Senior Supplement
(To Prospectus dated December 28, 1998)

# $234,292,204 (Approximate)

FannieMae

## Guaranteed REMIC Pass-Through Certificates
## Fannie Mae REMIC Trust 1999-W1

**Carefully consider the additional risk factor appearing on page 2 of this senior supplement as well as the risk factors starting on page 7 of the Prospectus. Unless you understand and are able to tolerate these risks, you should not invest in the senior certificates.**

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

This senior supplement is intended to be used only with the Prospectus. Investors should not purchase senior certificates before reading this senior supplement, the Prospectus and the Fannie Mae information statement identified on page 2 of the Prospectus.

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

### The Senior Certificates

We, the Federal National Mortgage Association ("Fannie Mae"), will issue and guarantee the classes of senior certificates listed in the chart on this page. The senior certificates are being offered by this senior supplement and the attached Prospectus. Only the senior certificates are offered by this senior supplement together with the attached Prospectus.

### Payments to Certificateholders

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

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

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

### The Fannie Mae Guaranty of the Senior Certificates

We will guarantee that

- required payments of principal and interest on the senior certificates are distributed to investors on time, and
- the full principal balance of each class of senior certificates will be paid no later than the distribution date in February 2029.

Our guaranty does not cover uncovered prepayment interest shortfalls.

**Our guaranty covers the classes of senior certificates only and does not cover any other classes of certificates being offered by the Prospectus.**

### The Trust and its Assets

The trust will own a pool of first lien, single-family, fixed-rate, fully amortizing mortgage loans.

| Class | Original Class Balance(1) | Principal Type | Interest Rate | Interest Type | CUSIP Number |
|---|---|---|---|---|---|
| A ........... | $233,017,430 | SEQ | 6.75% | FIX | 31359VHA4 |
| PO ........... | 1,274,674 | PT | (2) | PO | 31359VHH9 |
| X ........... | 212,139,854(3) | NTL | (4) | W/IO | 31359VHJ5 |
| R ........... | 100 | SEQ | 6.75 | FIX | 31359VHK2 |

(1) May vary by plus or minus 5%.
(2) Principal only class.
(3) Notional balance. This class is an interest only class.
(4) Based on the weighted average of the interest rates of certain mortgage loans in the pool. During the first interest accrual period, the X Class will bear interest at an annual rate of approximately 0.65936%.

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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 January 28, 1999.

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## Countrywide Securities Corporation

December 28, 1998

## ADDITIONAL RISK FACTOR

*Without Fannie Mae's guaranty, senior certificates would be paid only from mortgage loans and supported only by subordination.* If we were unable to perform our guaranty obligations, payments to holders of the senior certificates would consist solely of payments and other recoveries on the mortgage loans. In such event, delinquencies and defaults on the mortgage loans would affect payments to holders of senior certificates and, if the protection provided by the subordination of the non-senior certificates were exhausted, holders of the senior certificates could lose money on their investment.

## FANNIE MAE GUARANTY

Under our guaranty of the Senior Certificates, we will pay to the Holders of the applicable classes of the Senior Certificates the following amounts:

- the Senior Interest Distribution Amount,
- the Senior Principal Distribution Amount,
- the PO Class Principal Distribution Amount and
- the principal balance of each Class of the Senior Certificates in full no later than the Final Distribution Date, whether or not sufficient funds are available in the Certificate Account.

Our guaranty covers any Excess Losses allocable to the Senior Certificates. In addition, our guaranty would by its terms be available to the Holders of the Senior Certificates in the event of any liquidation, reorganization, or similar proceeding involving the assets of Countrywide Home Loans, Inc. Although we guarantee the timely payment of the Senior Principal Distribution Amount to the R and A Classes and the PO Class Principal Distribution Amount to the PO Class, these payments may not include the entire Stated Principal Balance of each Liquidated Loan at the time of its liquidation. Furthermore, our guaranty does not cover any Uncovered Prepayment Interest Shortfalls. See ''Risk Factors—*Delays or reductions in cash flow can result from default and liquidation*'' in the Prospectus. Our guaranty is not backed by the full faith and credit of the United States.

## FINAL DISTRIBUTION DATE

The Distribution Date in February 2029 (the ''Final Distribution Date'') is the date by which the principal balances of the Classes of Senior Certificates are required to be fully paid. The Final Distribution Date has been determined so that scheduled payments on the Mortgage Loans will be sufficient to retire each Class of Senior Certificates on or before the Final Distribution Date without any call on our guaranty.

## DEFINED TERMS

Certain capitalized terms are used but not defined in this senior supplement. See ''Index of Defined Terms'' in the Prospectus for the definitions of the capitalized terms used.

Prospectus

# $246,939,724 (Approximate)

# WISCONSIN AVENUE SECURITIES

## REMIC Pass-Through Certificates
## Fannie Mae REMIC Trust 1999-W1

**Carefully consider the risk factors starting on page 7 of this Prospectus. Unless you understand and are able to tolerate these risks, you should not invest in the certificates.**

This Prospectus may not be used to offer and sell senior certificates unless it is accompanied by the senior supplement.

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

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

### The Certificates

We, the Federal National Mortgage Association or Fannie Mae, will issue the classes of certificates listed in the chart on this page. These classes of certificates are being offered by this Prospectus. We will also issue the subordinate classes in connection with the trust. The subordinate classes are not offered by this Prospectus.

### Subordination

We will make no monthly payments on the mezzanine classes unless the holders of the senior classes have received all required payments in that month.

### Payments to Certificateholders

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

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

We may pay principal at rates that vary from time to time. On any particular distribution date, we may not pay principal to certain classes.

**Proceeds of the trust assets are the sole source of payments on the mezzanine certificates. The mezzanine certificates, together with any interest thereon, are not guaranteed by or obligations of Fannie Mae, the United States or any other governmental entity.**

### The Trust and its Assets

The trust will own a pool of first lien, single-family, fixed-rate, fully amortizing mortgage loans.

| Classes of Senior Certificates | Original Class Balance(1) | Principal Type | Interest Rate | Interest Type | CUSIP Number |
|---|---|---|---|---|---|
| A | $233,017,430 | SEQ | 6.75% | FIX | 31359VHA4 |
| PO | 1,274,674 | PT | (2) | PO | 31359VHH9 |
| X | 212,139,854(3) | NTL | (4) | W/IO | 31359VHJ5 |
| R | 100 | SEQ | 6.75% | FIX | 31359VHK2 |

| Classes of Mezzanine Certificates(5) | Original Class Balance(1) | Interest Rate | CUSIP Number |
|---|---|---|---|
| M | $7,012,487 | 6.87% | 31359VHB2 |
| B-1 | 3,631,466 | 6.87% | 31359VHC0 |
| B-2 | 2,003,567 | 6.87% | 31359VHD8 |

(1) May vary by plus or minus 5%.
(2) Principal only class.
(3) Notional balance. This class is an interest only class.
(4) Based on the weighted average of the interest rates of certain mortgage loans in the pool. During the first interest accrual period, the X Class will bear interest at an annual rate of approximately 0.65936%.
(5) Payments on the mezzanine certificates are subordinated to the senior certificates and are NOT guaranteed by Fannie Mae.

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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 January 28, 1999.

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## Countrywide Securities Corporation

December 28, 1998

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## AVAILABLE INFORMATION

You should purchase the certificates only if you have read and understood this prospectus, the senior supplement (if you are purchasing senior certificates) and Fannie Mae's Information Statement dated March 31, 1998 and its supplements (the "Information Statement").

You can obtain the disclosure document listed above (the "Disclosure Documents") by writing or calling us at:

Fannie Mae
3900 Wisconsin Avenue, N.W.
Area 2H-3S
Washington, D.C. 20016
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:

Countrywide Securities Corporation
Prospectus Department
4500 Park Granada Avenue
Calabasas, California 91302
818-225-3288.

## REFERENCE SHEET

**This reference sheet highlights information contained elsewhere in this prospectus. It is not a summary of the transaction and does not contain complete information about the certificates. You should purchase certificates only after reading this prospectus in its entirety and the other Disclosure Documents listed on page 3.**

### The Certificates

- The certificates will represent beneficial ownership interests in Fannie Mae REMIC Trust 1999-W1.
- The assets of the trust will consist of a pool of first lien single-family fixed-rate, fully amortizing mortgage loans.

### Assumed Characteristics of the Mortgage Loans

The tables appearing under the heading ''The Mortgage Loans—General'' summarize as of January 1, 1999 certain assumed characteristics of the mortgage loans in the pool. The information in the tables is presented in aggregated form.

### General

The certificates will consist of the following classes, which represent the entire ownership interest in the trust:

Four classes of senior certificates issued and guaranteed by Fannie Mae:

- R Class or Residual Class
- A Class
- PO Class
- X Class

Three classes of mezzanine certificates issued, but not guaranteed, by Fannie Mae:

- M Class
- B-1 Class
- B-2 Class

Three classes of subordinate certificates issued, but not guaranteed, by Fannie Mae:

- B-3 Class
- B-4 Class
- B-5 Class

We expect that the stated principal balance of the mortgage loans in the trust will total approximately $250,445,969. This amount may vary by plus or minus 5%. The senior, mezzanine and subordinate certificates will have the initial aggregate principal balances, and will represent the undivided percentage ownership interests in the mortgage loans, shown below:

| | Approximate initial aggregate principal balance(1) | Approximate initial undivided ownership interest in the mortgage loans |
|---|---|---|
| Senior certificates | $234,292,204 | 93.55% |
| Mezzanine certificates | $ 12,647,520 | 5.05% |
| Subordinate certificates | $ 3,506,245 | 1.40% |

(1) The principal balances may vary by plus or minus 5%. However, in the case of the mezzanine and subordinate certificates, the proportion that the original principal balance of each class bears to the aggregate original principal balance of all such classes will remain the same.

Only the senior and mezzanine certificates are being offered by this prospectus and, in the case of the senior certificates, by the senior supplement. We will issue the subordinate certificates to the dealer on the settlement date, and the dealer may sell them at any time thereafter in limited private offerings. We have included in this prospectus certain information about the subordinate certificates only to help you understand the senior and mezzanine certificates.

**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 payments in the same month). We publish the class factors on or shortly after the 21st day of each month.

**Settlement Date**

We expect to issue the certificates on January 28, 1999.

**Distribution Dates**

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

**Book-Entry and Physical Certificates**

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

We will issue the classes of certificates in the following forms:

| DTC Book-Entry | Physical |
|---|---|
| All classes of senior and mezzanine certificates, other than the R Class | R Class |

**Interest Payments**

During each interest accrual period, the senior and mezzanine certificates will bear interest at the annual rates specified or described on the cover of this prospectus. On each distribution date, the senior certificates will be entitled to receive the Senior Interest Distribution Amount and each class of mezzanine certificates will be entitled to receive its Interest Distribution Amount. For a description of the Senior Interest Distribution Amount and the Interest Distribution Amount for each class of mezzanine certificates, see "Description of the Senior and Mezzanine Certificates—Payments on the Senior and Mezzanine Certificates—*Interest Calculations*" and "—Certain Definitions Relating to Payments on the Certificates" in this prospectus.

## Notional Class

A notional class will receive interest only and will not receive any principal. Its notional principal balance is the balance used to calculate accrued interest. The notional principal balance of the X Class will equal 100% of the aggregate stated principal balance of the non-discount mortgage loans.

## Principal Payments

*Senior Principal Distribution Amount*

To the R and A Classes, in that order, to zero.

*PO Class Principal Distribution Amount*

To the PO Class to zero.

*Principal Distribution Amounts relating to Mezzanine Certificates*

To the M Class, the B-1 Class and the B-2 Class, in that order to zero.

For a description of the Senior Principal Distribution Amount, the PO Class Principal Distribution Amount and the Principal Distribution Amount for each class for mezzanine certificates, see "Description of the Senior and Mezzanine Certificates—Certain Definitions Relating to Payments on the Certificates" in this prospectus.

## Weighted Average Lives (years)*

| | % of Prepayment Assumption** | | | | |
|---|---|---|---|---|---|
| **Senior Classes** | **0%** | **50%** | **100%** | **200%** | **300%** |
| A | 20.2 | 9.1 | 5.2 | 2.5 | 1.6 |
| PO | 19.7 | 9.4 | 5.6 | 2.9 | 1.9 |
| X | 20.2 | 9.5 | 5.6 | 2.9 | 1.9 |
| R | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 |

| | % of Prepayment Assumption** | | | | |
|---|---|---|---|---|---|
| **Mezzanine Classes** | **0%** | **50%** | **100%** | **200%** | **300%** |
| M, B-1, B-2 | 20.2 | 13.9 | 11.0 | 8.6 | 5.9 |

* Determined as specified under "Description of the Senior and Mezzanine Certificates—Weighted Average Lives of the Senior and Mezzanine Certificates" in this prospectus.

** For a description of the Prepayment Assumption, see "Description of the Senior and Mezzanine Certificates—Structuring Assumptions—*Prepayment Assumption*" in this prospectus.

## Ratings

We will not issue the certificates unless the M Class, B-1 Class and B-2 Class certificates are rated at least "AA", "A" and "BBB", respectively, by Duff & Phelps Credit Rating Co.

## RISK FACTORS

### Risk Factors Affecting Senior and Mezzanine Certificates

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

- Before investing, you should have sufficient knowledge and experience to evaluate the merits and risks of the certificates and the information contained in this prospectus and the other Disclosure Documents.
- You should understand the terms of the certificates thoroughly.
- 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.
- 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.

You should exercise particular caution if your circumstances do not permit you to hold the certificates until maturity.

*Factors that can affect your yield.* Your effective yield on the certificates will depend upon:

- the price you paid for certificates,
- how quickly or slowly borrowers prepay the mortgage loans,
- if and when 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, and
- the actual characteristics of the mortgage loans.

*The rate of principal payments on the certificates will be affected by the rate of principal payments on the mortgage loans.* The rate that you receive principal payments on the certificates will be sensitive to the rate of principal payments on the mortgage loans, 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.

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

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

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

Even if the average rate at which principal is paid on the mortgage loans is consistent with your expectations, variations in the rate over time can significantly affect your yield. Generally, the earlier the payment of principal, the greater the impact on the yield to maturity. As a result, if the rate of principal prepayment during any period is faster or slower than you expect, a corresponding reduction or increase in the prepayment rate during a later period may not fully offset the effect of the earlier rate on your yield.

**You must decide what principal prepayment assumptions to use in deciding whether to purchase the certificates.**

In addition, if you purchase X Class certificates, the timing of changes in the weighted average of the net mortgage rates of the non-discount mortgage loans may significantly affect your yield, even if the weighted average of such net mortgage rates is consistent with your expectations. In general, the earlier the change in the level of such weighted average net mortgage rate, the greater the effect on your yield to maturity. As a result, if the weighted average net mortgage rate during any period is higher or lower than you expect, a corresponding reduction or increase in that rate during a later period may not fully offset the effect of the earlier rate on your yield.

*Prepayment considerations and risks.* The rate of principal payments on the senior and mezzanine certificates is directly related to the rate of payments of principal on the mortgage loans. Mortgage loan payments may be in the form of scheduled amortization or prepayments. For this purpose, prepayments include

- unscheduled principal payments,
- liquidations resulting from default, casualty or condemnation, and
- payments made pursuant to any exercise by Fannie Mae or the master servicer of the option to purchase certain delinquent mortgage loans from the trust.

The mortgage loans generally may be prepaid in whole or in part at any time without penalty. The seller is obligated to repurchase mortgage loans found to be in material breach of its representations and warranties. If such repurchase occurs and the seller fails to provide a substitute mortgage loan for the one repurchased, you will experience prepayments of principal with respect to your certificates.

*Prevailing interest rates and borrower refinancings affect the prepayment rate.* In general, when the level of prevailing interest rates declines relative to the interest rates on fixed-rate mortgage loans, the rate of prepayment is likely to increase. Since the mortgage loans bear fixed interest rates, they can be expected to be sensitive to prevailing interest rates. The prepayment rate is influenced by a number of other factors as well, including general economic conditions and homeowner mobility. In addition, no one can predict the degree to which interest rates must decline before significant prepayments are likely to occur. Increased borrower sophistication regarding the benefits of refinancing and extensive solicitation by lenders may result in an increase in the rate at which the mortgage loans are prepaid due to refinancing.

Because of these and other factors, we are unable to estimate what the prepayment experience for the mortgage loans will be. The Fannie Mae information statement contains the most recent mortgage loan prepayment experience of our portfolio. However, we have had limited experience with loans reflecting the underwriting criteria applicable to the mortgage loans in the trust and are unable to predict whether the experience with respect to our portfolio will have any applicability to the mortgage loans. Moreover, it is possible that the mortgage loans will experience rates of delinquency, foreclosure and bankruptcy that are higher than those experienced by comparable mortgage loans underwritten in accordance with the Fannie Mae Selling Guide (which sets forth our standard mortgage loan purchase requirements).

*Accelerated mortgage payments due to transfers of mortgaged properties.* Prepayment rates are also affected by the acceleration of mortgage payments resulting from transfer of a mortgaged property. The mortgage loans generally will provide that, in the event of the actual or prospective transfer of title to the underlying mortgaged property, the full unpaid principal balance of the mortgage loan is due and payable at the option of the holder. As described in this prospectus, the master servicer is required to exercise its right to accelerate the maturity of mortgage loans containing enforceable "due-on-sale" provisions upon certain transfers of the related mortgaged properties. However, certain state and federal laws limiting the enforcement of "due-on-sale" provisions remain in effect. Accordingly, the master servicer may be unable to collect the full principal balance of the related mortgage loan in the event of a property transfer.

*Repurchase of a delinquent mortgage loan has the effect of a prepayment.* Fannie Mae (after the principal balance of the mezzanine and subordinate certificates have been reduced to zero) and the master servicer (at any time) have the option to purchase mortgage loans that are more than 90 days delinquent. The purchase price would be equal to the unpaid principal balance of the mortgage loans being purchased plus accrued interest. The effect of any such purchase would be the same as that of a prepayment in full of the related mortgage loan.

*Loan characteristics affect weighted average lives and yields on the certificates.* Slight variations in mortgage loan characteristics could affect the weighted average lives and yields of the certificates.

*Your yield may be reduced due to uncovered prepayment interest shortfalls.* The effective yields on the interest-bearing certificates will be reduced to the extent prepayments of the mortgage loans result in uncovered prepayment interest shortfalls.

*Delay classes have lower yields and market values.* Since the interest-bearing classes do not receive interest immediately following each interest accrual period, the interest-bearing classes have lower yields and therefore lower market values than they would if there were no such delay. The delay classes are identified in this prospectus.

*Unpredictable timing of last payment affects yields on certificates.* The actual final payment on each class of certificates is likely to occur earlier, and could occur much earlier, than the maturity date of the latest maturing mortgage loan. If you assume the actual final payment will occur on that date, your yield could be lower than you expect.

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

*Delayed information can result in delayed distribution of prepayments.* Provided that timely information is available, all principal prepayments received in the one-month period ending on the 15th of each month will be passed through to certificateholders on the distribution date following the end of that prepayment period. However, in the event that timely information is not available, principal prepayments will be paid on the second distribution date following the end of that prepayment period.

*Delays or reductions in cash flow can result from default and liquidation.* Even assuming that the mortgaged properties provide adequate security for the mortgage loans, substantial delays could be encountered in connection with the liquidation of defaulted mortgage loans, and corresponding delays in distributing the related liquidation proceeds to holders of the senior and mezzanine certificates could occur. Further, liquidation expenses (such as legal fees, real estate taxes and maintenance and preservation expenses) will reduce the proceeds of the mortgage loans payable to holders of the senior and mezzanine certificates.

*Certain classes of certificates provide credit enhancement for other classes.* For purposes of this discussion, the term ''related junior classes'' shall mean:

- with respect to the senior certificates: the mezzanine certificates and the subordinate certificates, and
- with respect to each class of mezzanine certificates: each class of mezzanine certificates with a higher numerical class designation as well as the subordinate certificates. (The M Class certificates will be deemed to have a lower numerical designation, and to be of higher payment priority, than the other classes of non-senior certificates.)

Credit enhancement will be provided for the senior and mezzanine certificates :

- first, by the right of the holders of the senior and mezzanine certificates to receive certain payments of principal prior to the related junior classes, and
- second, by the allocation of realized losses to the related junior classes.

