

\$156,802,000



**Guaranteed REMIC Pass-Through Certificates
Fannie Mae REMIC Trust 1999-W5**

Class	Original Class Balance (1)	Principal Type	Interest Rate	Interest Type	Cusip Number	Final Distribution Date
A1	\$47,000,000	SEQ	5.825	FIX	31359VMA8	February 2029
A2	27,000,000	SEQ	5.795	FIX	31359VMB6	February 2029
A3	22,000,000	SEQ	5.925	FIX	31359VMC4	February 2029
A4	26,000,000	SEQ	6.115	FIX	31359VMD2	February 2029
A5	19,120,000	SEQ	(2)	W	31359VME0	February 2029
A6	15,682,000	SEQ	6.135	FIX	31359VMF7	February 2029

(1) Final original principal balances of each class.

Note: All other footnotes are as stated on the cover of the Prospectus dated February 12, 1999.

CONSIDER CAREFULLY THE RISK FACTORS STARTING ON PAGE 6 OF THE PROSPECTUS. UNLESS YOU UNDERSTAND AND ARE ABLE TO TOLERATE THESE RISKS, YOU SHOULD NOT INVEST IN THE CERTIFICATES.

THE CERTIFICATES, TOGETHER WITH ANY INTEREST THEREON, ARE NOT GUARANTEED BY THE UNITED STATES AND DO NOT CONSTITUTE A DEBT OR OBLIGATION OF THE UNITED STATES OR ANY OF ITS AGENCIES OR INSTRUMENTALITIES OTHER THAN FANNIE MAE.

THE CERTIFICATES ARE EXEMPT FROM REGISTRATION UNDER THE SECURITIES ACT OF 1933 AND ARE "EXEMPTED SECURITIES" UNDER THE SECURITIES EXCHANGE ACT OF 1934.

This Final Data Statement contains final Original Principal Balances for the above-referenced Trust.

THE DATE OF THIS FINAL DATA STATEMENT IS FEBRUARY 26, 1999

\$156,921,000 (APPROXIMATE)**FannieMae**

**Guaranteed REMIC Pass-Through Certificates
Fannie Mae REMIC Trust 1999-W5**

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

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

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

The Certificates

We, the Federal National Mortgage Association ("Fannie Mae"), will issue and guaranty the certificates listed in the chart on this page. All of the classes of certificates, except the X Class, R Class and RL Class, are being offered by this prospectus.

Payments to Certificateholders

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

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

The Fannie Mae Guaranty

We will guarantee that

- required payments of interest on the certificates are distributed to investors on time,
- payments of principal on the mortgage loans, to the extent actually received, are distributed to investors on time, and
- the full principal balance of each class of certificates will be paid no later than the final distribution date set forth on the chart below.

The Trust and Its Assets

The trust will indirectly own a pool of first and second lien, one- to four-family, fixed-rate, fully amortizing and balloon payment mortgage loans having the characteristics described herein.

<i>Class</i>	<i>Original Class Balance (1)</i>	<i>Principal Type</i>	<i>Interest Rate</i>	<i>Interest Type</i>	<i>CUSIP Number</i>	<i>Final Distribution Date</i>
A1	\$47,000,000	SEQ	5.825%	FIX	31359VMA8	February 2029
A2	27,000,000	SEQ	5.795	FIX	31359VMB6	February 2029
A3	22,000,000	SEQ	5.925	FIX	31359VMC4	February 2029
A4	26,000,000	SEQ	6.115	FIX	31359VMD2	February 2029
A5	19,229,000	SEQ	6.470(2)	W	31359VME0	February 2029
A6	15,692,000	SEQ	6.135	FIX	31359VMF7	February 2029
X	(3)	NTL	(3)	W/IO	31359VMG5	February 2029
R	(3)	NPR	(3)	NPR	31359VMH3	February 2029
RL	(3)	NPR	(3)	NPR	31359VMJ9	February 2029

(1) May vary by plus or minus 5%.

(2) The A5 Class will bear interest equal to the lesser of (i) the interest rate above or (ii) the weighted average mortgage rate of the mortgage loans less 0.88%.

(3) The X Class, R Class, and RL Class are not being offered by this prospectus.

The dealers specified below will offer the certificates from time to time in negotiated transactions at varying prices. We expect the settlement date to be February 26, 1999.

Prudential Securities Incorporated Morgan Stanley Dean Witter

February 12, 1999

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AVAILABLE INFORMATION

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

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

You can obtain the Information Statement or additional copies of this prospectus by writing Fannie Mae at:

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

or by calling our Helpline at 1-800-237-8627 or 202-752-6547.

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

You also can obtain additional copies of this prospectus by writing to one of the dealers at:

Prudential Securities Incorporated
Prospectus Department
111 Eighth Avenue
5th Floor
New York, New York 10011; or

Morgan Stanley Dean Witter
Prospectus Department
1585 Broadway
New York, New York 10036

or by calling one of the dealers at (212) 776-8190 for Prudential Securities Incorporated or (212) 761-6775 for Morgan Stanley Dean Witter.

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 the certificates only after reading this prospectus in its entirety and the Information Statement referred to on page 3.

Assumed Characteristics of the Mortgage Loans

The table appearing under the heading “The Mortgage Loans—General” sets forth certain summary information regarding the assumed characteristics of the mortgage loans in the pool.

Class Factors

The class factors are numbers that, when multiplied by the initial principal balance of a certificate, can be used to calculate the current principal balance of that certificate (after taking into account distributions in the same month). We will publish the class factors for each class of the certificates (except the R and RL Classes) on or shortly after the 11th day of each month.

