in the case of the information set forth under 0% PSA, we assumed that the underlying Mortgage Loans have original and remaining terms to maturity of 360 months and bear interest at an annual rate of 10.0%, and that no redemption is made.

It is unlikely

- that all of the underlying Mortgage Loans will have the interest rates, CAGEs or remaining terms to maturity assumed or
- that the underlying Mortgage Loans will prepay at any constant PSA level.

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 PSA rates. This is the case even if the dispersion of weighted average remaining terms to maturity and the weighted average CAGEs of the Mortgage Loans are identical to the dispersion specified in the Pricing Assumptions.

Finally, we do not know whether a redemption of any Redeemable Class will occur or, if it does, when it will occur.

Percent of Original Principal Balance Outstanding (Assuming No Redemption of Redeemable Certificates)

Date	A1 and A2 Classes				
	PSA Prepayment Assumption				
	0%	100%	191%	300%	500%
Initial Percent	100	100	100	100	100
July 2000	99	95	91	86	77
July 2001	99	89	80	71	56
July 2002	98	82	70	58	39
July 2003	97	76	62	47	27
July 2004	97	71	54	38	19
July 2005	96	65	47	31	13
July 2006	95	60	41	25	9
July 2007	94	56	35	20	6
July 2008	92	51	31	16	4
July 2009	91	47	26	13	3
July 2010	89	43	23	10	2
July 2011	88	39	20	8	1
July 2012	86	36	17	6	1
July 2013	84	32	14	5	1
July 2014	82	29	12	4	*
July 2015	79	26	10	3	*
July 2016	76	23	9	2	*
July 2017	73	20	7	2	*
July 2018	70	18	6	1	*
July 2019	66	15	5	1	*
July 2020	62	13	4	1	*
July 2021	58	11	3	1	*
July 2022	53	9	2	*	*
July 2023	47	7	2	*	*
July 2024	41	5	1	*	*
July 2025	35	3	1	*	*
July 2026	27	2	*	*	*
July 2027	19	1	*	*	*
July 2028	10	*	*	*	*
July 2029	0	0	0	0	0
Weighted Average Life (years)**	21.6	10.8	7.2	5.0	3.1

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

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

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

As soon as practicable after the 11th calendar day of each month, we will publish (in print or otherwise) the Class Factor for the Redeemable Classes. The “Class Factor” is a number (carried to eight decimal places) which, when multiplied by the original principal balance of a Redeemable 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 Matters Regarding Fannie Mae

The Trust Agreement provides that we may not resign from our obligations and duties unless they are no longer permissible under applicable law. Our resignation will be effective only after a successor has assumed our obligations and duties. However, no successor may succeed to our guaranty obligations, and we will continue to be responsible under our guaranty even if we are terminated or have resigned from our other duties and responsibilities under the Trust Agreement.

The Trust Agreement also provides that neither we nor any of our directors, officers, employees or agents will be under any liability to the Trust or to the Certificateholders for errors in judgment or for any action we take, or refrain from taking, in good faith pursuant to the Trust Agreement. However, neither we nor any such person will be protected against any liability due to willful misfeasance, bad faith, gross negligence or willful disregard of obligations and duties.

In addition, the Trust Agreement also provides that we are not under any obligation to appear in, prosecute or defend any legal action that is not incidental to our responsibilities under the Trust Agreement and that in our opinion may involve us in any expense or liability. However, in our discretion, we may undertake any legal action that we deem necessary or desirable in the interests of the Certificateholders. In that event, we will pay the legal expenses and costs of the action, which will not be reimbursable out of the trust fund.

Any corporation into which we are merged or consolidated, any corporation that results from a merger, conversion or consolidation to which we are a party or any corporation that succeeds to our business 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 Holders of Redeemable Certificates and our failure continues uncorrected for 15 days after we receive written notice of such failure from Holders of Redeemable Certificates who represent ownership interests totaling at least 5% of the trust fund; 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 Holders of Redeemable Certificates who represent ownership interests totaling at least 25% of the trust fund or from the Holders of the Redemption Certificates; 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, Holders of Redeemable Certificates who represent ownership interests totaling at least 25% of the trust fund or the Holders of the Redemption Certificates 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 Mega Certificate 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 Holders of Redeemable Certificates that represent ownership interests totaling at least 66% of the trust fund and the Holders of the Redemption Certificates 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.

Termination

The Trust Agreement will terminate when we have paid to the Certificateholders all amounts we are required to pay them under the Trust Agreement. 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 are not generally exempt from 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 one of the following, or other, reasons:

- This discussion is based on 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 persons 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. If you are a thrift, real estate mortgage investment conduit, real estate investment trust or regulated investment company, you are particularly advised to consult your own tax advisors before investing in a Certificate.

The Trust

The arrangement pursuant to which the Trust will be administered by Fannie Mae and the Certificates will be issued will be classified as a grantor trust under subpart E, part I of subchapter J of the Internal Revenue Code of 1986, as amended (the “Code”), and not as an association taxable as a corporation.

The Redeemable Classes

Status. A beneficial owner of an interest in a Redeemable Class will be treated as (i) owning an undivided interest in the MBS and (ii) writing a call option on that undivided interest when the beneficial owner purchases the interest in that Redeemable Class. The beneficial owner will be treated as having written the call option in exchange for an option premium in an amount equal to the fair market value of the call option.