None of the seller, the trustee, the master servicer or any of their respective affiliates will have any obligation to replace or supplement the credit enhancement. Credit enhancement is provided from collections on the mortgage loans otherwise payable to the holders of the related junior classes. In the case of the mezzanine certificates, such collections comprise the sole source of funds from which the credit enhancement is provided. Accordingly, if the aggregate principal balance of the related junior classes were to be reduced to zero, delinquencies and defaults on the mortgage loans would affect monthly payments to holders of the mezzanine certificates (and could, in some circumstances, affect payment to holders of the senior certificates). Furthermore, the related junior classes will provide only limited protection against certain categories of losses. Any excess losses will be allocated pro rata to each class, including the senior and mezzanine classes, even if the principal balance of each related junior class has not been reduced to zero.

*Some investors may be unable to buy certain classes.* 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 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. As a result, you may be unable to sell your certificates easily or at a price that enables you to obtain your anticipated yield. In particular, it may be difficult to sell senior and mezzanine certificates that are designed for specific investment objectives or strategies or that have been structured to meet the investment requirements of limited categories of investors. (These would include any principal only or interest only classes of certificates.) Such certificates may have little or no liquidity. You should purchase certificates only if you understand and can bear the risk that the value of your certificates will vary over time and that your certificates may not be easily sold.

*Nature of Collateral.* The mortgage loans were underwritten substantially according to the seller's expanded underwriting guidelines. The expanded underwriting guidelines are generally more flexible than those for mortgage lending programs following the Fannie Mae Selling Guide. The seller's guidelines permit, for example, higher loan-to-value ratios and higher debt-to-income ratios. It is possible that mortgage loans originated according to these standards may be more likely to experience delinquencies or defaults than those underwritten following the Fannie Mae Selling Guide.

*Heavy concentration of mortgaged properties in certain states.* The table on page 20 under "The Mortgage Loans—Statistical Information" sets out the geographic distribution of the mortgage loans. As of the date of this prospectus, the states of California and Colorado have the largest concentrations of mortgage loans in the trust. Based on the aggregate stated principal balances,

- 19.98% of the mortgage loans are in California, and
- 7.46% of the mortgage loans are in Colorado.

If the residential real estate markets in the areas with the heaviest concentrations of mortgage loans should experience an overall decline in property values, the rates of delinquencies, foreclosures, bankruptcies and realized losses on the mortgage loans probably will increase and may increase substantially.

*Loan characteristics may differ from descriptions due to permitted variance.* The actual pool of mortgage loans included in the trust may be up to 5% larger or 5% smaller than the pool described in this prospectus. In that event the principal balances of the certificates will be adjusted accordingly. As a result, the characteristics of the mortgage loans actually included in the mortgage pool may differ from the characteristics of the mortgage loans set forth in the discussion and tables in this prospectus.

*Declines in real estate values and mortgaged property values diminish security for mortgage loans.* An overall decline in residential real estate markets could adversely affect the values of the mortgaged properties that secure the mortgage loans. In that event, the outstanding balances of the mortgage loans could equal or exceed the values of the related mortgaged properties. Residential real estate markets in many states have experienced periods of softness and decline in the recent past. We cannot predict, much less quantify, such declines in property values. During a period of property value decline, the rates of delinquencies, foreclosures and losses on the underlying mortgage loans would probably be higher than those experienced in the mortgage lending industry in general. Geographic concentration of the underlying mortgage loans may increase the impact of such market changes.

In addition, the actual value of a mortgaged property may decrease in relation to its appraised value at origination due to numerous other factors including

- a rise in interest rates over time,
- the general condition of the mortgaged property, and
- general employment levels.

If there is a reduction in the value of a mortgaged property, the loan-to-value ratio may increase relative to the original loan-to-value ratio. In that event, it will be less likely that the outstanding balance of the related mortgage loan could be paid in full from liquidation proceeds.

*Collections and obtaining recovery costs may be difficult due to state and federal laws.* Certain states have imposed statutory prohibitions that limit the remedies of a beneficiary under a deed of trust or a mortgagee under a mortgage. In some states, statutes limit the right of the beneficiary or mortgagee to obtain a deficiency judgment against the borrower following foreclosure or sale. (A deficiency judgment is a personal judgment against the borrower generally equal to the difference between the net amount received upon the public sale of the real property and the amount due the lender.) Other statutes require the beneficiary or mortgagee to foreclose in an attempt to satisfy the full debt before bringing a personal action against the borrower. Finally, other statutory provisions limit any deficiency judgment against the borrower following a judicial sale to the excess of the outstanding debt over the fair market value of the property at the time of the public sale. The purpose of these statutes is generally to prevent a beneficiary or a mortgagee from obtaining a large deficiency judgment against the borrower as a result of a low bid, or no bids, at the judicial sale.

Applicable state laws generally regulate interest rates and other charges, require certain disclosures, and require licensing of mortgage loan originators and servicers. In addition, other state laws, public policies and general principles of equity relating to the protection of consumers, unfair and deceptive practices and debt collection practices may apply to the origination, servicing and collection of the mortgage loans. The seller will be required to repurchase any mortgage loans that, at the time of origination, did not comply with applicable federal and state laws and regulations. Depending on the provisions of the applicable law and the factual circumstances, violations of such laws, policies and principles

- may limit the ability of the trust to collect all or part of the principal of or interest on the related mortgage loans,
- may entitle the related borrower to a refund of amounts previously paid, and
- could subject the trust to monetary damages and administrative enforcement.

The mortgage loans also are subject to a number of federal laws, which, if violated, may limit the ability of the master servicer to collect all or part of the principal of or interest on the mortgage loans and, in addition, could subject the trust to monetary damages and administrative enforcement.

Under federal and state environmental legislation and applicable case law, it is unclear whether liability for costs of eliminating environmental hazards on real property may be imposed on a secured lender (such as the trust) acquiring title to the real property. Such costs could be substantial.

In light of these legal factors, the amount of collections on the mortgage loans available for payment to investors could be limited or diminished.

### Additional Risk Factors Affecting Mezzanine Certificates

*Yields affected by realized losses allocated to non-senior classes.* If you are considering an investment in the mezzanine certificates, you also should bear in mind the impact on your yield if any defaulted mortgage loans remain in the trust until the final disposition of the related mortgaged properties. Any realized losses on such loans (other than excess losses) will be allocated to the mezzanine and subordinate certificates in the reverse order of their numerical class designations. The proceeds of the final disposition may be insufficient to pay principal to the mezzanine certificates in an amount equal to the full balance of the related mortgage loan. (For purposes of allocating losses or payments to the mezzanine certificates, the M Class certificates will be deemed to have a lower numerical designation, and to be of a higher payment priority, than the other classes of non-senior certificates.)

If the principal balances of the more junior classes were reduced to zero due to the allocation of realized losses, the yields on the mezzanine certificates would be extremely sensitive to

- the default and realized loss experience on the mortgage loans, and
- the timing of any such defaults or realized losses.

The rights of holders of each class of mezzanine certificates to receive payments will be subordinate to the rights of holders of more senior classes to the extent described in this prospectus. In general, all realized losses and other shortfalls in collections will be allocated:

- first, to the subordinate classes, and
- second, to the mezzanine classes,

in the reverse order of their numerical class designations, until their principal balances are reduced to zero. If, as a purchaser of mezzanine certificates, you calculate your anticipated yield based on your estimates of the rate of default and amount of realized losses on the mortgage loans, and your estimates prove to be less than the level experience, your actual yield may be lower than your anticipated yield. In fact, your actual yield could be negative in the event of substantial realized losses. The timing of realized losses will also affect your actual yield, even if the default rate and amount of realized losses are consistent with your expectations. In general, the earlier a realized loss occurs, the greater the effect on your yield.

No one can predict the delinquency, foreclosure or realized loss experience of the mortgage loans. **Before investing in the mezzanine certificates, you should fully consider the risk that realized losses on the mortgage loans could result in your failure to recover your investment in full.**

*Yields may be affected by disproportionate allocations of prepayments to the senior and mezzanine certificates.* The yields and weighted average lives of the certificates probably will be affected by the disproportionately lower allocation of prepayments to the mezzanine certificates as compared to the senior certificates. This disproportionate allocation will have the effect of accelerating the amortization of the senior certificates while increasing the proportionate interest in the mortgage loans evidenced by the non-senior certificates. This effect is intended to preserve the subordination provided by the non-senior certificates to the senior certificates. The disproportionate allocation of prepayments will cause the principal balances of the mezzanine certificates to decline more slowly than they would if the mezzanine certificates received their proportionate share of principal prepayments. As a result of the disproportionate allocation of prepayments, the average lives of the mezzanine certificates will likely be longer than otherwise would be the case. In addition, the performance characteristics of the mezzanine certificates will be different from those of other mortgage pass-through certificates that do not allocate principal prepayments on mortgage loans disproportionately by certificate class.

*Delinquencies may have an adverse effect on yield.* The yield to maturity on the mezzanine certificates will be affected adversely by delinquencies on mortgage loans that are not covered by a delinquency advance. As further described in this prospectus, amounts otherwise distributable to holders of the mezzanine certificates will be used to protect the holders of the senior certificates against payment interruptions due to certain borrower delinquencies. Such delinquencies, even if subsequently cured, will affect the time when payments are received by holders of the mezzanine certificates. In addition, the rate of principal payments on the certificates would be affected by aggregate realized losses under certain realized loss scenarios, because the senior prepayment percentage would not decrease as scheduled.

## GENERAL

The material under this heading summarizes certain features of the Senior and Mezzanine Certificates. You will find additional information about the Senior and Mezzanine Certificates in the other sections of this Prospectus, as well as in the Information Statement and the Trust Agreement. You will also find additional information about the Senior Certificates in the Senior Supplement. If we use a capitalized term in this Prospectus without defining it, you will find the definition of such term in the Information Statement or in the Trust Agreement.

*Structure.* We, the Federal National Mortgage Association ("Fannie Mae"), a corporation organized and existing under the Federal National Mortgage Association Charter Act (12 U.S.C. 1716 *et seq.*), will create the Fannie Mae REMIC Trust specified on the cover (the "Trust") pursuant to a trust agreement dated as of January 1, 1999 (the "Trust Agreement"). We will execute the Trust Agreement in our corporate capacity and as trustee (the "Trustee"). We will issue the Senior and Mezzanine Certificates pursuant to the Trust Agreement. We will also issue the Subordinate Classes pursuant to the Trust Agreement. Fannie Mae and Countrywide Home Loans, Inc. ("Countrywide"), as seller (the "Seller") and master servicer (the "Master Servicer"), will be parties to a sale and servicing agreement (the "Sale and Servicing Agreement") dated as of January 1, 1999 (the "Issue Date").

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

- The Certificates (other than the R Class) will be "regular interests" in the REMIC.
- The R Class will be the "residual interest," in the Trust.

The assets of the Trust will consist of the Mortgage Loans and will evidence the entire beneficial ownership interest in the payments of principal and interest on the Mortgage Loans.

*Authorized Denominations.* We will issue the Senior Certificates (other than the R Class) in minimum denominations of $1,000 and whole dollar increments above that amount. We will issue the R Class as a single Certificate in a denomination of $100. We will issue the Mezzanine Certificates in minimum denominations of $100,000 and whole dollar increments above that amount.

*Characteristics of Senior and Mezzanine Certificates.* The Certificates, other than the R Class, will be represented by one or more certificates (the "DTC Certificates") to be registered at all times in the name of the nominee of The Depository Trust Company ("DTC"), a New York-chartered limited purpose trust company, or any successor or depository selected or approved by us. We refer to the nominee of DTC as the "Holder" or "Certificateholder" of the Certificates. DTC will maintain the DTC Certificates through its book-entry facilities.

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.

We will issue the R Class in fully registered, certificated form. The "Holder" or "Certificateholder" of the R Class Certificate is its registered owner. The R Class 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 the R Class Certificate and may require payment to cover any tax or other governmental charge. See also "Description of the Senior and Mezzanine Certificates—Special Characteristics of Residual Certificate."

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. State Street will be the initial paying agent.

*Distribution Dates.* We will make monthly payments 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 such date as a "Distribution Date." We will make the first payments to Certificateholders the month after we issue the Certificates.

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

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

*Optional Termination.* Either Fannie Mae or the Master Servicer may terminate the Trust as described under "The Agreements—Termination."

## THE MORTGAGE LOANS

The Seller has provided us with detailed information regarding the Mortgage Loans. We summarize this information below, although we have not verified it. As a result, Fannie Mae does not warrant, and is not responsible for the truth or accuracy of the information.

### General

We expect that the Trust will consist of approximately 2,257 mortgage loans (the "Mortgage Loans") having an aggregate Stated Principal Balance of approximately $250,445,969.49 as of the Issue Date. This aggregate amount may vary by plus or minus 5%. For a description of the underwriting standards governing the origination of the Mortgage Loans, see "—Underwriting Standards" below.

The Mortgage Loans consist of first lien, single-family, fixed-rate, fully amortizing mortgage loans with original terms of from 20 to 30 years. Each Mortgage Loan is evidenced by a promissory note or similar evidence of indebtedness (a "Mortgage Note") that is secured by a first mortgage or deed of trust on a single-family residential property. Each Mortgage Note requires the borrower to make monthly payments of principal and interest. We refer to the property securing repayment of a Mortgage Loan as the "Mortgaged Property."

Each Mortgage Loan provides that the obligor on the related Mortgage Note (the "borrower") must make payments by a scheduled day of each month. This day is fixed at the time of origination. In addition, each Mortgage Loan provides that each borrower must pay interest on its outstanding principal balance at the rate specified or described in the related Mortgage Note. Interest is calculated on the basis of a 360-day year consisting of twelve 30-day months. If a borrower makes a payment earlier or later than the scheduled due date, the amortization schedule will not change, nor will the relative application of such payment to principal and interest.

None of the Mortgage Loans is FHA-insured or VA-guaranteed.

The tables following the second paragraph below summarize certain assumed characteristics of the Mortgage Loans as of the Issue Date. The information in the tables is presented in aggregated form, on the basis of the characteristics specified in the tables, and does not reflect actual or assumed characteristics of any individual Mortgage Loan. The information in the tables does not give effect to prepayments received on the Mortgage Loans on or after the Issue Date.

The "Net Mortgage Rate" for any Mortgage Loan is the mortgage interest rate for such loan, less 0.25% (and less any related Lender PMI). The "Discount Mortgage Loans" are all Mortgage

Loans with Net Mortgage Rates lower than 6.87%. The "Non-Discount Mortgage Loans" are all Mortgage Loans with Net Mortgage Rates equal to or greater than 6.87%.

For any Distribution Date, the "Weighted Average Net Mortgage Rate" for either the Discount Mortgage Loans or the Non-Discount Mortgage Loans as a group is the weighted average of the Net Mortgage Rates of the Mortgage Loans in such group during the preceding calendar month, weighted on the basis of the Stated Principal Balances of such Mortgage Loans immediately before such Distribution Date. The "Weighted Average Age" is the weighted average loan age of the Mortgage Loans.

**Discount Mortgage Loans**

| Principal Balance | Weighted Average Net Mortgage Rate | Weighted Average Mortgage Rate | Weighted Average Age (in months) | WAM (in months) |
|---|---|---|---|---|
| $38,306,115.42 | 6.641393948% | 6.906919460% | 0 | 358 |

**Non-Discount Mortgage Loans**

| Principal Balance | Weighted Average Net Mortgage Rate | Weighted Average Mortgage Rate | Weighted Average Age (in months) | WAM (in months) |
|---|---|---|---|---|
| $212,139,854.07 | 7.529355485% | 7.783421825% | 1 | 358 |

**Statistical Information**

This section outlines certain information about the Mortgage Loans we expect to include in the Mortgage Pool. We may remove Mortgage Loans from the Mortgage Pool and substitute other Mortgage Loans in their place until three business days before the Settlement Date. We believe that the information regarding the Mortgage Pool accurately describes the characteristics of the Mortgage Pool as it will exist at the Settlement Date. Certain characteristics of the Mortgage Loans in the Mortgage Pool may vary, however, at the Settlement Date. Unless we state otherwise, percentage figures (other than interest rates) are approximate percentages based on the Stated Principal Balances of the Mortgage Loans as of the Issue Date.

Each Mortgage Loan was originated after December 1, 1997.

The latest stated maturity date of any Mortgage Loan is January, 2029. The earliest stated maturity date of any Mortgage Loan is September, 2018.

As of the Issue Date, none of the Mortgage Loans was delinquent more than 30 days.

No Mortgage Loan is subject to buydown agreements. No Mortgage Loan provides for deferred interest or negative amortization.

No Mortgage Loan had a Loan-to-Value ratio of more than 95% at origination. Generally, each Mortgage Loan with a Loan-to-Value Ratio greater than 80% at origination is covered by a primary mortgage guaranty insurance policy issued by a mortgage insurance company acceptable either to Fannie Mae or to the Federal Home Loan Mortgage Corporation ("FHLMC"). Each policy provides coverage in an amount equal to a specified percentage multiplied by the sum of (1) the remaining principal balance of the related Mortgage Loan, (2) the accrued interest thereon and (3) the related foreclosure expenses. The specified percentage is 12% for Loan-to-Value Ratios between 80.01% and 85.00%; 25% for Loan-to-Value Ratios between 85.01% and 90.00%; and 30% for Loan-to-Value Ratios between 90.01% and 95.00%. In the case of 12 Mortgage Loans (representing approximately 0.67% of the aggregate Stated Principal Balance as of the Issue Date) that have Loan-to-Value Ratios greater than 80% at origination (the "Lender PMI Mortgage Loans"), the lender, rather than the borrower, obtained the primary mortgage guaranty insurance and charged the borrower an interest premium. The lender retained this interest premium (the "Lender PMI"), which will not be included in the Trust. Except for the Lender PMI Mortgage Loans, no primary mortgage guaranty insurance policy will be required on any Mortgage Loan (i) after the date on which the related Loan-to-Value Ratio is 80% or less or the principal balance of such Mortgage Loan is 80% or less of the appraised value, based on a new appraisal or (ii) if the requirement to maintain such a policy is prohibited by applicable law. The primary mortgage guaranty insurance policy will be maintained for the life of each Lender PMI Mortgage Loan.

The "Loan-to-Value Ratio" of a Mortgage Loan is a fraction, expressed as a percentage, the numerator of which is the principal balance of the related Mortgage Loan at the date of determination and the denominator of which is (a) in the case of a purchase, the selling price of the Mortgaged Property or its appraised value at the time of sale (whichever is less), or (b) in the case of a refinance, the appraised value of the Mortgaged Property at the time of refinance (except in the case of a Mortgage Loan underwritten pursuant to Countrywide's Streamlined Documentation Program, as described under "—Underwriting Standards"). With respect to Mortgage Loans originated pursuant to the Streamlined Documentation Program (a) if the loan-to-value ratio at origination was 90% or less, the "Loan-to-Value Ratio" is the ratio of the principal balance of the Mortgage Loan at the date of determination divided by the appraised value of the related Mortgaged Property at the origination of the mortgage loan being refinanced or (b) if the loan-to-value ratio at origination was greater than 90%, then the "Loan-to-Value Ratio" is the ratio of the principal balance of the Mortgage Loan at the date of determination divided by the appraised value as determined by a limited appraisal report at origination. See "—Underwriting Standards" below. Fannie Mae cannot give any assurance that any Mortgaged Property is still worth what it was when appraised or sold, or that it will continue to be worth such amount. If residential real estate values decline, either generally or in a particular geographic area, the Loan-to-Value Ratios might not reliably predict the rates of delinquencies, foreclosures and losses with respect to such Mortgage Loans.

The "Stated Principal Balance" of a Mortgage Loan (other than a Liquidated Loan) is its unpaid principal balance (or its scheduled unpaid principal balance, in the case of a delinquent Mortgage Loan) as of the Issue Date, reduced by (1) all principal amounts as to that Mortgage Loan that the Master Servicer has received or advanced and previously paid to Certificateholders and (2) the principal portion of any Realized Losses relating to that Mortgage Loan. The Stated Principal Balance of a Liquidated Loan will be deemed to be zero after all Realized Losses relating to the loan have been determined.

The following tables present certain information about the Mortgage Loans as of the Issue Date. When we use the term "Aggregate Principal Balance Outstanding," we mean the aggregate of the

Stated Principal Balances of the related Mortgage Loans as of the Issue Date. Because some of the figures in the tables are rounded, the sums of the percentage columns may not equal 100%.

### Current Mortgage Loan Principal Balances (1)

| Current Mortgage Loan Principal Balances | Number of Mortgage Loans | Aggregate Principal Balance Outstanding | Percent of Mortgage Pool |
|---|---|---|---|
| $ 0–$ 50,000 | 242 | $ 9,261,752.46 | 3.70% |
| $ 50,001–$100,000 | 904 | 67,918,946.57 | 27.12 |
| $100,001–$150,000 | 604 | 74,644,667.71 | 29.80 |
| $150,001–$200,000 | 302 | 52,744,640.71 | 21.06 |
| $200,001–$250,000 | 204 | 45,542,829.63 | 18.18 |
| $300,001–$350,000 | 1 | 333,132.41 | 0.13 |
| Total | 2,257 | $250,445,969.49 | 100.00% |

(1) As of the Issue Date, the average current principal balance for the Mortgage Loans is expected to be approximately $110,964.09.

### Mortgage Rates (1)

| Mortgage Rates (%) | Number of Mortgage Loans | Aggregate Principal Balance Outstanding | Percent of Mortgage Pool |
|---|---|---|---|
| 6.375 | 2 | $ 274,665.67 | 0.11% |
| 6.500 | 8 | 884,280.52 | 0.35 |
| 6.625 | 12 | 1,570,297.62 | 0.63 |
| 6.750 | 49 | 6,666,579.85 | 2.66 |
| 6.875 | 82 | 10,327,704.62 | 4.12 |
| 7.000 | 148 | 18,582,587.14 | 7.42 |
| 7.125 | 101 | 12,861,680.19 | 5.14 |
| 7.250 | 216 | 27,022,353.79 | 10.79 |
| 7.375 | 125 | 15,137,121.56 | 6.04 |
| 7.500 | 303 | 34,913,656.82 | 13.94 |
| 7.625 | 105 | 12,946,923.91 | 5.17 |
| 7.750 | 203 | 23,471,419.07 | 9.37 |
| 7.875 | 198 | 20,722,476.23 | 8.27 |
| 8.000 | 135 | 13,032,411.55 | 5.20 |
| 8.125 | 58 | 5,501,268.81 | 2.20 |
| 8.250 | 122 | 11,142,644.20 | 4.45 |
| 8.375 | 71 | 6,946,528.55 | 2.77 |
| 8.500 | 136 | 12,741,797.95 | 5.09 |
| 8.625 | 52 | 4,588,678.97 | 1.83 |
| 8.750 | 53 | 4,673,869.83 | 1.87 |
| 8.875 | 28 | 2,523,885.86 | 1.01 |
| 9.000 | 50 | 3,913,136.78 | 1.56 |
| Total | 2,257 | $250,445,969.49 | 100.00% |

(1) The Lender PMI Mortgage Loans are shown at the mortgage rates net of the interest premium charged by the related lenders. As of the Issue Date, the weighted average mortgage rate of the Mortgage Loans (as so adjusted) is expected to be approximately 7.644%. Without such adjustment, the weighted average mortgage rate of the Mortgage Loans is expected to be approximately 7.649% per annum.

### Remaining Terms to Stated Maturity (1)

| Remaining Term to Stated Maturity (Months) | Number of Mortgage Loans | Aggregate Principal Balance Outstanding | Percent of Mortgage Pool |
|---|---|---|---|
| 360 | 1,055 | $116,498,094.42 | 46.52% |
| 359 | 673 | 77,902,338.72 | 31.11 |
| 358 | 303 | 33,217,809.06 | 13.26 |
| 357 | 161 | 16,851,973.17 | 6.73 |
| 356 | 23 | 2,378,554.84 | 0.95 |
| 355 | 4 | 349,396.36 | 0.14 |
| 354 | 1 | 152,389.25 | 0.06 |
| 353 | 1 | 139,557.32 | 0.06 |
| 350 | 1 | 32,760.16 | 0.01 |
| 300 | 1 | 79,800.00 | 0.03 |
| 298 | 1 | 169,395.88 | 0.07 |
| 240 | 14 | 1,274,125.00 | 0.51 |
| 239 | 9 | 645,231.36 | 0.26 |
| 238 | 6 | 339,577.23 | 0.14 |
| 237 | 3 | 370,280.15 | 0.15 |
| 236 | 1 | 44,686.57 | 0.02 |
| Total | 2,257 | $250,445,969.49 | 100.00% |

(1) As of the Issue Date, the weighted average remaining term to stated maturity of the Mortgage Loans is expected to be approximately 358 months.

### Original Loan-to-Value Ratios (1)

| Original Loan-to-Value Ratios (%) | Number of Mortgage Loans | Aggregate Principal Balance Outstanding | Percent of Mortgage Pool |
|---|---|---|---|
| 50.00 and below | 107 | $ 11,257,449.00 | 4.49% |
| 50.01 to 55.00 | 39 | 4,228,767.36 | 1.69 |
| 55.01 to 60.00 | 60 | 6,568,417.26 | 2.62 |
| 60.01 to 65.00 | 78 | 9,734,817.14 | 3.89 |
| 65.01 to 70.00 | 165 | 19,237,147.52 | 7.68 |
| 70.01 to 75.00 | 807 | 80,804,440.54 | 32.26 |
| 75.01 to 80.00 | 573 | 76,914,279.44 | 30.71 |
| 80.01 to 85.00 | 65 | 6,526,622.35 | 2.61 |
| 85.01 to 90.00 | 316 | 28,513,737.81 | 11.39 |
| 90.01 to 95.00 | 47 | 6,660,291.07 | 2.66 |
| Total | 2,257 | $250,445,969.49 | 100.00% |

(1) The weighted average original Loan-to-Value Ratio of the Mortgage Loans is expected to be approximately 75.23%.

### Documentation Program for Mortgage Loans (1)

| Type of Program | Number of Mortgage Loans | Aggregate Principal Balance Outstanding | Percent of Mortgage Pool |
|---|---|---|---|
| Full | 689 | $ 70,773,812.44 | 28.26% |
| Alternative | 352 | 32,994,075.62 | 13.17 |
| Reduced | 1,048 | 129,467,059.73 | 51.69 |
| No Income/No Asset | 168 | 17,211,021.70 | 6.87 |
| Total | 2,257 | $250,445,969.49 | 100.00% |

(1) For a description of Countrywide's documentation programs, see "—Underwriting Standards" below.

### Types of Mortgaged Properties

| Property Type | Number of Mortgage Loans | Aggregate Principal Balance Outstanding | Percent of Mortgage Pool |
|---|---|---|---|
| Single Family | 1,583 | $174,916,683.27 | 69.84% |
| Condominium | 116 | 10,890,124.59 | 4.35 |
| High Rise Condo | 6 | 677,297.08 | 0.27 |
| 2-4 Family | 332 | 34,173,016.69 | 13.64 |
| Planned Unit Development | 220 | 29,788,848 | 11.89 |
| Total | 2,257 | $250,445,969.49 | 100.00% |

### Purpose of Mortgage Loans

| Loan Purpose | Number of Mortgage Loans | Aggregate Principal Balance Outstanding | Percent of Mortgage Pool |
|---|---|---|---|
| Purchase | 817 | $ 91,567,438.29 | 36.56% |
| Refinance (rate/term) | 385 | 48,330,996.66 | 19.30 |
| Refinance (cash out) | 1,055 | 110,547,534.54 | 44.14 |
| Total | 2,257 | $250,445,969.49 | 100.00% |

### Occupancy Types (1)

| Occupancy Type | Number of Mortgage Loans | Aggregate Principal Balance Outstanding | Percent of Mortgage Pool |
|---|---|---|---|
| Primary Residence | 1,347 | $172,217,853.23 | 68.76% |
| Investor Property | 876 | 73,882,385.43 | 29.50 |
| Second Residence | 34 | 4,345,730.83 | 1.74 |
| Total | 2,257 | $250,445,969.49 | 100.00% |

(1) Based upon representations of the related borrowers at the time of origination.

### State Distribution of Mortgaged Properties

| State | Number of Mortgage Loans | Aggregate Principal Balance Outstanding | Percent of Mortgage Pool |
|---|---|---|---|
| Arizona | 59 | $ 6,423,942.57 | 2.57% |
| California | 335 | 50,031,851.18 | 19.98 |
| Colorado | 158 | 18,689,523.13 | 7.46 |
| Florida | 149 | 13,396,095.52 | 5.35 |
| Georgia | 59 | 6,875,882.90 | 2.75 |
| Illinois | 78 | 7,821,736.46 | 3.12 |
| Massachusetts | 48 | 5,894,201.12 | 2.35 |
| Michigan | 118 | 10,408,151.75 | 4.16 |
| New Jersey | 74 | 9,851,867.37 | 3.93 |
| New York | 54 | 7,377,264.72 | 2.95 |
| Ohio | 108 | 9,698,314.05 | 3.87 |
| Pennsylvania | 77 | 7,101,761.64 | 2.84 |
| Texas | 144 | 12,217,039.53 | 4.88 |
| Virginia | 46 | 5,965,375.92 | 2.38 |
| Washington | 96 | 12,402,549.13 | 4.95 |
| Other (less than 2%) | 654 | 66,290,412.50 | 26.47 |
| Total | 2,257 | $250,445,969.49 | 100.00% |

### The Master Servicer

Countrywide provided us with the following information:

Countrywide, a New York corporation and a subsidiary of Countrywide Credit Industries, Inc., will act as Master Servicer for the Mortgage Loans under the Sale and Servicing Agreement. Countrywide is engaged primarily in the mortgage banking business, and originates, buys, sells and services mortgage loans. Countrywide originates mortgage loans nationwide, using a retail branch system and mortgage loan brokers and correspondents. Countrywide's mortgage loans are mostly first-lien, fixed or adjustable rate mortgage loans secured by single-family residences.

As of November 30, 1998, Countrywide serviced approximately $205.4 billion aggregate principal amount of mortgage loans. Countrywide services substantially all these loans for persons unaffiliated with Countrywide.

The principal executive offices of Countrywide are located at 4500 Park Granada, Calabasas, California 91302.

### Foreclosure and Delinquency Experience

The following table summarizes the delinquency and foreclosure experience of conventional mortgage loans that the Master Servicer either serviced or master serviced. The delinquency and foreclosure percentages may be affected by the size and relative lack of seasoning of the servicing portfolio, which increased from approximately $113.1 billion at February 28, 1995, to approximately $136.8 billion at February 29, 1996, to approximately $158.6 billion at February 28, 1997, to approximately $182.9 billion at February 25, 1998 and to approximately $205.4 billion at November 30, 1998. Accordingly, you should not use this information to assess the likelihood, amount or severity of delinquency or losses on the Mortgage Loans. We cannot promise you that the foreclosure and delinquency experience on the Mortgage Loans will be similar to the figures in the table.

| | At February 28 (29), | | | | At November 30, |
|---|---|---|---|---|---|
| | 1995 | 1996 | 1997 | 1998 | 1998 |
| Delinquent Mortgage Loans and Pending Foreclosures at Period End(1): | | | | | |
| 30-59 days | 1.80% | 2.13% | 2.26% | 2.68% | 3.03% |
| 60-89 days | 0.29 | 0.48 | 0.52 | 0.58 | 0.24 |
| 90 days or more (excluding pending foreclosures) | 0.42 | 0.59 | 0.66 | 0.65 | 0.34 |
| Total of delinquencies | 2.51% | 3.20% | 3.44% | 3.91% | 3.61% |
| Foreclosures pending | 0.29% | 0.49% | 0.71% | 0.45% | 0.36% |
| Total delinquencies and foreclosures pending | 2.80% | 3.69% | 4.15% | 4.36% | 3.97% |

(1) As a percentage of the total number of loans serviced (excluding loans subserviced for others).

## Underwriting Standards

Countrywide provided us with the following information (other than the last sentence under "—General"):

### *General*

All mortgage loans must meet credit, appraisal and underwriting standards acceptable to Countrywide. Countrywide applies its underwriting standards in accordance with applicable federal and state laws and regulations.

In certain cases, including in the case of mortgage loans originated through a loan correspondent or mortgage broker, a third party may obtain the data that Countrywide uses in its underwriting analysis. In such cases, an independent company hired to perform underwriting services on behalf of Countrywide, the loan correspondent or the mortgage broker may determine whether a mortgage loan complies with Countrywide's underwriting guidelines. In addition, under certain circumstances, Countrywide may acquire mortgage loans from approved correspondent lenders under a program where Countrywide delegates to the correspondent the obligation to underwrite the mortgage loans using Countrywide's standards. Under these circumstances, Countrywide might not review the underwriting of a mortgage loan before acquiring it. After buying mortgage loans under such circumstances, Countrywide conducts a quality control review of a sample of such mortgage loans. The number of loans that Countrywide reviews in the quality control process depends on a variety of factors, including Countrywide's prior experience with the correspondent lender and the results of the quality control review process itself.

Countrywide's underwriting standards are designed to evaluate the prospective borrower's credit standing and ability to repay, and to assess whether the mortgaged property has adequate value as collateral. A prospective borrower must show that the ratio of the borrower's monthly housing expenses (including principal and interest on the proposed mortgage loan and any related monthly portion of property taxes, hazard insurance and mortgage insurance) to the borrower's monthly gross income, as well as the ratio of total monthly debt to the monthly gross income (the "debt-to-income" ratios) are within certain limits. If the prospective borrower has applied for an adjustable rate loan and the Loan-to-Value Ratio is less than or equal to 75%, the interest component of the monthly housing expense is calculated based on the initial loan interest rate. If the Loan-to-Value Ratio exceeds 75%, the interest component of the monthly housing expense is calculated based on the maximum possible interest rate payable in the second year of the mortgage loan. Countrywide determines the maximum acceptable debt-to-income ratio on a loan-by-loan basis, depending on a number of underwriting criteria, including the Loan-to-Value Ratio, loan purpose, loan amount and credit history of the borrower. Each prospective borrower also must have enough cash to pay the down payment and closing costs. If a prospective borrower demonstrates compensating factors, Countrywide may make certain exceptions to its underwriting guidelines.

Countrywide uses different documentation programs in originating mortgage loans. The documentation program determines, in part, what information a borrower must disclose and whether Countrywide will verify such information. Under the Full Documentation Loan Program (the "Full Documentation Program"), each prospective borrower completes an application including information about the applicant's assets, liabilities, income, credit history, employment history and other personal information. Self-employed borrowers submit their two most recent federal income tax returns. Under the Full Documentation Program, the underwriter verifies the information relating to employment, income, assets or mortgages.

A prospective borrower may be eligible for one of the following Countrywide documentation programs instead of the Full Documentation Program: (1) an Alternative Documentation Loan Program (the "Alternative Documentation Program"), (2) a Reduced Documentation Loan Program (the "Reduced Documentation Program"), (3) a No Income/No Asset Documentation Loan Program (the "No Income/No Asset Documentation Program") and (4) a Streamlined Documentation Loan Program (the "Streamlined Documentation Program").

Countrywide obtains a credit report on the applicant from a credit reporting company. The credit report typically contains information about such matters as credit history with local and national merchants and lenders, installment debt payments and any record of defaults, bankruptcy, dispossession, suits or judgments. The prospective borrower must explain all adverse information in the credit report until the lending officer is satisfied.

Except in its Streamlined Documentation Program (described below), Countrywide obtains appraisals from independent appraisers or appraisal services for properties intended to secure mortgage loans. Such appraisers inspect and appraise the proposed mortgaged property and verify that such property is in acceptable condition. After each appraisal, the appraiser prepares a report including a market data analysis based on recent sales of comparable homes in the area and, when appropriate, a replacement cost analysis based on the current cost of constructing a similar home. All appraisals must conform to Fannie Mae or FHLMC appraisal standards then in effect. A Countrywide underwriter reviews every independent appraisal before approving the loan.

Countrywide requires title insurance on all mortgage loans secured by first liens on real property. Countrywide also requires that the borrower maintain fire and extended coverage casualty insurance on the mortgaged property in an amount at least equal to the principal balance of the related single-family mortgage loan or the replacement cost of the mortgaged property, whichever is less.

In addition to Countrywide's standard underwriting guidelines (the "Standard Underwriting Guidelines"), which are consistent in many respects with the guidelines applied to mortgage loans purchased by Fannie Mae and FHLMC, Countrywide also uses underwriting guidelines featuring expanded criteria (the "Expanded Underwriting Guidelines"). The Standard Underwriting Guidelines and the Expanded Underwriting Guidelines are described below. All of the Mortgage Loans were underwritten pursuant to the Expanded Underwriting Guidelines; none of the Mortgage Loans were underwritten pursuant to the Standard Underwriting Guidelines. We have included certain information about the Standard Underwriting Guidelines only to help you understand the Expanded Underwriting Guidelines. The principal balances of the Mortgage Loans do not exceed those permitted under Fannie Mae's charter.

***Standard Underwriting Guidelines***

Countrywide's Standard Underwriting Guidelines generally allow Loan-to-Value Ratios of up to (a) 95% at origination for purchase money or rate and term refinance mortgage loans with original principal balances of up to $300,000, (b) 90% for mortgage loans with original principal balances of up to $400,000, (c) up to 85% for mortgage loans with original principal balances of up to $500,000,

(d) up to 80% for mortgage loans with original principal balances of up to $650,000, (e) up to 75% for mortgage loans with original principal balances of up to $750,000 and (f) up to 70% for mortgage loans with original principal balances of up to $1,000,000.

For cash-out refinance mortgage loans with original principal balances of up to $650,000, Countrywide's Standard Underwriting Guidelines allow Loan-to-Value Ratios of up to 75% at origination. The maximum "cash-out" amount permitted is $150,000 and is based in part on the original Loan-to-Value Ratio of the related mortgage loan. Countrywide classifies a refinance mortgage loan as a cash-out refinance mortgage loan if the borrower retains more than 1.0% of the entire amount of the proceeds from refinancing the existing loan.

Under its Standard Underwriting Guidelines, Countrywide permits a debt-to-income ratio based on the borrower's monthly housing expenses of up to 33% and a debt-to-income ratio based on the borrower's total monthly debt of up to 38%.

In connection with the Standard Underwriting Guidelines, Countrywide originates or acquires mortgage loans under the Full Documentation Program, the Alternative Documentation Program, the Reduced Documentation Program or the Streamlined Documentation Program.

The Alternative Documentation Program permits a borrower to provide W-2 forms instead of tax returns covering the most recent two years, permits bank statements in lieu of verification of deposits and permits alternative methods of employment verification. Mortgage loans originated under the Alternative Documentation Program may be eligible for sale to Fannie Mae or FHLMC.

Under the Reduced Documentation Program, Countrywide waives certain underwriting documentation concerning income and employment verification. The prospective borrower gives Countrywide either a verification of deposit or bank statements for the two-month period immediately prior to the date of the mortgage loan application. Since Countrywide does not verify the prospective borrower's income and employment, Countrywide calculates such borrower's debt-to-income ratios based on the information in the mortgage loan application. The maximum Loan-to-Value Ratio (including secondary financing) ranges up to a maximum of 70%.

The Streamlined Documentation Program can be used by borrowers refinancing an existing Countrywide mortgage loan as long as, among other things, such mortgage loan has not been more than 30 days delinquent during the previous twelve-month period. Under the Streamlined Documentation Program, Countrywide obtains an appraisal only if the loan being refinanced had a Loan-to-Value Ratio at origination in excess of 90%. Countrywide obtains a credit report but only conducts a limited credit review. Countrywide does not require income or asset verification, and permits telephone verification of employment. The maximum Loan-to-Value Ratio under the Streamlined Documentation Program ranges up to 95%.

***Expanded Underwriting Guidelines***

Mortgage loans underwritten pursuant to the Expanded Underwriting Guidelines may have higher Loan-to-Value Ratios, higher loan amounts and different documentation requirements than mortgage loans under the Standard Underwriting Guidelines. The Expanded Underwriting Guidelines also permit higher debt-to-income ratios.

Countrywide's Expanded Underwriting Guidelines allow Loan-to-Value Ratios of up to (a) 95% at origination for purchase money or rate and term refinance mortgage loans with original principal balances of up to $300,000, (b) up to 90% for mortgage loans with original principal balances of up to $400,000, (c) up to 85% for mortgage loans with original principal balances of up to $500,000, (d) up to 80% for mortgage loans with original principal balances of up to $650,000, (e) up to 70% for mortgage loans with original principal balances of up to $750,000, (f) up to 65% for mortgage loans with original principal balances of up to $1,000,000 and (g) up to 70% for mortgage loans with original principal balances of up to $3,000,000.

For cash-out refinance mortgage loans with original principal balances of up to $3,000,000, Countrywide's Expanded Underwriting Guidelines allow Loan-to-Value Ratios of up to 90% at origination. The maximum ''cash-out'' amount permitted is $600,000 and is based in part on the original Loan-to-Value Ratio of the related mortgage loan.

Under its Expanded Underwriting Guidelines, Countrywide generally permits a debt-to-income ratio based on the borrower's monthly housing expenses of up to 36% and a debt-to-income ratio based on the borrower's total monthly debt of up to 40%. If the Loan-to-Value Ratio exceeds 80%, however, Countrywide reduces such ratios to 33% and 38%.