Allocations. A beneficial owner should be considered to have purchased its interest in a Redeemable Class for an amount equal to the cost of that interest plus the option premium it is deemed to have received. Accordingly, the beneficial owner’s basis in its interest in the MBS will be greater than the amount the owner paid directly for its interest in a Redeemable Class.

When a beneficial owner sells an interest in a Redeemable Class, the owner will be deemed to have sold its interest in the MBS for a price equal to the sales price for its interest in that Redeemable Class plus an amount equal to the fair market value, at the time of the sale, of the call option, which amount the owner is deemed to have paid to be relieved from the obligation under the call option. Accordingly, the amount realized by the owner upon the sale of its interest in the MBS will be greater than the amount received directly for its interest in a Redeemable Class.

Taxation of an Interest in the MBS. The anticipated federal income tax consequences to a beneficial owner of the purchase, ownership and disposition of an interest in the MBS are as described under “Certain Federal Income Tax Consequences” in the MBS Prospectus.

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

A beneficial owner of an interest in a Redeemable Class will include the option premium in income as short-term capital gain when the right to redeem that Redeemable Class lapses. It is expected that the MBS will be reduced over time through principal payments prior to the expiration of the right to redeem a Redeemable Class. Under existing authorities, it is not entirely clear whether the right to redeem a Redeemable Class would thus be deemed to lapse as the MBS pay down, and if so, at what rate. Fannie Mae intends to assume that the right to redeem a Redeemable Class lapses, and the related premium is recognized by the beneficial owner proportionately as principal (including both scheduled and unscheduled payments) is paid on the MBS after the first date on which the right to redeem that Redeemable Class may be exercised. There is no assurance that the Internal Revenue Service (“IRS”) would agree with this method of determining income from the lapse of the right to redeem the Redeemable Class. You should consult your own tax advisors regarding these matters.

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

Application of the Straddle Rules. The IRS might take the position that a beneficial owner’s interest in the MBS and call option constitute positions in a straddle. If this position were sustained, the straddle rules of section 1092 of the Code would apply. Under those rules, a beneficial owner selling its interest in the Redeemable Class would be treated as selling its interest in the MBS at a gain or loss. Such gain or loss would be short-term because the beneficial owner’s holding period would be tolled. In addition, the straddle rules might require a beneficial owner to capitalize, rather than deduct, a portion of any interest and carrying charges allocable to the owner’s interest in the Redeemable Class. Further, if the IRS were to take the position that a beneficial owner’s interest in the MBS and the call option constituted a “conversion transaction” as well as a straddle, then a portion of the gain with respect to the MBS or the call option might be characterized as ordinary income. You should consult your own tax advisors regarding these issues.

The Redemption Classes

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

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

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

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.

The Redeemable Classes would appear to qualify as “guaranteed governmental mortgage pool certificates” as defined in the Department of Labor regulation discussed under the heading “ERISA Considerations” in the REMIC Prospectus. However, the acquisition or exercise of a Redemption Right by the beneficial owner of a Redemption Class might be characterized under ERISA as a principal transaction between the beneficial owner of the related Redeemable Class and the beneficial owner of that Redemption Class. Thus, in theory, the acquisition or exercise of a Redemption Right could be characterized under certain circumstances as a prohibited transaction under ERISA between a Plan and a “party in interest” (assuming that the Plan holds the related Redeemable Class or that Redemption Class and the “party in interest” holds the other), unless a prohibited transaction exemption under ERISA (such as PTE 84-14 for Transactions by Independent Qualified Professional Asset Managers) is available.

Each Redemption Class may be deemed to be an option to acquire a “guaranteed governmental mortgage pool certificate” rather than an actual “guaranteed governmental mortgage pool certificate.”

Plan fiduciaries should consult their counsel concerning these issues.

PLAN OF DISTRIBUTION

General. We are obligated to deliver the Certificates to PaineWebber Incorporated (the “Dealer”) in exchange for the MBS. The Dealer proposes to sell Class A1 Certificates in the principal amount of \$107,778,612 to us. We intend to include those certificates in the assets of Fannie Mae

REMIC Trust 1999-40. The Dealer proposes to offer the remaining Redeemable Certificates and all of the Redemption Certificates in negotiated transactions at prices to be determined at the time of sale. The Dealer may effect such transactions to or through other dealers.

Increase in Certificates. Before the Settlement Date, we and the Dealer may agree to offer Certificates in addition to those contemplated as of the date of this prospectus. In this event, we will increase the MBS in principal balance, but we expect that all these additional MBS will have the same characteristics as described under “Description of the Certificates—The MBS.” The proportion that the original principal balance of each Class of Redeemable Certificates bears to the aggregate original principal balance of all Redeemable Certificates will remain the same.

LEGAL MATTERS

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

No one is authorized to give information or to make representations in connection with the Certificates other than the information and representations contained in this Prospectus Supplement and the additional Disclosure Documents. You must not rely on any unauthorized information or representation. This Prospectus Supplement 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 Supplement and the additional Disclosure Documents at any time, no one implies that the information contained herein or therein is correct after the date hereof or thereof.

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

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\$767,570,894



**Guaranteed
REMIC Pass-Through
Certificates**

**Fannie Mae REMIC Trust
1999-40**

PROSPECTUS SUPPLEMENT

PaineWebber Incorporated

June 22, 1999