In connection with the Expanded Underwriting Guidelines, Countrywide originates or acquires mortgage loans under the Full Documentation Program, the Alternative Documentation Program, the Reduced Documentation Program and the No Income/No Asset Documentation Program. The No Income/No Asset Documentation Program is not available under the Standard Underwriting Guidelines.

Countrywide requires the same documentation and verification on all mortgage loans under the Alternative Documentation Program, regardless of whether the loan is underwritten under the Expanded Underwriting Guidelines or the Standard Underwriting Guidelines. However, under the Alternative Documentation Program, mortgage loans under the Expanded Underwriting Guidelines may have higher loan balances and Loan-to-Value Ratios than those under the Standard Underwriting Guidelines.

Similarly, Countrywide requires the same documentation and verification requirements on all mortgage loans under the Reduced Documentation Program, regardless of whether the loan is underwritten under the Expanded Underwriting Guidelines or the Standard Underwriting Guidelines. However, under the Reduced Documentation Program, mortgage loans under the Expanded Underwriting Guidelines may have higher loan balances and Loan-to-Value Ratios than those under the Standard Underwriting Guidelines. The maximum Loan-to-Value Ratio (including secondary financing) ranges up to 90%. Countrywide does not require any income information in connection with certain mortgage loans originated under the Reduced Documentation Program. Accordingly debt-to-income ratios are not calculated or included in the underwriting analysis for such loans. With respect to such loans, the maximum Loan-to-Value Ratio (including secondary financing) ranges up to 80%.

Under the No Income/No Asset Documentation Program, Countrywide requires no documentation relating to a prospective borrower's income, employment or assets. Therefore, Countrywide does not calculate debt-to-income ratios or include them in the underwriting analysis (or if the mortgage loan file contains such documentation or calculations, Countrywide does not take them into account for the underwriting analysis). This program is limited to borrowers with excellent credit histories. Under the No Income/No Asset Documentation Program, the maximum Loan-to-Value Ratio (including secondary financing) ranges up to 75%.

We expect that Mortgage Loans originated under either the No Income/No Asset Documentation Program or the Reduced Documentation Program pursuant to which debt-to-income ratios are not calculated as described above will comprise approximately 23.33% of the Mortgage Pool.

Under the Expanded Underwriting Guidelines, Countrywide may also lend mortgage funds to borrowers who are not U.S. citizens, including permanent and non-permanent residents. Countrywide requires the borrower to have a valid U.S. social security number or a certificate of foreign status (IRS form W-8). Countrywide must verify the borrower's income and assets under the Full Documentation Program or the Alternative Documentation Program. The maximum Loan-to-Value Ratio (including secondary financing) is 80%.

## DESCRIPTION OF THE SENIOR AND MEZZANINE CERTIFICATES

### General

The REMIC Pass-Through Certificates for the Trust will consist of:

- four classes of guaranteed senior certificates designated as the R Class (the "Residual Class"), the A Class, the PO Class and the X Class (the "Senior Classes"),
- three classes of mezzanine certificates designated as the M, B-1 and B-2 Classes (the "Mezzanine Classes"), and
- three classes of subordinate certificates designated as the B-3, B-4 and B-5 Classes (the "Subordinate Certificates" or "Subordinate Classes." We refer to the Mezzanine and Subordinate Classes together as the "Non-Senior Classes.") Fannie Mae does not guarantee the Mezzanine Classes or the Subordinate Classes. The Senior Classes, the Mezzanine Classes and the Subordinate Classes (collectively, the "Classes" or the "Certificates") in the aggregate represent the entire beneficial ownership interest in the Trust.

The initial aggregate principal balance of the Senior Classes will be approximately $234,292,204 and will initially evidence an undivided ownership interest of approximately 93.55% in the Mortgage Loans. The initial aggregate principal balance of the Mezzanine Classes will be approximately $12,647,520 and will initially evidence an undivided ownership interest of approximately 5.05% in the Mortgage Loans. The initial aggregate principal balance of the Subordinate Classes will be approximately $3,506,245 and will initially evidence an undivided ownership interest of approximately 1.40% in the Mortgage Loans. Only the Senior and Mezzanine Classes are being offered by this prospectus and, in the case of the Senior Classes, the Senior Supplement. We will issue the Subordinate Classes to the Dealer on the Settlement Date, and the Dealer may sell them at any time thereafter in limited private offerings.

### Book-Entry Procedures

*General.* The DTC Certificates will be registered at all times in the name of the nominee of DTC. Under its normal procedures, DTC will record the amount of DTC Certificates held by each firm which participates in the book-entry system of DTC (each, a "DTC Participant"), whether held for its own account or on behalf of another person. Initially, State Street Bank and Trust Company ("State Street") will act as paying agent for the DTC Certificates. State Street will also perform certain administrative functions in connection with the DTC Certificates.

A "beneficial owner" or an "investor" is anyone who acquires a beneficial ownership interest in the DTC Certificates. As an investor, you will not receive a physical certificate. Instead, your interest will be recorded on the records of the brokerage firm, bank, thrift institution or other financial intermediary (a "financial intermediary") that maintains an account for you. In turn, the record ownership of the financial intermediary that holds your DTC Certificates will be recorded by DTC. If the intermediary is not a DTC Participant, the record ownership of the intermediary will be recorded by a DTC Participant acting on its behalf. Therefore, you must rely on these various arrangements to transfer your beneficial ownership interest in the DTC Certificates only under the procedures of your financial intermediary and of DTC Participants. In general, ownership of DTC Certificates will be subject to the prevailing rules, regulations and procedures governing the DTC and DTC Participants.

*Method of Payment.* State Street will direct payments on the DTC Certificates to DTC in immediately available funds. In turn, DTC will credit the payments to the accounts of the appropriate DTC Participants, in accordance with the DTC's procedures. These procedures currently provide for payments made in same-day funds to be settled through the New York Clearing House. DTC Participants and financial intermediaries will direct the payments to the investors in DTC Certificates that they represent.

### Certificated Class

We will issue the R Class in fully registered, certificated form and not in book-entry form. The "Holder" or "Certificateholder" of the R Class is its registered owner. The R Certificate can be transferred at the corporate trust office of our transfer agent. We may impose a service charge for any registration of transfer of an R Certificate and may require payment to cover any tax or other governmental charge.

### Payments on the Senior and Mezzanine Certificates

This section describes the payments of interest and principal that we will make on the Certificates. We define certain capitalized terms used in this section in "—Certain Definitions Relating to Payments on the Certificates" below. See also "Index to Defined Terms."

*Categories of Classes—Interest.* For the purpose of interest payments, the Senior Classes will be categorized as follows:

| Interest Type* | Classes |
|---|---|
| Fixed Rate | A and R |
| Principal Only | PO |
| Weighted Average Coupon/Interest Only | X |

* See "—Class Definitions and Abbreviations" below.

*Interest Calculation.* We will pay interest on the Senior and Mezzanine Certificates at the applicable annual interest rates shown on the cover or described in this prospectus. 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.

When we use the term Senior Interest Distribution Amount, we mean the interest that we will pay on the Classes of Senior Certificates on each Distribution Date. When we use the term Non-Senior Interest Distribution Amount, we mean the interest that we will pay on the Classes of Non-Senior Certificates on each Distribution Date. We will allocate Uncovered Prepayment Interest Shortfalls, pro rata, among all interest-bearing Classes of Certificates, based on the amount of interest accrued on those Classes. We describe the Senior Interest Distribution Amount and the Non-Senior Interest Distribution Amount in "—Certain Definitions Relating to Payments on the Certificates" below.

*Interest Accrual Period.* Interest to be paid on each Distribution Date will accrue on the interest bearing Classes of Certificates (the "Delay Classes") during the calendar month preceding the month in which the Distribution Date occurs (the "Interest Accrual Period"). See "Risk Factors—*Delay classes have lower yields and market values.*"

We will treat the PO Class as a Delay Class solely for the purpose of facilitating trading.

*Notional Class.* The X Class will be a Notional Class. The Notional Class will have no principal balance. During each Interest Accrual Period, the Notional Class will bear interest on its notional balance at a per annum rate equal to the weighted average (weighted by the related Stated Principal Balances) of the Net Mortgage Rate of each Non-Discount Mortgage Loan minus 6.87% for each Interest Accrual Period. The notional principal balance of the Notional Class will equal 100% of the aggregate Stated Principal Balance of the Non-Discount Mortgage Loans.

We use the notional principal balance of a Notional Class to determine interest payments on that Class. Although a Notional Class will not have a principal balance and will not be entitled to any principal payments, we will publish a class factor for that Class. References in this prospectus and the Senior Supplement to the principal balances of the Certificates generally shall refer also to the notional principal balance of the Notional Class.

*Categories of Classes—Principal.* For the purpose of principal payments, the Senior Classes will be categorized as follows:

| Principal Type* | Classes |
|---|---|
| Sequential Pay | A and R |
| Pass-Through | PO |
| Notional | X |

* See "—Class Definitions and Abbreviations."

*Principal Calculation.* The outstanding principal balance of any Certificate at any time is the maximum amount that the Holder will be entitled to receive thereafter as principal from the cash flow on the Mortgage Loans. When we use the term "Non-Senior Principal Distribution Amount," we mean the principal that is to be paid on the Classes of Non-Senior Certificates on each Distribution Date. The outstanding principal balance of any Certificate as of any date of determination is equal to the initial outstanding principal balance of that Certificate, reduced by (a) all amounts previously paid as principal on that Certificate and (b) in the case of Non-Senior Certificate, all amounts relating to Realized Losses on the Mortgage Loans that were allocated to principal of that Certificate, as described below. See "—Certain Definitions Relating to Payments on the Certificates."

*Payment Priorities.* First, we will use Available Funds to pay interest and principal on the Senior Certificates. We then will use Remaining Available Funds to pay interest and principal on the Non-Senior Certificates. On each Distribution Date, we will make payments relating to the Certificates in the following order of priority:

(i) to the Senior Classes (other than the PO Class), the Senior Interest Distribution Amount for that Distribution Date;

(ii) sequentially, to the R and A Classes, in that order, the Senior Principal Distribution Amount for that Distribution Date, until their respective Class balances are reduced to zero;

(iii) to the PO Class, the PO Class Principal Distribution Amount for that Distribution Date, until its Class balance is reduced to zero;

(iv) to pay certain expenses and taxes imposed on the Trust or its assets and certain other tax-related expenses of the Trust, and to reimburse us for any guaranty payments that we made previously in respect of the Senior Certificates;

(v) to the M Class, its Interest Distribution Amount for that Distribution Date;

(vi) to the M Class, its Principal Distribution Amount for that Distribution Date, until its Class balance is reduced to zero;

(vii) to the B-1 Class, its Interest Distribution Amount for that Distribution Date;

(viii) to the B-1 Class, its Principal Distribution Amount for that Distribution Date, until its Class balance is reduced to zero;

(ix) to the B-2 Class, its Interest Distribution Amount for that Distribution Date;

(x) to the B-2 Class, its Principal Distribution Amount for that Distribution Date, until its Class balance is reduced to zero;

(xi) to the B-3 Class, its Interest Distribution Amount for that Distribution Date;

(xii) to the B-3 Class, its Principal Distribution Amount for that Distribution Date, until its Class balance is reduced to zero;

(xiii) to the B-4 Class, its Interest Distribution Amount for that Distribution Date;

(xiv) to the B-4 Class, its Principal Distribution Amount for that Distribution Date, until its Class balance is reduced to zero;

(xv) to the B-5 Class, its Interest Distribution Amount for that Distribution Date; and

(xvi) to the B-5 Class, its Principal Distribution Amount for that Distribution Date, until its Class balance is reduced to zero.

We will pay principal prepayments (including net liquidation proceeds) on each Distribution Date, as long as the Master Servicer gives us information about them in time for the published class factors to reflect these payments. See "Reference Sheet—*Class Factors*". If we do not receive the information on time, we will pay the prepayments on the next Distribution Date. For purposes of payments, we consider a Mortgage Loan to be a "Liquidated Loan" if the Master Servicer concludes that the full amount finally recoverable on account of that Mortgage Loan has been received, whether or not this amount is equal to the principal balance of the Mortgage Loan.

**Certain Definitions Relating to Payments on the Certificates**

*Available Funds*—The aggregate amount available on any Distribution Date to pay the Holders of the Certificates, which shall equal the following:

(i) all scheduled payments on the Mortgage Loans due during the related Due Period and received by the last day of the related Prepayment Period, **plus**

(ii) prepayments, net liquidation proceeds and other unscheduled collections received on the Mortgage Loans during the immediately preceding Prepayment Period, **plus**

(iii) any Delinquency Advances the Master Servicer makes for that Distribution Date with respect to late payments that the Master Servicer believes it will be able to recover from the related Mortgagors, **plus**

(iv) guaranty payments by Fannie Mae in respect of Excess Losses allocated to the Senior Classes, **minus**

(v) certain amounts, including Servicing Advances and Delinquency Advances, reimbursable to the Master Servicer.

*Bankruptcy Code*—The federal bankruptcy code, Title 11 of the United States Code, Section 101 *et seq.*, and the related rules and regulations promulgated thereunder.

*Debt Service Reduction*—For any Mortgage Loan, a court-ordered reduction in the scheduled monthly payment for that Mortgage Loan, issued by a court of competent jurisdiction in a proceeding under the Bankruptcy Code. After the court's final, non-appealable decision, we shall deem each Realized Loss associated with a Debt Service Reduction to be incurred on each Distribution Date, based upon the reduced payments received during the related Due Period on the related Mortgage Loan.

*Deficient Valuation*—For any Mortgage Loan, a valuation of the related Mortgaged Property in an amount less than the then outstanding principal balance of that Mortgage Loan, issued by a court of competent jurisdiction in a proceeding under the Bankruptcy Code. We will not determine the Deficient Valuation or apply it as a Realized Loss until the court renders a final, non-appealable decision with respect to the valuation.

*Due Date*—For any Distribution Date, the first day of the calendar month in which that Distribution Date occurs.

*Due Period*—For any Distribution Date, the period beginning on the second day of the month immediately preceding the month in which that Distribution Date occurs and ending on the first day of the month in which that Distribution Date occurs.

*Interest Distribution Amount*—For any Distribution Date, the interest we will pay on each Non-Senior Class. This interest will consist of one month's interest at the applicable rate on the outstanding principal balance of that Class, less the Uncovered Prepayment Interest Shortfalls allocated to that Class.

*Mezzanine Termination Date*—The Distribution Date on which the aggregate principal balance of the Mezzanine and Subordinate Classes is reduced to zero.

*Non-PO Percentage*—For any Discount Mortgage Loan, the related Net Mortgage Rate ÷ 6.87%. The Non-PO Percentage with respect to any Non-Discount Mortgage Loan will be 100%.

*Non-Senior Interest Distribution Amount*—For any Distribution Date, the interest we will pay on the Classes of Non-Senior Certificates, which will equal the sum of:

(i) one month's interest at the applicable rate on the outstanding principal balances of those Classes less the Uncovered Prepayment Interest Shortfalls allocated to those Classes, **plus**

(ii) any interest remaining unpaid from previous Distribution Dates with respect to those Classes (excluding (a) any additional interest on the unpaid amount and (b) any Realized Losses allocated as described under "—Allocation of Losses").

*Non-Senior Principal Distribution Amount*—For any Distribution Date, the sum of the following amounts for all Mortgage Loans:

(i) the Subordinate Percentage of the applicable Non-PO Percentage for that Distribution Date of the following:

(a) all monthly payments of principal due on each Mortgage Loan during the related Due Period, **plus**

(b) the principal portion of the purchase price of each Mortgage Loan that Fannie Mae or the Seller repurchases with respect to that Distribution Date, **plus**

(c) the Substitution Adjustment Amount in connection with any Mortgage Loan received with respect to that Distribution Date, **plus**

(d) any insurance proceeds or net liquidation proceeds received during the related Prepayment Period that are allocable to recoveries of principal of Mortgage Loans that are not yet Liquidated Loans, **plus**

(ii) for each Mortgage Loan that became a Liquidated Loan during the related Prepayment Period, the applicable Non-PO Percentage of the net liquidation proceeds allocable to principal of that Mortgage Loan, after applying the amounts described in clause (ii) of the definition of Senior Principal Distribution Amount, up to the Subordinate Percentage of the applicable Non-PO Percentage of the Stated Principal Balance of that Mortgage Loan; **plus**

(iii) the Subordinate Prepayment Percentage of the applicable Non-PO Percentage of all partial and full principal prepayments by borrowers on all such Mortgage Loans received during the related Prepayment Period.

*Original Non-Senior Principal Balance*—The aggregate outstanding principal balance of the Non-Senior Classes as of the Issue Date.

*PO Class Principal Distribution Amount*—For any Distribution Date, the sum of the following amounts:

(i) the applicable PO Percentage of the sum of the following:

(a) all monthly payments of principal due on each Discount Mortgage Loan during the related Due Period, **plus**

(b) the principal portion of the purchase price of each Discount Mortgage Loan that Fannie Mae or the Seller repurchased with respect to that Distribution Date, **plus**

(c) the Substitution Adjustment Amount received with respect to that Distribution Date in connection with any Discount Mortgage Loan, **plus**

(d) any insurance proceeds or net liquidation proceeds received during the related Prepayment Period that are allocable to recoveries of principal of Discount Mortgage Loans that are not yet Liquidated Loans, **plus**

(e) for each Discount Mortgage Loan that became a Liquidated Loan during the related Prepayment Period, the amount of net liquidation proceeds received with respect to that Mortgage Loan that are allocable to principal, **plus**

(f) all partial and full principal prepayments by borrowers on Discount Mortgage Loans received during the related Prepayment Period, **plus**

(g) all Excess Losses in respect of Discount Mortgage Loans; **plus**

(ii) on the Mezzanine Termination Date, all PO Deferred Amounts that were not paid to Holders of the PO Class on or before the Mezzanine Termination Date; **plus**

(iii) on each Distribution Date after the Mezzanine Termination Date, all Realized Losses (other than Excess Losses) allocated to the PO Class on that Distribution Date.

*PO Percentage*—For any Discount Mortgage Loan, (6.87% − the related Net Mortgage Rate) ÷ 6.87%. The PO Percentage with respect to any Non-Discount Mortgage Loan will be 0%.

*Prepayment Interest Shortfall*—For any Mortgage Loan with respect to which the related borrower made a prepayment of principal to the Master Servicer during a calendar month, an amount equal to:

(i) one full month's interest on the principal balance of that Mortgage Loan (before applying the prepayment), **minus**

(ii) the interest that the related borrower paid on that Mortgage Loan in respect of that calendar month.

*Prepayment Period*—For any Distribution Date, the period from and including the 16th day of the month before the month in which such Distribution Date occurs to and including the 15th day of the month in which such Distribution Date occurs.

*Principal Distribution Amount*—For any Class of Non-Senior Certificates and each Distribution Date, *the* **lesser** of the following amounts:

(a) that Class's pro rata portion (based on the ratio of the principal balance of that Class to the aggregate principal balance of all the Non-Senior Classes immediately before that Distribution Date) of the Non-Senior Principal Distribution Amount for that Distribution Date, **or**

(b) the portion of Remaining Available Funds available for payment using the distribution priority described under "Payments on the Senior and Mezzanine Certificates—*Payment Priorities*" above, **less** the portion of the PO Deferred Amounts allocated to such Class (if any), first to the Non-Senior Certificates, in the reverse order of their numerical Class designations (beginning with the Class of outstanding Non-Senior Certificates with the highest numerical Class designation), in each case until the principal balance of that Class is reduced to zero, and as further adjusted to reflect any Prepayment Reallocation Amount.

*Realized Loss*—In general:

(i) as to any Liquidated Loan, its Stated Principal Balance as of the date of liquidation *minus* the principal portion of net liquidation proceeds realized on it,

(ii) for each Mortgage Loan that has received a Deficient Valuation, the difference between the Stated Principal Balance of the Mortgage Loan immediately before the Deficient Valuation and the outstanding principal balance of the Mortgage Loan as reduced by the Deficient Valuation, and

(iii) for each Mortgage Loan that has received a Debt Service Reduction, the aggregate of the reduction in all monthly payments attributable to the court-ordered reduction of the mortgage payment.

*Remaining Available Funds*—The aggregate amount of Available Funds remaining on any Distribution Date to pay Holders of the Non-Senior Certificates, after:

(i) we have paid interest and principal on the Senior Certificates, **and**

(ii) we have been reimbursed for certain unreimbursed guaranty payments on the Senior Certificates, as well as for any expenses we have incurred in connection with a legal action or proceeding relating to the Trust Agreement.

*Senior Interest Distribution Amount*—Interest we will pay on the Senior Classes on each Distribution Date. This interest will consist of one month's interest at the applicable rate on the outstanding principal balances of those Classes, less the Uncovered Prepayment Interest Shortfalls allocated to those Classes.

*Senior Percentage*—For any Distribution Date, **the lesser of**

(i) 100%, **or**

(ii) the percentage equivalent of a fraction, the numerator of which is the aggregate principal balance of the Senior Classes (other than the PO Class) immediately before that Distribution Date, and the denominator of which is the sum of the applicable Non-PO Percentages of the Stated Principal Balance of each Mortgage Loan as of the Due Date in the month of that Distribution Date.

*Senior Prepayment Percentage*—For any Distribution Date we will determine it as follows (except as described below):

| Distribution Date | Senior Prepayment Percentage |
|---|---|
| February 1999 through January 2004 | 100% |
| February 2004 through January 2005 | the Senior Percentage plus 70% of the Subordinate Percentage |
| February 2005 through January 2006 | the Senior Percentage plus 60% of the Subordinate Percentage |
| February 2006 through January 2007 | the Senior Percentage plus 40% of the Subordinate Percentage |
| February 2007 through January 2008 | the Senior Percentage plus 20% of the Subordinate Percentage |
| February 2008 and thereafter | the Senior Percentage |

**Exceptions:**

(A) If on any Distribution Date the Senior Percentage exceeds the initial Senior Percentage, the Senior Prepayment Percentage for such Distribution Date will equal 100%.

(B) In addition, the Senior Prepayment Percentage will not decrease unless **both** of the following conditions are satisfied:

(i) the outstanding principal balance of all Mortgage Loans delinquent 60 days or more (averaged over the preceding six-month period) does not equal or exceed 50% of the aggregate outstanding principal balance of the Non-Senior Classes, **and**

(ii) cumulative Realized Losses with respect to the Mortgage Loans do not exceed:

(a) with respect to the Distribution Date falling on or after the fifth anniversary of the first Distribution Date, 30% of the Original Non-Senior Principal Balance,

(b) with respect to the Distribution Date falling on or after the sixth anniversary of the first Distribution Date, 35% of the Original Non-Senior Principal Balance,

(c) with respect to the Distribution Date falling on or after the seventh anniversary of the first Distribution Date, 40% of the Original Non-Senior Principal Balance,

(d) with respect to the Distribution Date falling on or after the eighth anniversary of the first Distribution Date, 45% of the Original Non-Senior Principal Balance, and

(e) with respect to the Distribution Date falling on or after the ninth anniversary of the first Distribution Date, 50% of the Original Non-Senior Principal Balance.

*Senior Principal Distribution Amount*—For any Distribution Date, the sum of the following amounts:

(i) the Senior Percentage of the sum of the Non-PO Percentage for that Distribution Date of the following:

(a) all monthly payments of principal due on each Mortgage Loan during the related Due Period, **plus**

(b) the principal portion of the purchase price of each Mortgage Loan that Fannie Mae or the Seller repurchases with respect to that Distribution Date, **plus**

(c) the Substitution Adjustment Amount received in connection with any Mortgage Loan with respect to that Distribution Date, **plus**

(d) any insurance proceeds or net liquidation proceeds received during the related Prepayment Period that are allocable to recoveries of principal of Mortgage Loans that are not yet Liquidated Loans, **plus**

(ii) for each Mortgage Loan that became a Liquidated Loan during the related Prepayment Period, **the lesser of**:

(x) the related Senior Percentage of the Non-PO Percentage of the Stated Principal Balance of that Mortgage Loan, **and**

(y) either:

(A) the related Senior Prepayment Percentage or

(B) if an Excess Loss occurred with respect to that Liquidated Loan during that Prepayment Period, the related Senior Percentage of the applicable Non-PO Percentage of the net liquidation proceeds received with respect to that Mortgage Loan and allocable to principal, **plus**

(iii) the related Senior Prepayment Percentage of the applicable Non-PO Percentage of all partial and full principal prepayments that we receive during the related Prepayment Period from borrowers on all such Mortgage Loans, **plus**

(iv) the amount of Realized Losses allocated to the Senior Classes for such Distribution Date.

*Subordinate Percentage*—For any Distribution Date, 100% **minus** the Senior Percentage on that Distribution Date.

*Subordinate Prepayment Percentage*—For any Distribution Date, 100% **minus** the Senior Prepayment Percentage.

*Uncovered Prepayment Interest Shortfall*—For any Distribution Date:

(i) the aggregate Prepayment Interest Shortfalls on the Mortgage Loans that prepaid during the portion of the related Prepayment Period occurring in the month before the month of that Distribution Date, **minus**

(ii) the aggregate servicing fee (calculated at the Servicing Fee Rate) for that Distribution Date.

**Allocation of Losses**

On each Distribution Date, we will allocate the applicable Non-PO Percentage of any Realized Loss (other than any Excess Loss) in the following order of priority:

(i) to the Non-Senior Certificates, in the reverse order of their numerical Class designations (beginning with the Class of Non-Senior Certificates with the highest numerical Class designation), in each case until the principal balance of that Class is reduced to zero; and

(ii) to the Senior Classes.

We will deem the Class M Certificates to have a lower numerical designation (and to be of higher payment priority) than the other Classes of Non-Senior Certificates.

On each Distribution Date, we will allocate the applicable PO Percentage of any Realized Loss on a Discount Mortgage Loan (including any Excess Loss) to the PO Class, until its principal balance is reduced to zero. We will treat the amount of any such Realized Loss (other than an Excess Loss) that is allocated to the PO Class on or prior to the Mezzanine Termination Date as a PO Deferred Amount.

To the extent funds are available on any Distribution Date, we will pay PO Deferred Amounts on the PO Class from amounts that otherwise would be payable as principal of the Non-Senior Certificates. The principal balance of the outstanding Class of Non-Senior Certificates with the highest numerical Class designation will be reduced by the amount of any payments in respect of PO Deferred Amounts. Payments in respect of unpaid PO Deferred Amounts will not further reduce the principal balance of the PO Class. The PO Deferred Amounts will not bear interest. After the Mezzanine Termination Date, we will not create any new PO Deferred Amounts.

On each Distribution Date, we will allocate the applicable Non-PO Percentage of Excess Losses among the Senior Classes and the Non-Senior Classes, pro rata, based on their respective principal balances.

The Non-Senior Certificates will be subject to limited allocations of the following losses:

(i) Special Hazard Losses, up to the Special Hazard Loss Coverage Amount,

(ii) Bankruptcy Losses, up to the Bankruptcy Loss Coverage Amount, and

(iii) Fraud Losses, up to the Fraud Loss Coverage Amount.

We will reduce the Special Hazard Loss Coverage Amount from time to time, to an amount equal on any Distribution Date to **the lesser of:**

(a) **the greatest of**

(i) 1% of the aggregate principal balance of the Mortgage Loans,

(ii) twice the principal balance of the largest Mortgage Loan, and

(iii) the aggregate principal balance of the Mortgage Loans secured by Mortgaged Properties in the California five-digit postal ZIP Code area having the highest aggregate principal balance of any such ZIP Code area,

**or**

(b) the Special Hazard Loss Amount as of the Settlement Date less any amount of losses attributable to Special Hazard Mortgage Loans incurred since the Settlement Date.

For the purpose of determining the Special Hazard Loss Coverage Amount, we will calculate all principal balances as of the first day of the month preceding the related Distribution Date, after giving effect to scheduled installments of principal and interest on the Mortgage Loans, whether or not they have been paid.

We will reduce the Bankruptcy Loss Coverage Amount from time to time, by the amount of Bankruptcy Losses allocated to the Certificates.

We will reduce the Fraud Loss Coverage Amount from time to time, by the amount of Fraud Losses allocated to the Certificates. In addition, on each anniversary of the Issue Date, we will reduce the Fraud Loss Coverage Amount as follows:

(a) on the first, second, third and fourth anniversaries of the Issue Date, to an amount equal to the lesser of:

(i) 1% of the aggregate of the Stated Principal Balances of the Mortgage Loans at that time, **or**

(ii) the excess of the Fraud Loss Coverage Amount as of the preceding anniversary of the Issue Date over the cumulative amount of Fraud Losses allocated to the Certificates since that anniversary, **and then**

(b) on the fifth anniversary of the Issue Date, to zero.

We define Realized Losses in "—Certain Definitions Relating to Payments on the Certificates" above.

*Bankruptcy Loss Coverage Amount*—An amount initially equal to $100,000, which we may reduce from time to time, as described under "—Allocation of Losses" above.

*Bankruptcy Losses*—Losses incurred as a result of Debt Service Reductions and Deficient Valuations.

*Excess Losses*—The following:

(i) Special Hazard Losses in excess of the Special Hazard Loss Coverage Amount,

(ii) Bankruptcy Losses in excess of the Bankruptcy Loss Coverage Amount, and

(iii) Fraud Losses in excess of the Fraud Loss Coverage Amount.

*Fraud Loss Coverage Amount*—An amount initially equal to $5,008,919, which we may reduce from time to time as described under "—Allocation of Losses" above.

*Fraud Losses*—Losses sustained on a Liquidated Loan because of a default arising from fraud, dishonesty or misrepresentation.

*PO Deferred Amount*—For any Distribution Date on or before the Mezzanine Termination Date, the PO Percentage of Realized Losses (other than Excess Losses) for each Discount Mortgage Loan that became a Liquidated Loan in the related Prepayment Period.

*Special Hazard Loss Coverage Amount*—An amount initially equal to $1,686,361, which we may reduce from time to time as described under "—Allocation of Losses" above.

*Special Hazard Losses*—Realized Losses in respect of Special Hazard Mortgage Loans.

*Special Hazard Mortgage Loan*—A Liquidated Loan as to which the ability to recover the full amount due was substantially impaired by a hazard that was not insured under a standard hazard insurance policy.

**Subordination**

*General.* Before we make any payment to Holders of Non-Senior Certificates on any Distribution Date, we are obligated to pay Holders of the Senior Certificates the amounts to which they are entitled, out of funds available for payments on the Mortgage Loans on that Distribution Date. In addition, the rights of holders of the B-1 and B-2 Classes to receive payments will be subordinate to the rights of holders of the M Class; and the rights of holders of the B-2 Class will be further subordinate to the rights of holders of the B-1 Class. See "—Distribution Priorities" above.

On any Distribution Date, if the Applicable Credit Support Percentage is less than the Original Applicable Credit Support Percentage for any Class of Non-Senior Certificates, we will not pay any partial principal prepayments or principal prepayments in full to the Restricted Classes. Instead, we will pay the related Prepayment Reallocation Amount in the sequential order described above.

*Credit Support Percentages.* The approximate Original Applicable Credit Support Percentages for the Non-Senior Certificates on the date of issuance of the Certificates are expected to be as follows:

| | |
|---|---|
| Class M | 6.45% |
| Class B-1 | 3.65% |
| Class B-2 | 2.20% |
| Class B-3 | 1.40% |
| Class B-4 | 0.75% |
| Class B-5 | 0.45% |

For purposes of all principal payments described above and for purposes of calculating the Subordinate Percentage, we will determine the applicable aggregate outstanding principal balance of the Non-Senior Certificates for any Distribution Date before we allocate Realized Losses on the Mortgage Loans on that Distribution Date. See "—Allocation of Losses" above.

*Applicable Credit Support Percentage*—For each Class of Non-Senior Certificates on any Distribution Date, the sum of the related Class Subordination Percentages of such Class and of all Classes of Non-Senior Certificates with higher numerical Class designations.

*Class Subordination Percentage*—For each Class of Non-Senior Certificates on any Distribution Date, a fraction (expressed as a percentage), the numerator of which is the principal balance of that Class immediately before that Distribution Date, and the denominator of which is the aggregate of the outstanding principal balances of all Classes of Certificates immediately before that Distribution Date.

*Original Applicable Credit Support Percentage*—For each Class of Mezzanine and Subordinate Certificates, the Applicable Credit Support Percentage for that Class on the Issue Date.

*Prepayment Reallocation Amount*—The amount of partial principal prepayments and principal prepayments in full, otherwise distributable to the Restricted Classes, that we reallocate among the remaining Classes of Non-Senior Certificates, pro rata, based on their outstanding principal balances.

*Restricted Classes*—For any Distribution Date, those Non-Senior Classes having Applicable Credit Support Percentages that are less than their Original Applicable Credit Support Percentages.

**Class Definitions and Abbreviations**

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

| Abbreviation | Category of Class | Definition |
|---|---|---|
| | | **PRINCIPAL TYPES** |
| NTL | Notional | Has no principal balance and bears interest on its notional principal balance. The notional principal balance is used to determine interest payments on an Interest Only Class that is not entitled to principal. |
| PT | Pass-Through | Is designed to receive principal payments in direct relation to actual or scheduled payments on some or all of the Mortgage Loans. |
| SEQ | Sequential Pay | Receives principal payments in a prescribed sequence but without a predetermined schedule. In most cases, it receives payments of principal continuously from the first Distribution Date until the class is retired. A single class that receives principal payments before or after all other classes in the same series of Certificates may be identified as a Sequential Pay Class. |
| | | **INTEREST TYPES** |
| FIX | Fixed Rate | Has an interest rate that is fixed throughout the life of the class. |
| IO | Interest Only | Receives some or all of the interest payments made on the Mortgage Loans or other assets of the trust but little or no principal. Interest Only Classes have either a notional or a nominal principal balance. A notional principal balance is the amount used as a reference to calculate the amount of interest due on an Interest Only Class. A nominal principal balance represents actual principal that will be paid on the Class. It is referred to as nominal since it is extremely small compared to other classes. |
| PO | Principal Only | Does not bear interest and is entitled to receive only payments of principal. |
| WAC | Weighted Average Coupon | Has an interest rate that represents an effective weighted average interest rate that may change from period to period. |

**Special Characteristics of Residual Certificate**

In addition to paying principal and interest on the R Class, if any assets of the Trust remain after the principal balances of all Classes are reduced to zero, we will pay the Holder of the R Class the proceeds from those assets. We do not expect that any material assets will remain in such case.

No Residual Certificate may be transferred to a ''disqualified organization'' or to anyone acting on behalf of a disqualified organization. The term ''transfer'' can include any transfer of record ownership or of beneficial ownership, whether as a result of a sale, gift, pledge, default or otherwise. The term ''disqualified organization'' includes the United States, any State or other political subdivision, any foreign government, any international organization, or any agency or instrumentality of any of them (other than certain taxable instrumentalities), any cooperative organization furnishing electric energy or providing telephone service to persons in rural areas, or any organization (other than a farmers' cooperative) that is exempt from federal income tax, unless such organization is subject to a tax on unrelated business income. Each person or entity to which a Residual Certificate is transferred will be required to execute an affidavit, acceptable to us, stating that:

- the transferee is not a disqualified organization,
- it is not acquiring the Residual Certificate for the account of a disqualified organization,
- it consents to any amendment of the Trust Agreement that we deem necessary (upon the advice of our counsel) to ensure that the Residual Certificate will not be owned directly or indirectly by a disqualified organization,
- it is not acquiring the Residual Certificate to avoid or impede the assessment or collection of tax,
- it understands that it may incur tax liabilities in excess of any cash that it will receive on the Residual Certificate,
- it intends to pay taxes on the Residual Certificate as they become due, and
- it will not transfer the Residual Certificate unless it has received from the new transferee an affidavit containing these same seven representations and it does not have actual knowledge that this other affidavit is false.

See "Certain Federal Income Tax Consequences—Sales and other Dispositions of Certificates—*Residual Certificates Transferred to or Held by Disqualified Organizations*." The transferee also must deliver a properly executed Internal Revenue Service Form W-9 with its taxpayer identification number. In addition, if a pass-through entity (including a nominee) holds a Residual Certificate, it may be subject to additional taxes if a disqualified organization is a record holder in the entity.

No Residual Certificate may be transferred to any person that is not a "U.S. Person" without our written consent. The term "U.S. Person" means

- a citizen or resident of the United States,
- a corporation, partnership or other entity created under the laws of the United States or any of its political subdivisions,
- an estate the income of which is subject to U.S. federal income tax regardless of the source of its income or
- a trust if a court within the United States can exercise primary supervision over its administration and one or more United States persons have the authority to control all substantial decisions of the trust.

Under regulations issued by the Treasury Department, if a "noneconomic residual interest" is transferred to a U.S. Person, the transfer will be disregarded for all federal tax purposes unless no significant purpose of the transfer is to impede the assessment or collection of tax. A Residual Certificate generally would be treated as constituting a noneconomic residual interest. The only exception would be if, at the time of the transfer, two conditions are met. First, the present value of the expected future payments on the Residual Certificate is no less than the product of the present value of the "anticipated excess inclusions" on that Certificate and the highest corporate rate of tax for the year in which the transfer occurs. Second, the transferor reasonably expects that the transferee will receive payments from the applicable REMIC trust in an amount sufficient to satisfy the liability for income tax on any "excess inclusions" at or after the time when the liability accrues. The term "anticipated excess inclusions" means excess inclusions that are anticipated to be allocated to each calendar quarter (or portion of a quarter) following the transfer of the Residual Certificate, determined as of the date the Residual Certificate is transferred and based on events that have occurred as of that date and on the prepayment assumptions. See "Certain Federal Income Tax Consequences—Taxation of Beneficial Owners of Regular Certificates—*Original Issue Discount*" and "—Taxation of Beneficial Owners of Residual Certificates—*Excess Inclusions*."

Under the Treasury regulations, the phrase "a significant purpose of the transfer to impede the assessment or collection of tax" means that the transferor of the Residual Certificate had "improper knowledge" at the time of the transfer. In other words, the transferor knew, or should have known, that the transferee would be unwilling or unable to pay taxes due on its share of the taxable income of the REMIC Trust. A transferor is presumed not to have improper knowledge if two conditions are met. First, the transferor conducts, at the time of the transfer, a reasonable investigation of the financial condition of the transferee and, based on the results, finds that the transferee has historically paid its debts as they come due and finds no significant evidence to indicate that the transferee will not continue to pay its debts as they come due in the future. Second, the transferee makes certain representations to the transferor in the affidavit relating to disqualified organizations discussed above. If you plan to transfer a Residual Certificate, you should consult your tax advisor for further information.

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—REMIC Election and Special Tax Attributes." Pursuant to the Trust Agreement we will be obligated to provide to the Holder of the R Class (i) information that it needs to prepare its federal income tax returns and (ii) any reports regarding the R Class that may be required under the Code.

**Structuring Assumptions**

*Pricing Assumptions.* Except where otherwise noted, the information in the tables in this prospectus has been prepared based on (i) the assumed characteristics of the Mortgage Loans set forth under "The Mortgage Loans—General" and (ii) the following assumptions (collectively, the "Pricing Assumptions"):

- payments on all Mortgage Loans are due and received on the first day of each month;
- each year consists of twelve 30-day months;
- the Mortgage Loans prepay at the constant percentages of the Prepayment Assumption specified in the related tables;
- there are no Uncovered Prepayment Interest Shortfalls;
- the settlement date for the sale of the Certificates is January 28, 1999; and
- there are no defaults, losses or delinquencies on the Mortgage Loans.

*Prepayment Assumption.* Prepayments of mortgage loans commonly are measured relative to a prepayment standard or model. The model used here (the "Prepayment Assumption") represents an assumed rate of prepayment each month relative to the then outstanding principal balance of a pool of mortgage loans. A 100% Prepayment Assumption assumes a Constant Prepayment Rate ("CPR") of 4.0% per annum of the then outstanding principal balance of the mortgage loans in the first month of the life of the mortgage loans, and an additional 1.09090909% (precisely 12/11) per annum in each month thereafter until the eleventh month. Beginning in the twelfth month, and in each month thereafter during the life of the mortgage loans, a 100% Prepayment Assumption assumes a CPR of 16% per annum each month. A 50% Prepayment Assumption assumes prepayment rates equal to 50% of the Prepayment Assumption. Correspondingly, a 200% Prepayment Assumption assumes prepayment rates equal to 200% of the Prepayment Assumption, and so forth. *This model does not predict the prepayment experience of the Mortgage Loans or describe the historic performance of any particular pool of mortgage loans, including the Mortgage Loans.*

**Yield Tables**

*General.* The tables below illustrate the sensitivity of the pre-tax corporate bond equivalent yields to maturity of the applicable Classes to various constant percentages of the Prepayment Assumption. 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 applicable 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 Certificates. Accordingly, these calculations do not illustrate the return on any investment in the Certificates when such reinvestment rates are taken into account.

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.

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 Assumption. Moreover, it is unlikely that:

- the Mortgage Loans will prepay at a constant percentage of the Prepayment Assumption until maturity, or

- all of such Mortgage Loans will prepay at the same rate.

*The PO Class.* **The PO Class will not bear interest. As indicated in the table below, a low rate of principal payments (including prepayments) on the Discount Mortgage Loans will have a negative effect on the yield to investors in the PO Class.**

The information shown in the following yield table has been prepared on the basis of the Pricing Assumptions and the assumption that the aggregate purchase price of the PO Class (expressed as a percentage of the original principal balance) is as follows:

| Class | Price |
|---|---|
| PO | 53.4734375% |

**Sensitivity of the PO Class to Prepayments***
**(Pre-Tax Yields to Maturity)**

| | % of Prepayment Assumption | | | |
|---|---|---|---|---|
| **Class** | **50%** | **100%** | **200%** | **300%** |
| PO | 8.5% | 15.0% | 28.9% | 43.5% |

* Applies only to Discount Mortgage Loans.

*The X Class.* **The yield to investors in the X Class will be very sensitive to the rate of principal payments (including prepayments) of the Non-Discount Mortgage Loans. The Non-Discount Mortgage Loans can be prepaid by the related borrowers with no prepayment penalty. On the basis of the assumptions described below, the yield to maturity on the**

**X Class would be 0% if prepayments were to occur at a constant rate of approximately 181% of the Prepayment Assumption. If the actual prepayment rate of the Non-Discount Mortgage Loans were to exceed that level for as little as one month while equaling such level for the remaining months, the investors in the X Class would lose money on their initial investments.**

We cannot assure you that:

- the Non-Discount Mortgage Loans will prepay at any of the assumed rates in this prospectus or at any other particular rate;
- the pre-tax yields on the X Class will correspond to any of the pre-tax yields shown in this prospectus; or
- the aggregate purchase price of the X Class will be the price assumed below.

Finally, reductions in the amount of interest distributable on the interest-bearing Classes (including the X Class) because of Uncovered Prepayment Interest Shortfalls will reduce the yield to investors in the X Class. In certain cases, such reductions in yield could be substantial.

The information shown in the following yield table has been prepared on the basis of the Pricing Assumptions and the assumption that the aggregate purchase price of the X Class (expressed as a percentage of the original notional principal balance) is as follows:

| Class | Price* |
|---|---|
| X | 2.05625% |

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

**Sensitivity of the X Class to Prepayments***
**(Pre-Tax Yields to Maturity)**

| | % of Prepayment Assumption | | | |
|---|---|---|---|---|
| Class | 50% | 100% | 200% | 300% |
| X | 23.7% | 15.0% | (3.8)% | (24.7)% |

* Applies only to Non-Discount Mortgage Loans.

### Weighted Average Lives of the Senior and Mezzanine Certificates

The weighted average life of a class of Certificates refers to the average length of time, weighted by principal, that will elapse from the time we issue the Certificates until we pay you the full amount of outstanding principal. We determine the weighted average life of a Certificate by:

(a) multiplying the amount of the reduction, if any, of the principal balance of such Certificate from one Distribution Date to the next Distribution Date by the number of years from the Settlement Date to the second such Distribution Date,

(b) summing the results, and

(c) dividing the sum by the aggregate amount of the reductions in principal balance of such Certificate referred to in clause (a).

The weighted average life of each Class of Senior and Mezzanine Certificates will be influenced by, among other factors, the rate at which principal payments are made on the Mortgage Loans. For the purpose of the preceding sentence, principal payments include scheduled payments, principal prepayments, liquidations due to default, casualty and condemnation and payments made pursuant to either the Master Servicer's or Fannie Mae's option to repurchase. We will apply prepayments on the

Mortgage Loans to principal payments on the Certificates, as described in this prospectus. The effect of these factors may differ as to various Classes of Senior and Mezzanine Certificates and the effects on any Class may vary at different times during the life of that Class. Accordingly, we can give no assurance as to the weighted average life of any Class.

**Maturity Considerations and Last Scheduled Distribution Date**

We expect the original maturities of substantially all the Mortgage Loans to be between 20 and 30 years. Each Mortgage Loan will provide for amortization of principal according to a schedule that, in the absence of prepayments, would result in repayment of the Mortgage Loan by its maturity date.

The last scheduled Distribution Date for each Class of Mezzanine Certificates is the Distribution Date in February 2029 (the month after the month of the latest scheduled maturity date for any of the Mortgage Loans).

**Decrement Tables**

The following tables indicate the percentages of original principal balances or notional principal balance of the specified Classes that would be outstanding after each date shown at various constant percentages of the Prepayment Assumption and the corresponding weighted average lives of such Classes. The tables have been prepared on the basis of the Pricing Assumptions.

It is unlikely:

- that all the Mortgage Loans will have the interest rates or remaining terms to maturity assumed or
- that the Mortgage Loans will prepay at any constant percentage of the related Prepayment Assumption.

In addition, the diverse remaining terms to maturity of the Mortgage Loans could produce slower or faster principal payments than indicated in the tables at the specified constant percentages of the Prepayment Assumption. This is the case even if the dispersion of weighted average maturities of the Mortgage Loans are identical to the dispersion of the weighted average maturities specified in the Pricing Assumptions.

## Percent of Original Principal Balances Outstanding

| Date | A Class % of Prepayment Assumption 0% | 50% | 100% | 200% | 300% | PO† Class % of Prepayment Assumption 0% | 50% | 100% | 200% | 300% | X***†† Class % of Prepayment Assumption 0% | 50% | 100% | 200% | 300% |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Initial Percent | 100 | 100 | 100 | 100 | 100 | 100 | 100 | 100 | 100 | 100 | 100 | 100 | 100 | 100 | 100 |
| January 2000 | 99 | 93 | 88 | 76 | 64 | 99 | 94 | 89 | 79 | 68 | 99 | 94 | 88 | 77 | 66 |
| January 2001 | 98 | 84 | 72 | 49 | 30 | 98 | 85 | 74 | 53 | 35 | 98 | 85 | 73 | 52 | 34 |
| January 2002 | 97 | 76 | 58 | 31 | 12 | 97 | 78 | 61 | 36 | 18 | 97 | 78 | 61 | 35 | 17 |
| January 2003 | 96 | 69 | 47 | 18 | 3 | 95 | 71 | 51 | 24 | 9 | 96 | 71 | 51 | 23 | 9 |
| January 2004 | 95 | 62 | 38 | 10 | 0 | 94 | 64 | 42 | 16 | 5 | 95 | 64 | 42 | 16 | 5 |
| January 2005 | 93 | 56 | 31 | 6 | 0 | 92 | 58 | 35 | 11 | 2 | 94 | 58 | 35 | 11 | 2 |
| January 2006 | 92 | 50 | 25 | 3 | 0 | 91 | 52 | 29 | 7 | 1 | 92 | 53 | 29 | 7 | 1 |
| January 2007 | 90 | 45 | 20 | 1 | 0 | 89 | 47 | 24 | 5 | 1 | 91 | 48 | 24 | 5 | 1 |
| January 2008 | 89 | 41 | 17 | 1 | 0 | 87 | 43 | 19 | 3 | * | 89 | 43 | 20 | 3 | * |
| January 2009 | 87 | 37 | 14 | * | 0 | 85 | 38 | 16 | 2 | * | 87 | 39 | 16 | 2 | * |
| January 2010 | 85 | 33 | 11 | * | 0 | 83 | 34 | 13 | 1 | * | 85 | 35 | 13 | 1 | * |
| January 2011 | 83 | 30 | 9 | * | 0 | 81 | 31 | 11 | 1 | * | 83 | 31 | 11 | 1 | * |
| January 2012 | 81 | 27 | 8 | * | 0 | 79 | 27 | 9 | 1 | * | 81 | 28 | 9 | 1 | * |
| January 2013 | 78 | 24 | 6 | * | 0 | 76 | 24 | 7 | * | * | 78 | 25 | 7 | * | * |
| January 2014 | 75 | 21 | 5 | * | 0 | 73 | 22 | 6 | * | * | 76 | 22 | 6 | * | * |
| January 2015 | 73 | 19 | 4 | * | 0 | 70 | 19 | 5 | * | * | 73 | 20 | 5 | * | * |
| January 2016 | 70 | 16 | 3 | * | 0 | 67 | 17 | 4 | * | * | 70 | 17 | 4 | * | * |
| January 2017 | 66 | 14 | 3 | * | 0 | 64 | 15 | 3 | * | * | 67 | 15 | 3 | * | * |
| January 2018 | 63 | 13 | 2 | * | 0 | 60 | 13 | 2 | * | * | 63 | 13 | 2 | * | * |
| January 2019 | 59 | 11 | 2 | * | 0 | 56 | 11 | 2 | * | * | 59 | 11 | 2 | * | * |
| January 2020 | 55 | 9 | 1 | * | 0 | 52 | 9 | 1 | * | * | 55 | 10 | 1 | * | * |
| January 2021 | 50 | 8 | 1 | * | 0 | 48 | 8 | 1 | * | * | 51 | 8 | 1 | * | * |
| January 2022 | 45 | 6 | 1 | * | 0 | 43 | 7 | 1 | * | * | 46 | 7 | 1 | * | * |
| January 2023 | 40 | 5 | 1 | * | 0 | 38 | 5 | 1 | * | * | 40 | 6 | 1 | * | * |
| January 2024 | 34 | 4 | * | * | 0 | 32 | 4 | * | * | * | 35 | 4 | * | * | * |
| January 2025 | 28 | 3 | * | * | 0 | 27 | 3 | * | * | * | 29 | 3 | * | * | * |
| January 2026 | 22 | 2 | * | * | 0 | 20 | 2 | * | * | * | 22 | 2 | * | * | * |
| January 2027 | 15 | 1 | * | * | 0 | 14 | 1 | * | * | * | 15 | 1 | * | * | * |
| January 2028 | 7 | 1 | * | * | 0 | 6 | 1 | * | * | * | 7 | 1 | * | * | * |
| January 2029 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Weighted Average Life (years)** | 20.2 | 9.1 | 5.2 | 2.5 | 1.6 | 19.7 | 9.4 | 5.6 | 2.9 | 1.9 | 20.2 | 9.5 | 5.6 | 2.9 | 1.9 |

| Date | R Class % of Prepayment Assumption 0% | 50% | 100% | 200% | 300% | M, B1 and B2 Classes % of Prepayment Assumption 0% | 50% | 100% | 200% | 300% |
|---|---|---|---|---|---|---|---|---|---|---|
| Initial Percent | 100 | 100 | 100 | 100 | 100 | 100 | 100 | 100 | 100 | 100 |
| January 2000 | 0 | 0 | 0 | 0 | 0 | 99 | 99 | 99 | 99 | 99 |
| January 2001 | 0 | 0 | 0 | 0 | 0 | 98 | 98 | 98 | 98 | 98 |
| January 2002 | 0 | 0 | 0 | 0 | 0 | 97 | 97 | 97 | 97 | 97 |
| January 2003 | 0 | 0 | 0 | 0 | 0 | 96 | 96 | 96 | 96 | 96 |
| January 2004 | 0 | 0 | 0 | 0 | 0 | 95 | 95 | 95 | 95 | 71 |
| January 2005 | 0 | 0 | 0 | 0 | 0 | 93 | 91 | 89 | 83 | 36 |
| January 2006 | 0 | 0 | 0 | 0 | 0 | 92 | 87 | 81 | 70 | 19 |
| January 2007 | 0 | 0 | 0 | 0 | 0 | 90 | 81 | 72 | 55 | 10 |
| January 2008 | 0 | 0 | 0 | 0 | 0 | 89 | 74 | 62 | 40 | 5 |
| January 2009 | 0 | 0 | 0 | 0 | 0 | 87 | 67 | 51 | 26 | 2 |
| January 2010 | 0 | 0 | 0 | 0 | 0 | 85 | 60 | 42 | 18 | 1 |
| January 2011 | 0 | 0 | 0 | 0 | 0 | 83 | 54 | 34 | 12 | 1 |
| January 2012 | 0 | 0 | 0 | 0 | 0 | 81 | 48 | 28 | 8 | * |
| January 2013 | 0 | 0 | 0 | 0 | 0 | 78 | 43 | 23 | 5 | * |
| January 2014 | 0 | 0 | 0 | 0 | 0 | 75 | 38 | 18 | 3 | * |
| January 2015 | 0 | 0 | 0 | 0 | 0 | 73 | 34 | 15 | 2 | * |
| January 2016 | 0 | 0 | 0 | 0 | 0 | 70 | 30 | 12 | 1 | * |
| January 2017 | 0 | 0 | 0 | 0 | 0 | 66 | 26 | 10 | 1 | * |
| January 2018 | 0 | 0 | 0 | 0 | 0 | 63 | 23 | 8 | 1 | * |
| January 2019 | 0 | 0 | 0 | 0 | 0 | 59 | 20 | 6 | * | * |
| January 2020 | 0 | 0 | 0 | 0 | 0 | 55 | 17 | 5 | * | * |
| January 2021 | 0 | 0 | 0 | 0 | 0 | 50 | 14 | 4 | * | * |
| January 2022 | 0 | 0 | 0 | 0 | 0 | 45 | 12 | 3 | * | * |
| January 2023 | 0 | 0 | 0 | 0 | 0 | 40 | 10 | 2 | * | * |
| January 2024 | 0 | 0 | 0 | 0 | 0 | 34 | 8 | 1 | * | * |
| January 2025 | 0 | 0 | 0 | 0 | 0 | 28 | 6 | 1 | * | * |
| January 2026 | 0 | 0 | 0 | 0 | 0 | 22 | 4 | 1 | * | * |
| January 2027 | 0 | 0 | 0 | 0 | 0 | 15 | 3 | * | * | * |
| January 2028 | 0 | 0 | 0 | 0 | 0 | 7 | 1 | * | * | * |
| January 2029 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Weighted Average Life (years)** | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 20.2 | 13.9 | 11.0 | 8.6 | 5.9 |

* 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 Senior and Mezzanine Certificates" in this prospectus.

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

† Applies only to Discount Mortgage Loans.

†† Applies only to Non-Discount Mortgage Loans.

## THE AGREEMENTS

We summarize below certain provisions of the Sale and Servicing Agreement and the Trust Agreement (together, the "Agreements") that are not discussed elsewhere in this prospectus. Certain capitalized terms that we use in these summaries are defined in the Agreements. These summaries are, by definition, not complete. If there is ever a conflict between the information in this prospectus and the actual terms of the Agreements, the terms of the Agreements will prevail.

### Transfer of Mortgage Loans to the Trust

The Trust Agreement will contain a mortgage loan schedule that will identify the Mortgage Loans that are being transferred to the Trust. As trustee, we will hold, on behalf of the Certificateholders, the original Mortgage Notes, endorsed in blank, and assignments of the mortgage instruments to us in recordable form. We may change these document custody requirements at any time, as long as we determine that any such change will not have a materially adverse affect on the interests of Certificateholders.

At our option, we may choose to maintain the documents described above with one or more custodian institutions supervised and regulated by the Comptroller of the Currency, the Board of Governors of the Federal Reserve System, the Office of Thrift Supervision, the Federal Deposit Insurance Corporation or the National Credit Union Administration. We will review the mortgage loan schedule before we issue the Certificates and will conduct random spot checks after issuing the Certificates to confirm that we have all the documents we need.

If a liquidation, reorganization, or similar proceeding involving our assets or the assets of the Seller were to occur, it is not clear what law would be applicable. As a result, we cannot render a legal opinion about the Certificateholders' rights to the Mortgage Loans in the event of a proceeding of this type.

### Servicing of Mortgage Loans

Pursuant to the Sale and Servicing Agreement, the Master Servicer is responsible for servicing and administering the Mortgage Loans.

Except as otherwise specified in this Prospectus, the Master Servicer will be obligated to perform diligently all services and duties customary to servicing mortgages, as well as those specifically prescribed in the Sale and Servicing Agreement. Under the Sale and Servicing Agreement, we will monitor the Master Servicer's performance and has the right to remove the Master Servicer for cause at any time, if it considers such removal to be in the best interest of Certificateholders. The Master Servicer's duties include general loan servicing, collecting and remitting principal and interest payments, administering mortgage escrow accounts, collecting insurance claims, and, if necessary, foreclosing on properties and administering and disposing of foreclosed properties.

Each month, the Master Servicer will receive a fee as compensation for its servicing activities. The fee will be calculated at an annual rate of 0.25% (the "Servicing Fee Rate") of the Stated Principal Balance of each Mortgage Loan. The Master Servicer is also entitled to retain prepayment fees, late charges, assumption fees, and similar charges if they are collected from borrowers. In addition, the Master Servicer is entitled to retain any amount by which the proceeds of a liquidated Mortgage Loan exceed (i) the Stated Principal Balance of that Mortgage Loan and (ii) interest thereon at the mortgage interest rate, starting from the month in which the Master Servicer determined that it could no longer recover any advances with respect to that Mortgage Loan, through the end of the month of the liquidation. The Master Servicer may *not* retain the amounts described in the preceding sentence to the extent we have to pay such amounts to the holders of the Mezzanine and Subordinate Certificates to offset previously allocated Realized Losses. The Master Servicer will pay all expenses it incurs in connection with its servicing activities and will not be reimbursed for them (except for Delinquency Advances and Servicing Advances) out of the assets of the Trust.

In addition, as compensation for our guaranty of the Senior Certificates, we will receive a fee from amounts collected on the Mortgage Loans.

### Payments on Mortgage Loans; Deposits in the Certificate Account

On each Remittance Date, the Master Servicer will remit to one or more accounts (collectively, the "Certificate Account") an amount equal to the sum of

- scheduled principal and interest received on the Mortgage Loans during the related Due Period, plus
- unscheduled principal and interest received on the Mortgage Loans (*i.e.*, voluntary prepayments, as well as principal and interest on the Mortgage Loans in the form of net liquidation proceeds or similar proceeds) during the related Prepayment Period, plus
- any advance that the Master Servicer must make in respect of delinquent payments of principal and interest on the Mortgage Loans with respect to the related Distribution Date.

Any amounts deposited into the Certificate Account on a Distribution Date are generally available to pay (i) interest accrued and distributable on the Certificates on that date (*i.e.*, excluding any Uncovered Prepayment Interest Shortfalls) and (ii) principal of the Certificates reflected in the class factors. We will not include any reinvestment earnings on amounts in the Certificate Account when we calculate payments to Certificateholders.

The Trust Agreement permits us, as trustee, to maintain the Certificate Account in one of two ways:

- as a trust account with an eligible depository institution (which account may contain other funds that we hold in a trust capacity), or
- as part of our general assets (with appropriate credit entries to the related REMIC trust).

We are required to hold all such appropriately credited funds in our general accounts (and all funds in the Certificate Account that we have invested) for the related Certificateholders. Nevertheless, if a liquidation, reorganization or similar proceeding involving our assets were to occur, it is not clear what law would be applicable. As a result, we cannot render a legal opinion about the Certificateholders' rights to those funds in the event of a proceeding of this type.

### Reports to Certificateholders

We will publish the class factor for each class of Certificates on or shortly after the 21st calendar day of each month. If you multiply the class factor for a class of Certificates by the original principal balance (or notional balance) of that class of Certificates, you will obtain the current principal balance (or notional balance) of that class of Certificates, after giving effect to the current month's principal payment.

We will provide each Holder of Certificates with a statement of the total principal and interest paid on that Holder's Certificates with respect to each Distribution Date. After the end of each calendar year, we will also furnish to each person who was a Certificateholder at any time during that year any information required by the Internal Revenue Service.

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

### Collection and Other Servicing Procedures

The Master Servicer is responsible for servicing the Mortgage Loans. In this capacity, it has full power and authority to do or cause to be done anything it considers necessary or appropriate, including the foreclosure or comparable conversion of a defaulted Mortgage Loan. At its discretion and without obligation, either Fannie Mae (after the Mezzanine Termination Date) or the Master Servicer (at any time) may purchase from the Trust any Mortgage Loan that has become more than

90 days delinquent. If Fannie Mae or the Master Servicer exercises this option, the purchase price will equal the Stated Principal Balance of the delinquent Mortgage Loan, plus accrued interest at the Net Mortgage Rate. We will pay the purchase price to Certificateholders as described in this Prospectus. See ''Description of the Senior and Mezzanine Certificates—Payments on the Senior and Mezzanine Certificates.''

The Master Servicer must make advances to the Trust for delinquent payments of principal of and interest on the Mortgage Loans. It must make these advances until it determines that it can no longer recover them from late collections, insurance proceeds or liquidation proceeds on the related Mortgage Loans. Before we make any payments on the Senior and Mezzanine Certificates, we will reimburse all these advances to the Master Servicer from late collections, insurance proceeds and liquidation proceeds from the related Mortgage Loans. We call these advances ''Delinquency Advances.'' In addition, we may use funds allocable to any of the Mortgage Loans to reimburse the Master Servicer for advances that it made previously, but deems that it cannot recover from related late collections, insurance proceeds or liquidation proceeds.

The Master Servicer will have to pay all ''out of pocket'' costs and expenses incurred in performing its servicing obligations, if it deems that it will be able to recover these costs and expenses. These expenses include:

- expenditures in connection with a foreclosed Mortgage Loan prior to liquidation (including real estate property taxes, hazard insurance premiums and property restoration or preservation),

- the cost of enforcement or judicial proceedings, including foreclosures, and

- the cost of managing and liquidating a Mortgaged Property acquired in satisfaction of the related Mortgage Loan.

We call these costs and expenses ''Servicing Advances.'' The Master Servicer may recover a Servicing Advance to the extent permitted by the related Mortgage Loan. If the Master Servicer does not recover the Servicing Advance from the borrower on whose behalf the advance was made, it may recover the Servicing Advance from net liquidation proceeds realized upon the liquidation of the related Mortgage Loan, or from funds that would otherwise be paid on the Mezzanine and Subordinate Certificates.

The Seller will make certain warranties to us with respect to each Mortgage Loan, concerning such matters as (i) the recordation of the original Mortgage, (ii) the validity of the Mortgage Loan as a first lien on the Mortgaged Property and (iii) compliance by the Mortgage Loan with applicable state and federal laws. If the Seller materially breaches any such warranty, or if there is a material defect in the Mortgage Loan documentation, we may cause the Seller to repurchase that Mortgage Loan from the Trust at a price equal to its outstanding principal balance, plus interest at its Net Mortgage Rate. The Seller may instead, at its option, substitute a new Mortgage Loan for a defective Mortgage Loan. Any substitute Mortgage Loan must meet certain criteria to ensure that the substitute Mortgage Loan will not alter the general characteristics of the Mortgage Loans. No such substitution may take place more than two years after we issue the Certificates. We call the amount by which the Stated Principal Balance of the defective Mortgage Loan exceeds the principal balance of the substitute Mortgage Loan the ''Substitution Adjustment Amount.'' We will pass this amount through to Certificateholders.

Subject to the limitations discussed below, the Master Servicer may:

- enforce or waive enforcement of any term of any Mortgage Loan,

- enter into an agreement to modify any term of any Mortgage Loan, or

- take any action or refrain from taking any action in servicing any Mortgage Loan.

The Trust Agreement prohibits, however, any modification that would:

- cause the Trust to fail to qualify as a REMIC under the Code,
- cause any Mortgage Loan to cease to be a "qualified mortgage" within the meaning of section 860G(a)(3) of the Code, or
- result in the imposition of any tax on "prohibited transactions" or "contributions" as discussed under "Certain Federal Income Tax Consequences—Taxes on the Trust."

The Sale and Servicing Agreement prohibits certain other modifications, such as reducing the mortgage interest rate or principal amount or extending the term of a Mortgage Loan. The Master Servicer may waive any prepayment charge, assumption fee, or late payment charge, or may exercise or refrain from exercising any "call option rider." If the Master Servicer decides to take or refrain from taking any of the actions discussed above, its decision must be consistent with the then-current policies or practices that it follows for comparable mortgage loans held in its own portfolio. In making its decisions, the Master Servicer may not take into account the ownership status of the related Mortgage Loan.

In connection with the transfer or prospective transfer of title to a Mortgaged Property securing any Mortgage Loan, the Master Servicer must accelerate the maturity of the related Mortgage Loan if it contains a "due-on-sale" clause that permits acceleration under those conditions (unless applicable law prohibits enforcing the "due-on-sale" clause).

If for any reason the Master Servicer does not have to accelerate the maturity of a Mortgage Loan upon the transfer, or prospective transfer, of title to the related Mortgaged Property, the Master Servicer may enter into a transaction which releases the borrower from liability on the related Mortgage Loan and imposes such liability on the transferee. According to the Fannie Mae Servicing Guide, no such transaction shall provide for reduction of the mortgage interest rate.

## Certain Fannie Mae Matters

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

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

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

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

## Events of Default

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

- if we fail to pay Certificateholders of a class any required amount and our failure continues uncorrected for 15 days after Certificateholders owning at least 5% of that class have given us written notice;

- 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 Certificateholders owning at least 25% of any class have given us written notice; 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 under the Trust Agreement has occurred and continues uncorrected, Certificateholders who own at least 25% of any class have the right to terminate, in writing, all of our obligations under the Trust Agreement. These obligations include our duties as trustee as well as in our corporate capacity. However, our guaranty obligations with respect to the Senior Certificates will continue in effect. The same proportion of Certificateholders also may appoint, in writing, a successor to assume all of our terminated obligations. This successor will take legal title to the Mortgage Loans and other assets of the Trust. Holders of Mezzanine Certificates and Subordinate Certificates will have no right to terminate our obligations and duties unless and until the Senior Certificates have been paid in full.

**Amendment**

We may amend the Trust Agreement, without notifying the Certificateholders or obtaining their consent, for any of the following purposes:

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

If Certificateholders who own at least 66% of each class give their consent, we may amend the Trust Agreement to eliminate, change or add to its terms or to waive our compliance with any of those terms. Nevertheless, we may not terminate or change our guaranty obligations with respect to the Senior Certificates, or reduce the percentage of Certificateholders who must give their 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 we must pay on any Certificate. Similarly, unless all affected Holders of Residual Certificates give their consent, no amendment may adversely affect their rights.

**Termination**

The Trust Agreement will terminate when the last Mortgage Loan remaining in the Trust has been paid off or liquidated, and the proceeds of that loan have been paid to Certificateholders. The Trust Agreement also will terminate if either Fannie Mae or the Master Servicer exercises its option to repurchase all remaining Mortgage Loans (other than Mortgage Loans that have been converted to REO Property) and REO Property in the Trust. An "REO Property" is a Mortgaged Property that the Master Servicer acquired through foreclosure or deed-in-lieu-of-foreclosure in connection with a defaulted Mortgage Loan. The purchase price for such optional repurchase will equal the outstanding principal balance of each Mortgage Loan (including one month's interest at the Net Mortgage Rate), plus the fair market value of each REO Property.

We may not exercise our option to repurchase unless the aggregate Stated Principal Balance of the remaining Mortgage Loans is less than one percent of the aggregate Stated Principal Balance of all the Mortgage Loans as of the Issue Date. The Master Servicer may not exercise its option to repurchase unless the aggregate Stated Principal Balance of the remaining Mortgage Loans is less than ten percent of the aggregate Stated Principal Balance of all the Mortgage Loans as of the Issue Date. In addition, if the Master Servicer's repurchase would require us to make any payment on the Senior Certificates under our guaranty, the Master Servicer will have to obtain our written consent before exercising its option.

If either we or the Master Servicer exercise our respective options to repurchase, we will have to retire all the Certificates. In no event, however, will the Trust continue beyond the expiration of 21 years from the death of the last survivor of the persons named in the Trust Agreement. We will notify each affected Certificateholder in writing of the termination of the Trust Agreement, and will make the final payment to each person entitled to it.

## 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 beneficial owners subject to special rules, such as dealers in securities, certain traders in securities, banks, tax-exempt organizations, life insurance companies, persons that hold Certificates as part of a hedging transaction or as a position in a straddle or conversion transaction, or persons whose functional currency is not the U.S. dollar.
- This discussion does not address taxes imposed by any state, local or foreign taxing jurisdiction.

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

The topics in this discussion are addressed in the order of the following captions:

- REMIC Election and Special Tax Attributes
- Taxation of Beneficial Owners of Regular Certificates
- Taxation of Beneficial Owners of Residual Certificates
- Taxes on the Trust
- Reporting and Other Administrative Matters

- Backup Withholding
- Foreign Investors

**REMIC Election and Special Tax Attributes**

We will elect to treat the Trust as a REMIC under the Internal Revenue Code of 1986, as amended (the "Code"). Qualification as a REMIC requires ongoing compliance with certain conditions. Arnold & Porter, special tax counsel to Fannie Mae, will deliver its opinion to Fannie Mae that, assuming compliance with the Trust Agreement, the Trust will be treated as a REMIC for federal income tax purposes. The Senior, Mezzanine, and Subordinate Certificates (other than the R Class) will be designated as "regular interests" in the Trust (each a "Regular Certificate" and, together, the "Regular Certificates") and the R Class will be designated as the "residual interest" in the Trust (the "Residual Certificate").

Because the Trust will qualify as a REMIC, the Regular and Residual Certificates will be "regular or residual interests in a REMIC" within the meaning of section 7701(a)(19)(C)(xi) of the Code and "real estate assets" within the meaning of section 856(c)(5)(B) of the Code. If at any time during a calendar year less than 95 percent of the assets of the Trust consist of "qualified mortgages," then the portion of the Regular and Residual Certificates that are qualifying assets under those sections during the calendar year may be limited to the portion of the assets of the Trust that are "qualified mortgages." Similarly, income on the Regular and Residual Certificates will be treated as "interest on obligations secured by mortgages on real property" within the meaning of section 856(c)(3)(B) of the Code, subject to the same limitation as set forth in the preceding sentence. In general, a Mortgage Loan will be a "qualified mortgage" if the Mortgage Loan is "principally secured by an interest in real property" within the meaning of section 860G(a)(3) of the Code. The assets of the Trust will include, in addition to the Mortgage Loans, payments on the Mortgage Loans held pending distribution on the Regular and Residual Certificates and any reinvestment income thereon.

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

**Taxation of Beneficial Owners of Regular Certificates**

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

In addition, each beneficial owner of a Regular Certificate that is a Non-Senior Certificate will be required to accrue interest and original issue discount (as discussed below) with respect to that Certificate without giving effect to any reductions in payments attributable to defaults or delinquencies on the Mortgage Loans until it can be established that any such reduction ultimately will not be recoverable. As a result, the amount of taxable income reported in any period by an owner of a Non-Senior Certificate could exceed the amount of economic income actually realized by the owner in such period. Although the owner of a Non-Senior Certificate eventually will recognize a Realized Loss or a reduction in income attributable to defaults on Mortgage Loans, the law is unclear with respect to the timing and character of such Realized Loss or reduction in income. Beneficial owners of Non-Senior Certificates should consult their own tax advisors concerning the treatment of such Realized Losses or reductions in income in their specific circumstances.

*Treatment of Original Issue Discount*

The PO, X and Subordinate Classes will be, and the A Class and Mezzanine Classes may be, issued with "original issue discount" ("OID") within the meaning of section 1273(a) of the Code. A Regular Owner must include in gross income the sum of the "daily portions" of OID on its Regular Certificate for each day during its taxable year on which it held the Certificate, generally in advance of receipt of the cash attributable to that income. We will supply to Holders, brokers and middlemen information with respect to the original issue discount accruing on the Regular Certificates. We will supply this information at the time and in the manner required by the Internal Revenue Service (the "IRS").

*Definition of Original Issue Discount*

In general, a Regular Certificate will be considered to be issued with OID equal to the excess, if any, of its "stated redemption price at maturity" over its "issue price." The issue price of a Regular Certificate is the initial offering price to the public (excluding bond houses and brokers) at which a substantial amount of the Regular Certificates was sold. The issue price also includes any accrued interest attributable to the period before the Settlement Date. The stated redemption price at maturity of a Regular Certificate generally is its stated principal amount, plus an amount equal to the excess (if any) of the interest payable on the first Distribution Date over the interest that accrues for the period from the Settlement Date to the first Distribution Date. The stated redemption price at maturity of a Regular Certificate of a Notional class, however, is equal to the sum of all distributions to be made under that Regular Certificate.

Notwithstanding the general definition, OID on a Regular Certificate will be treated as zero if the discount is less than 0.25 percent of the stated redemption price at maturity of the Certificate multiplied by its weighted average life. The weighted average life of a Regular Certificate is apparently computed for this purpose as the sum, for all distributions included in the stated redemption price at maturity of the Certificate, of the amounts determined by multiplying (i) the number of complete years (rounding down for partial years) from the Settlement Date until the date on which each such distribution is expected to be made under the assumption that the mortgage loans backing the related underlying securities prepay at a specified rate by (ii) a fraction, the numerator of which is the amount of such distribution and the denominator of which is the Regular Certificate's stated redemption price at maturity. If OID is treated as zero under this rule, the actual amount of OID must be allocated to the principal distributions on the Regular Certificate and, when each principal distribution is received, gain equal to the discount allocated to that distribution will be recognized. The prepayment assumption applicable to the Mortgage Loans is 100% of the Prepayment Assumption. See "Description of the Senior and Mezzanine Certificates—Structuring Assumptions—*Prepayment Assumption*" in this prospectus.

*Daily Portions of Original Issue Discount*

For Regular Certificates considered to be issued with OID, the daily portions of OID will be determined as follows. A calculation will first be made of the portion of OID that accrued during each "accrual period." OID accruing during any accrual period will then be allocated ratably to each day during the period to determine the daily portion of OID.

Final regulations issued by the Treasury Department relating to the tax treatment of debt instruments with OID (the "OID Regulations") provide that for purposes of measuring the accrual of OID on a debt instrument, a holder of the debt instrument may use an accrual period of any length, up to one year, as long as each distribution of principal or interest occurs on either the final day or the first day of an accrual period. We will report OID based on accrual periods of one month, beginning on a Distribution Date and ending on the day before the next Distribution Date.

The portion of OID treated as accruing for any accrual period will equal the excess, if any, of

(i) the sum of (A) the present values of all the distributions remaining to be made on the Regular Certificate, if any, as of the end of the accrual period and (B) the distribution made on the Certificate during the accrual period of amounts included in the stated redemption price at maturity, over

(ii) the adjusted issue price of the Certificate at the beginning of the accrual period.

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

- the yield to maturity of the Regular Certificate, calculated as of the Settlement Date, giving effect to the applicable prepayment assumption,
- events (including actual prepayments) that have occurred prior to the end of the accrual period, and
- the prepayment assumption.

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

The Code requires that the prepayment assumption be determined in the manner prescribed in Treasury regulations. To date, no such regulations have been promulgated. The legislative history of this Code provision indicates that the regulations will provide that the assumed prepayment rate must be the rate used by the parties in pricing the particular transaction. Fannie Mae believes that the prepayment assumption described above is consistent with this standard. Fannie Mae makes no representation, however, that the Mortgage Loans will prepay at the rate reflected in the prepayment assumption described above or at any other rate. Each investor must make its own decision as to the appropriate prepayment assumption to be used in deciding whether or not to purchase any of the Certificates. See "Description of the Senior and Mezzanine Certificates—Maturity Considerations and Last Scheduled Distribution Date" and "—Decrement Tables" in this prospectus.

*Subsequent Holders' Treatment of Original Issue Discount*

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

*Regular Certificates Purchased at a Premium*

If a Regular Owner purchases a Certificate for an amount (net of accrued interest) greater than its remaining stated redemption price at maturity, the Owner will have premium with respect to the Certificate (a "Premium Certificate") in the amount of the excess. Such a purchaser need not include in income any remaining OID and may elect, under section 171(c)(2) of the Code, to treat the premium as "amortizable bond premium."

If a Regular Owner makes this election, the amount of any interest payment that must be included in the Regular Owner's income for each period ending on a Distribution Date will be reduced by the portion of the premium allocable to the period based on the Premium Certificate's yield to maturity. In addition, the legislative history of the Tax Reform Act of 1986 states that premium should be amortized under principles analogous to those governing the accrual of market discount (as discussed below under "—Regular Certificates Purchased with Market Discount"). The election will also apply to all bonds (as well as all REMIC regular interests) the interest on which is not excludible from gross income ("fully taxable bonds") held by the Regular Owner at the beginning of the first taxable year to which the election applies and to all fully taxable bonds thereafter acquired by it. A Regular Owner may revoke the election only with the consent of the IRS.

If the election is not made, (i) a Regular Owner must include the full amount of each interest payment in income as it accrues, and (ii) the premium must be allocated to the principal distributions on the Premium Certificate and, when each principal distribution is received, a loss equal to the premium allocated to the distribution will be recognized. Any tax benefit from the premium not previously recognized will be taken into account in computing gain or loss upon the sale or disposition of the Premium Certificate.

*Regular Certificates Purchased with Market Discount*

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

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

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

*Special Election*

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

**Sales and Other Dispositions of Regular Certificates**

Upon the sale, exchange, retirement or other disposition of a Regular Certificate, the beneficial owner generally will recognize gain or loss equal to the difference between the amount realized upon the disposition and the beneficial owner's adjusted basis in the Certificate. In addition, the Code requires the recognition of gain upon the ''constructive sale of an appreciated financial position.'' In general, a constructive sale of an appreciated financial position occurs if a taxpayer enters into certain transactions or series of transactions with respect to a financial instrument that have the effect of substantially eliminating the taxpayer's risk of loss and opportunity for gain with respect to the financial instrument. These provisions only apply to Certificates of a Notional class.

The adjusted basis of a Regular Certificate generally will equal the cost of the Certificate to the beneficial owner, increased by any OID or market discount included in the beneficial owner's gross income with respect to the Certificate and reduced by distributions previously received by the beneficial owner of amounts included in the Certificate's stated redemption price at maturity and by any premium that has reduced the beneficial owner's interest income with respect to the Certificate.

The gain or loss, if any, will be capital gain or loss, provided the Certificate is held as a ''capital asset'' (generally, property held for investment) within the meaning of section 1221 of the Code and none of the following apply. First, gain that might otherwise be capital gain will be treated as ordinary income to the extent that the gain does not exceed the excess, if any, of (i) the amount that would have been includible in the income of the Regular Owner had income accrued at a rate equal to 110 percent of the ''applicable Federal rate'' (generally, an average of current yields on Treasury securities) as of the date of purchase over (ii) the amount actually includible in the Regular Owner's income. Second, gain recognized by a Regular Owner who purchased a Regular Certificate at a market discount will be taxable as ordinary income in an amount not exceeding the portion of the market discount that accrued during the period the Certificate was held by the Regular Owner, reduced by any market discount includible in income under the rules described above under ''—Regular Certificates Purchased with Market Discount.'' Third, any gain or loss resulting from a sale or exchange described in section 582(c) of the Code (which generally applies to banks) will be taxable as ordinary income or loss.

**Termination**

In general, no special tax consequences will apply to a Regular Owner upon the termination of the Trust by virtue of the final payment or liquidation of the last Mortgage Loan remaining in the Trust.

**Taxation of Beneficial Owners of Residual Certificates**

*Daily Portions*

Except as indicated below, a beneficial owner of a Residual Certificate (a ''Residual Owner'') generally will be required to report its daily portion of the taxable income or net loss of the Trust for each day during a calendar quarter that the Residual Owner owns the Residual Certificate. For this purpose, the daily portion is determined by allocating to each day in the calendar quarter its ratable portion of the taxable income or net loss of the Trust for the quarter and then allocating that amount among the Residual Owners in accordance with their percentage interests on that day. Daily portions of income or loss allocated to a Residual Owner will be treated as ordinary income or loss. A Residual Owner must continue to report its daily portion of the taxable income or net loss of the Trust until no Certificates of any class are outstanding, even though the Residual Owner may have received full payment of any stated interest and principal on its Residual Certificate.

**Taxable Income or Net Loss of the Trust**

The taxable income or net loss of the Trust will be the income from the "qualified mortgages" it holds and any reinvestment earnings less deductions allowed to the Trust. In general, a Mortgage Loan will be a "qualified mortgage" if the Mortgage Loan is "principally secured by an interest in real property" within the meaning of section 860G(a)(3) of the Code.

The taxable income or net loss for a given calendar quarter will be determined in the same manner as for an individual having the calendar year as the taxable year and using the accrual method of accounting, with the following modifications and limitations:

- A deduction will be allowed for accruals of interest (including any OID, but without regard to the investment interest limitation in section 163(d) of the Code) on the Regular Certificates (but not the Residual Certificates).
- Market discount equal to any excess of the total Stated Principal Balances of the qualified mortgages over the Trust's basis in these mortgages generally will be included in income by the Trust as it accrues under a constant yield method, taking into account the prepayment assumption described above.
- If the Trust is treated as having acquired qualified mortgages at a premium, the premium also will be amortized using a constant yield method.
- No item of income, gain, loss or deduction allocable to a prohibited transaction (see "*—Taxes on the Trust*—Prohibited Transactions" below) will be taken into account.
- The Trust generally may not deduct any item that would not be allowed in calculating the taxable income of a partnership by virtue of section 703(a)(2) of the Code.
- The limitation on miscellaneous itemized deductions imposed on individuals by section 67 of the Code will not be applied at the Trust level to any administrative fees, such as servicing and guaranty fees. (See, however, "—Pass-Through of Servicing and Guaranty Fees to Individuals" below.)
- No deduction is allowed for any expenses incurred in connection with the formation of the Trust and the issuance of the Regular and Residual Certificates.
- Any gain or loss to the Trust from the disposition of any asset, including a qualified mortgage or "permitted investment" as defined in section 860G(a)(5) of the Code), will be treated as ordinary gain or loss.

The Trust's basis in qualified mortgages is the aggregate of the issue prices of all the Regular and Residual Certificates in the REMIC constituted by the Trust on the Settlement Date. If, however, the amount sold to the public of any class of Regular or Residual Certificates is not substantial, then the fair market value of all the Regular or Residual Certificates in that class as of the date of this prospectus should be substituted for the issue price. If the deductions allowed to the Trust exceed its gross income for a calendar quarter, the excess will be a net loss for the Trust for that calendar quarter.

A Residual Owner may be required to recognize taxable income without being entitled to receive a corresponding amount of cash. This could occur, for example, if the Mortgage Loans are considered to be purchased by the Trust at a discount, some or all of the Regular Certificates are issued at a discount, and the discount included as a result of a prepayment on a Mortgage Loan that is used to pay principal on the Regular Certificates exceeds the Trust's deduction for unaccrued original issue discount relating to the Regular Certificates. Taxable income may also be greater in earlier years because interest expense deductions, expressed as a percentage of the outstanding principal amount of the Regular Certificates, may increase over time as the earlier classes of Regular Certificates are paid, whereas interest income of the Trust from each Mortgage Loan, expressed as a percentage of the outstanding principal amount of that Mortgage Loan, may remain constant over time.

*Basis Rules and Distributions*

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

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

*Treatment of Excess Inclusions*

Any excess inclusions with respect to a Residual Certificate are subject to certain special tax rules. With respect to a Residual Owner, the excess inclusion for any calendar quarter is defined as the excess (if any) of the daily portions of taxable income over the sum of the "daily accruals" for each day during the quarter that the Residual Certificate was held by the Residual Owner. (The determination of daily accruals is discussed below.) The Treasury Department has the authority to issue regulations that would treat all taxable income of a REMIC as excess inclusions if the Residual Certificate does not have "significant value." The Treasury Department has not yet exercised this authority, but may do so in the future.

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

In the case of any Residual Certificates that are held by a real estate investment trust, the aggregate excess inclusions with respect to the Residual Certificates reduced (but not below zero) by the real estate investment trust taxable income (within the meaning of section 857(b)(2) of the Code, excluding any net capital gain) would, under regulations yet to be prescribed, be allocated among the shareholders of the trust in proportion to the dividends received by the shareholders from the trust, and any amount so allocated would be treated as an excess inclusion with respect to a Residual

Certificate as if held directly by the shareholder. Similar rules would apply in the case of regulated investment companies, common trust funds and certain cooperatives that hold a Residual Certificate.

*Determination of Daily Accruals*

The daily accruals are determined by allocating to each day during a calendar quarter its ratable portion of the product of the "adjusted issue price" of the Residual Certificate at the beginning of the calendar quarter and 120 percent of the "Federal long-term rate" in effect on the Settlement Date, based on quarterly compounding and properly adjusted for the length of the quarter. The Federal long-term rate is a blend of current yields on Treasury securities having a maturity of more than nine years computed and published monthly by the IRS. One hundred and twenty percent of the Federal long-term rate in effect on the Settlement Date is 6.12%.

The adjusted issue price of a Residual Certificate as of the beginning of any calendar quarter is equal to the issue price of the Residual Certificate, increased by the amount of daily accruals for all prior quarters and decreased by any distributions made with respect to the Residual Certificate before the beginning of the quarter. The issue price of a Residual Certificate generally is the initial offering price to the public (excluding bond houses and brokers) at which a substantial amount of the Residual Certificates was sold.

*Pass-Through of Servicing and Guaranty Fees to Individuals*

A Residual Owner who is an individual will be required to include in income a share of the administrative fees of the Trust, including the servicing and guaranty fees imposed at the level of the Mortgage Loans. See, for example, "Description of Certificates—Servicing Through Lenders" and "Certain Federal Income Tax Consequences" in our MBS prospectus. A deduction for such fees generally will be allowed to such a Residual Owner only to the extent that such fees, along with certain of the Residual Owner's other miscellaneous itemized deductions, exceed 2 percent of the Residual Owner's adjusted gross income. In addition, such a Residual Owner may not be able to deduct any portion of such fees in computing the Residual Owner's alternative minimum tax liability. A Residual Owner's share of such fees generally will be determined by (i) allocating the amount of such expenses for each calendar quarter on a *pro rata* basis to each day in the calendar quarter, and (ii) allocating the daily amount among the Residual Owners in proportion to their respective holdings on that day. Similar rules apply in the case of (i) estates and trusts, and (ii) individuals owning an interest in a Residual Certificate through an investment in a "pass-through entity." Pass-through entities include partnerships, S corporations, grantor trusts and non-publicly offered regulated investment companies, but do not include estates, trusts other than grantor trusts, cooperatives, real estate investment trusts and publicly offered regulated investment companies.

**Sales and Other Dispositions of Residual Certificates**

Upon the sale, exchange or other disposition of a Residual Certificate, the Residual Owner generally will recognize gain or loss equal to the difference between the amount realized upon the disposition and the Residual Owner's adjusted basis in the Certificate. The adjusted basis of a Residual Certificate is determined as described above under "—Basis Rules and Distributions." Except as provided in section 582(c) of the Code, the gain or loss, if any, will be capital gain or loss, provided the Certificate is held as a capital asset.

If a Residual Owner sells or otherwise disposes of its Residual Certificate at a loss, the loss will not be recognized if, within six months before or after the sale or other disposition of the Residual Certificate, the Residual Owner purchases another residual interest in any REMIC or any interest in a taxable mortgage pool (as defined in section 7701(i) of the Code) comparable to a residual interest in a REMIC. The disallowed loss would be allowed upon the sale or other disposition of the other residual interest (or comparable interest) if the rule referred to in the preceding sentence does not apply to that sale or other disposition. While this rule may be modified by Treasury regulations, no such regulations have yet been published.

*Residual Certificates Transferred to or Held by Disqualified Organizations*

Section 860E(e) of the Code imposes a substantial tax, payable by the transferor (or, if a transfer is through a broker, nominee, or other middleman as the transferee's agent, payable by that agent) upon any transfer of a Residual Certificate to a "disqualified organization." A transfer includes any transfer of record or beneficial ownership, whether pursuant to a purchase, a default under a secured lending agreement or otherwise. The term "disqualified organization" is defined above under "Description of the Certificates—Special Characteristics of Residual Certificates." A transferor of a Residual Certificate (or an agent of a transferee of a Residual Certificate, as the case may be) will be relieved of this tax liability if (i) the transferee furnishes to the transferor (or the transferee's agent) an affidavit that the transferee is not a disqualified organization, and (ii) the transferor (or the transferee's agent) does not have actual knowledge that the affidavit is false at the time of the transfer.

In addition, a tax may be imposed upon a pass-through entity (including a regulated investment company, real estate investment trust, common trust fund, partnership, trust, estate and nominee and certain cooperatives) that owns a Residual Certificate if the pass-through entity has a disqualified organization as a record holder. For this purpose, all interests in an electing large partnership are treated as held by disqualified organizations. No such tax will be imposed on a pass-through entity for a period with respect to an interest therein owned by a disqualified organization if (i) the record holder of the interest furnishes to the pass-through entity an affidavit that it is not a disqualified organization, (ii) during that period, the pass-through entity has no actual knowledge that the affidavit is false and (iii) the entity is not an electing large partnership.

*Other Transfers of Residual Certificates*

A transfer of a Residual Certificate that has tax avoidance potential is disregarded for federal income tax purposes if the transferee is not a U.S. Person (a "Non-U.S. Person"), unless the transferee's income from the Certificate is otherwise subject to U.S. income tax. A Residual Certificate has tax avoidance potential unless, at the time of the transfer, the transferor reasonably expects that, for each excess inclusion, the REMIC will pay to the transferee an amount that will equal at least 30 percent of the excess inclusion, and that each amount will be paid at or after the time at which the excess inclusion accrues and not later than the close of the calendar year following the calendar year of accrual. Certain transfers by a Non-U.S. Person to a U.S. Person or another Non-U.S. Person are also disregarded if the transfer has the effect of allowing the transferor to avoid tax on accrued excess inclusions. See "Description of the Certificates—Special Characteristics of Residual Certificates" for a discussion of additional provisions applicable to transfers of Residual Certificates.

*Amounts Paid to a Transferee of a Residual Certificate*

The federal income tax consequences of any consideration paid to a transferee on the transfer of a Residual Certificate are unclear. You should consult your own tax advisor regarding the tax consequences of receiving such consideration.

## Termination

Although the matter is not entirely free from doubt, it appears that a Residual Owner will be entitled to a loss if:

- the Trust terminates by virtue of the final payment or liquidation of the last Mortgage Loan remaining in the Trust and

- the Residual Owner's adjusted basis in its Residual Certificate at the time the termination occurs exceeds the amount of cash distributed to the Residual Owner in liquidation of its interest.

The amount of the loss will equal the amount by which the Residual Owner's adjusted basis exceeds the amount of cash distributed to the Residual Owner in liquidation of its interest.

### Taxes on the Trust

The Trust will not be subject to federal income tax except with respect to income from prohibited transactions and in certain other instances described below. It is not anticipated that the Trust will engage in any transactions that will give rise to a tax on a related REMIC. If in certain circumstances a tax is imposed on the Trust, distributions on the Non-Senior Certificates may be reduced by the amount of such tax. Pursuant to its guaranty obligations with respect to the Senior Certificates, however, Fannie Mae will make distributions on the Senior Certificates without offset or deduction for any tax imposed on the Trust.

*Prohibited Transactions*

The Code imposes a tax on a REMIC equal to 100 percent of the net income derived from "prohibited transactions." In general, the term "prohibited transaction" means the disposition of a qualified mortgage other than pursuant to certain specified exceptions, the receipt of investment income from a source other than a qualified mortgage or certain other permitted investments, the receipt of compensation for services, or the disposition of a "cash flow investment" as defined in Section 8606(a)(6) of the Code.

*Contributions to a REMIC after the Startup Day*

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

*Net Income from Foreclosure Property*

The Code imposes a tax on a REMIC equal to the highest corporate rate on "net income from foreclosure property." The terms "foreclosure property" (which includes property acquired by deed in lieu of foreclosure) and "net income from foreclosure property" are defined by reference to the rules applicable to real estate investment trusts. Generally, foreclosure property would be treated as such until the close of the third taxable year following the taxable year in which the acquisition occurs, with possible extensions. Net income from foreclosure property generally means gain from the sale of foreclosure property that is inventory property and gross income from foreclosure property other than qualifying rents and other qualifying income for a real estate investment trust, net of deductions directly connected with the production of such income.

### Reporting and Other Administrative Matters

For purposes of the administrative provisions of the Code, the Trust will be treated as a partnership and the Residual Owners will be treated as partners. We will prepare, sign and file federal income tax returns for the Trust, which returns are subject to audit by the IRS. We do not intend to register the Trust as a tax shelter pursuant to section 6111 of the Code. We will also act as the tax matters partner for the Trust, either as a beneficial owner of a Residual Certificate or as a fiduciary for the Residual Owner. Each Residual Owner, by the acceptance of its Residual Certificate, agrees that we will act as its fiduciary in the performance of any duties required of it in the event that it is the tax matters partner.

Within a reasonable time after the end of each calendar year, we will furnish to each Holder that received a distribution during that year a statement setting forth the portions of any distributions that constitute interest distributions, OID and any other information as is required by Treasury regulations and, with respect to Holders of Residual Certificates, information necessary to compute the daily portions of the taxable income (or net loss) of the Trust for each day during that year.

If there is more than one Residual Owner for a taxable year, each Residual Owner is required to treat items on its return consistently with the treatment on the return of the Trust, unless the Residual Owner either files a statement identifying the inconsistency or establishes that the inconsistency resulted from incorrect information received from the Trust. The IRS may assert a deficiency resulting from a failure to comply with the consistency requirement without instituting an administrative proceeding at the Trust level.

**Backup Withholding**

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

**Foreign Investors**

*Regular Certificates*

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

*Residual Certificates*

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

## LEGAL INVESTMENT CONSIDERATIONS

### General

**Investors should consult their own legal advisors to determine whether and to what extent the Senior and Mezzanine Certificates constitute legal investments or are subject to restrictions on investment, and whether and to what extent the Senior and Mezzanine Certificates can be used as collateral for various types of borrowings.**

### Senior Certificates

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 certain classes of the Senior 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, the Department of the Treasury or other federal or state agencies with similar authority, you should review the rules, guidelines and regulations that apply to you prior to purchasing or pledging any Senior Certificates. In addition, if you are a financial institution, you should consult your regulators concerning the risk-based capital treatment of any Senior Certificate.

### Mezzanine Certificates

There are significant interpretive uncertainties regarding the characterization of the Mezzanine Certificates under various legal investment restrictions. Accordingly, we cannot determine whether investors that are subject to these restrictions are able to purchase Mezzanine Certificates.

We make no representations regarding:

- the characterization of the Mezzanine Certificates for legal investment or other purposes,
- whether particular investors can purchase the Mezzanine Certificates under any applicable legal investment restrictions, or
- the regulatory capital requirements that apply to the Mezzanine Certificates.

These uncertainties may impair the liquidity of the Mezzanine Certificates. Accordingly, all institutions whose investment activities are subject to legal investment laws and regulations, regulatory capital requirements or review by regulatory authorities should consult with their own legal advisors in determining whether and to what extent the Mezzanine Certificates constitute legal investments or are subject to investment, capital or other restrictions. See ''Ratings'' below.

## 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

### General

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 is also subject to the requirements imposed by ERISA and the Code. Before a Plan invests in Mezzanine Certificates, the Plan fiduciary must consider whether the governing instruments for the Plan would permit the investment, whether the Mezzanine Certificates would be a prudent and appropriate investment for the Plan under its investment policy and whether such an investment might result in a prohibited transaction 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 tin this prospectus" 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 cause the sponsor, trustee and other servicers of the mortgage pool to be subject to the fiduciary responsibility provisions of ERISA or section 4975 of the Code in providing services with respect to the mortgages in the pool. At the time the regulation was originally issued, certificates similar to the Senior Certificates did not exist. However, we have been advised by our counsel, Brown & Wood LLP, that the Senior Certificates qualify under the definition of "guaranteed governmental mortgage pool certificates" and, as a result, the purchase and holding of Senior 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 requirements of ERISA and the Code.

### Mezzanine Certificates

Under current law, the purchase and holding of Mezzanine Certificates by or on behalf of any Plan may result in a prohibited transaction under ERISA and the Code and, further, may cause the assets of the Trust to be treated as assets of the Plan, so that transactions involving assets of the Trust also would be subject to the fiduciary responsibility provisions of ERISA and the prohibited transaction provisions of the Code. Prohibited Transaction Class Exemption 83-1 ("PTCE 83-1") provides an exemption for certain transactions involving the creation, maintenance and termination of certain residential mortgage pools and the acquisition and holding of certain residential mortgage pool pass-through certificates by Plans, whether or not such transactions would otherwise be prohibited under ERISA and the Code. However, because the Mezzanine Certificates evidence interests to which Realized Losses are allocated prior to any such allocation to the Senior Certificates, the Mezzanine Certificates would be considered subordinated certificates for purposes of PTCE 83-1, and would not be entitled to exemption under PTCE 83-1.

Because the acquisition and disposition of Mezzanine Certificates do not qualify for the foregoing exemption (or any similar exemption that might be available), the Trust Agreement provides that no transfer of a Mezzanine Certificate or any interest in a Mezzanine Certificate shall be made to

- any Plan, or
- any person who is directly or indirectly purchasing a Mezzanine Certificate or an interest in a Mezzanine Certificate on behalf of, as named fiduciary of, as trustee of, or with assets of, a Plan (including any insurance company using funds in its general or separate account that may constitute "plan assets"),

unless the Trustee and the Transfer Agent are provided with a certification of facts or an opinion of counsel which establishes to the satisfaction of each that the transfer will not result in a violation of Section 406 of ERISA or Section 4975 of the Code or cause the Trustee, the Transfer Agent or the Master Servicer to be deemed a fiduciary of the Plan or result in the imposition of an excise tax under Section 4975 of the Code.

In the absence of its having received the certification of facts or opinion of counsel contemplated by the preceding paragraph, the Trustee and the Transfer Agent shall require the prospective transferee of any Mezzanine Certificate to certify that either

- it is not a Plan and
- it is not a person who is directly or indirectly purchasing the Mezzanine Certificate on behalf of, as named fiduciary of, as trustee of, or with assets of a Plan (including any insurance company using funds in its general or separate account that may constitute "plan assets"), or
- it is an insurance company, and either (i) all of the funds to be used by it to purchase the Mezzanine Certificates are held in its general account and all of the policies held by Plans and supported by assets in such general account are "guaranteed benefit policies," within the meaning of section 401(b)(2) of ERISA and its purchase of such Mezzanine Certificates will not result in a violation of Section 406 of ERISA or Section 4975 of the Code, or (ii) it is purchasing such Mezzanine Certificates with funds contained in an "insurance company general account" (as such term is defined in Section V(e) of the Prohibited Transaction Class Exemption 95-60 ("PTE 95-60")) and the purchase and holding of such Mezzanine Certificates are covered under Sections I and III of PTE 95-60.

Such representation described above shall be deemed to have been made to the Trustee by the transferee's acceptance of an interest in a Mezzanine Class. In the event that such representation is violated, or any attempt to transfer to a Plan or person acting on behalf of a Plan or using such Plan's assets is attempted without such opinion of counsel, such attempted transfer or acquisition shall be void and of no effect.

Any Plan fiduciary that proposes to cause a Plan to purchase a Mezzanine Certificate should consult with its counsel regarding the applicability of the fiduciary responsibility and prohibited transaction provisions (with respect to the Subordinate Certificates) of ERISA and the Code.

## PLAN OF DISTRIBUTION

Pursuant to the Sale and Servicing Agreement, we will acquire the Mortgage Loans from the Seller in exchange for the Certificates. The Seller has retained Countrywide Securities Corporation (the "Dealer"), which proposes to offer the Senior and Mezzanine 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.

## RATINGS

We will not issue the Class M, Class B-1 and Class B-2 Certificates unless they are rated at least AA, A and BBB, respectively, by Duff & Phelps Credit Rating Co. (the "Rating Agency").

The ratings that the Rating Agency assigns to mortgage pass-through certificates reflect the likelihood that certificateholders will receive all distributions to which they are entitled under the transaction. The Rating Agency analyzes the riskiness of the mortgage loans and the structure of the transaction as described in the operative documents. The ratings do not address how prepayments or recoveries on the underlying mortgage loans may affect the yields on the certificates. In particular, the ratings do not address the possibility that principal prepayments may cause certificateholders to receive a lower yield than they expect.

You should evaluate the ratings assigned to the Mezzanine Classes independently of similar ratings on other types of securities. A security rating is not a recommendation to buy, sell or hold securities. The Rating Agency may revise or withdraw its rating at any time.

We have not requested ratings of the Mezzanine Classes by any rating agency other than the Rating Agency. We cannot assure you that any other rating agency will rate the Mezzanine Classes or, if it does, what ratings it would assign. If another rating agency rates the Mezzanine Classes, it could assign them lower ratings than the ratings assigned by the Rating Agency.

## INDEX TO DEFINED TERMS
## (Alphabetical Listing)

**No one is authorized to give any information or to make any representation in connection with this offering other than those contained in this Senior Supplement, the Prospectus or any other Disclosure Document referred to in the Prospectus. You must not rely on any unauthorized information or representation. This Senior Supplement, the Prospectus, and any other Disclosure Document referred to in the Prospectus do not constitute an offer or solicitation with regard to any securities other than the certificates or 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 Senior Supplement, the Prospectus and the other Disclosure Documents at any time, no one implies that the information contained in this Senior Supplement, the Prospectus or the other Disclosure Documents is correct after the date of this Senior Supplement, the Prospectus or the applicable other Disclosure Document.**

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

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# $234,292,204
**(Approximate)**

FannieMae[SM]

**Guaranteed REMIC**
**Pass-Through Certificates**
**REMIC Trust 1998-W1**

## SENIOR SUPPLEMENT

Countrywide Securities Corporation

**December 28, 1998**