Settlement Date

We expect to issue the certificates on February 26, 1999.

Distribution Dates

We will make payments on the certificates on the 25th day of each calendar month, or the next business day if the 25th day is not a business day, beginning on March 25, 1999.

Book-Entry Certificates

We issue book-entry certificates through the U.S. Federal Reserve Banks, 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:

<u>Fed Book-Entry</u>	<u>Physical</u>
All Classes other than the R and RL Classes	R and RL Classes

Interest Payments

During each interest accrual period, the certificates will bear interest at the interest rates described on the cover of this prospectus.

Principal Payments

We will pay principal on the certificates each month in an amount equal to the aggregate amount of principal received on the mortgage loans during the month preceding the distribution date. Principal will be distributed as follows: to the A6 Class in an amount equal to the A6 Principal Distribution Amount; and the remainder of the principal will be distributed sequentially to the A1, A2, A3, A4, A5 and A6 Classes, in that order, until the respective principal balances are reduced to zero. For a description of the A6 Principal Distribution Amount, see “Description of the Certificates—Distributions of Principal” in this prospectus.

Weighted Average Lives (years) *

<u>Classes</u>	<u>HEP Prepayment Assumption</u>				
	<u>0%</u>	<u>10%</u>	<u>21%</u>	<u>30%</u>	<u>50%</u>
A1	6.2	1.4	0.8	0.5	0.3
A2	13.7	4.0	2.0	1.4	0.8
A3	15.9	6.5	3.2	2.2	1.2
A4	21.6	10.9	5.0	3.3	1.8
A5	27.4	17.8	10.9	6.9	2.7
A6	11.1	7.9	6.6	6.1	4.7

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

RISK FACTORS

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

Suitability

The certificates 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 Information Statement.
- You should thoroughly understand the terms of the certificates.
- You should be able to evaluate (either alone or with the help of a financial advisor) the economic, interest rate, and other factors that may affect your investment.
- 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.

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 your purchase of the certificates is a legal investment for you or is subject to any investment restrictions.

Yield Considerations

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

- the price you paid for the 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.

Yields may be lower than expected due to unexpected rate of principal payment. 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 mortgage loans are prepaid at a rate that on average is consistent with your expectations, variations in the prepayment rate over time could significantly affect your yield. Generally, the earlier the payment of principal, the greater the effect on the yield to maturity. As a result, if the rate of principal prepayment during any period is faster or slower than you expect, a corresponding reduction or increase in the prepayment rate during a later period may not fully offset the impact of the earlier prepayment rate on your yield.

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

You must make your own decision as to the assumptions, including the principal

prepayment assumptions, you will use in deciding whether to purchase the certificates.

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

Delayed payments reduce yield and market value. Since the certificates do not receive interest immediately following each interest accrual period, the certificates have lower yields and lower market values than they would if there were no such delay.

Prepayment Considerations and Risks

General. The rate of principal payments on the certificates generally will depend on the rate of principal payments on the mortgage loans. Principal payments on the mortgage loans may occur as a result of scheduled amortization, balloon payments or prepayments. In addition, early or late payments on simple interest loans will affect the rate of principal payments on the certificates. The rate of principal payments is likely to vary considerably from time to time because borrowers generally may prepay the mortgage loans at any time without penalty.

It is highly unlikely that the mortgage loans will prepay:

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

The underlying mortgage loans generally provide that the lender can require repayment in full if the borrower sells the property that secures the mortgage loan. In this way, property sales by borrowers can affect the rate of prepayment. In addition, borrowers often seek to refinance their loans by obtaining new loans secured by the same properties. Refinancing of loans also affects the rate of prepayment. When the level of prevailing interest rates declines relative to the interest rates on fixed-rate mort-

gage 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.

In general, prepayment rates may be influenced by:

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

Because so many factors affect the prepayment rate of a pool of mortgage loans, we cannot estimate the prepayment experience of the mortgage loans. The Fannie Mae Information Statement contains the most recent mortgage loan prepayment experience of our portfolio.

No principal advances on mortgage loans. In the case of certificates purchased at a discount, your yield will be reduced if delinquencies occur in the payment of principal on the mortgage loans. Because no advances will be made to cover delinquent payments of principal on the mortgage loans, any delinquencies will affect, and may significantly affect, the rate of principal distributions on the certificates, particularly in the case of final payments on balloon mortgage loans.

Second lien mortgage loans. The original maturities of a substantial majority of the second lien mortgage loans are expected to be between 15 and 20 years. In addition, these Mortgage Loans generally may be prepaid in whole or in part at any time without penalty. We are not aware of any reliable studies or statistics on the rate of prepayment of second lien mortgage loans. However, second lien mortgage loans may prepay at a higher rate than first lien mortgage loans because generally the interest rates are higher than first lien mortgage loans. In addition, prepayment of such mortgage loans also may be affected by a wide variety of other

factors including homeowner mobility, interest rates, availability of alternative financing and general economic conditions.

Repurchases Due to Delinquency

We may repurchase any mortgage loans that are delinquent with respect to three consecutive monthly payments. If we do, we will purchase the mortgage loans at a price equal to their principal balance (plus accrued interest at the mortgage interest rate). Our repurchase of mortgage loans will have the same effect on you as borrower prepayments.

Reinvestment Risk

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

Market and Liquidity Considerations

We cannot be sure that a market for resale of the certificates will develop. Further, if a market develops, it may not continue or be sufficiently liquid to allow you to sell your certificates. Even if you are able to sell your certifi-

cates, the sale price may not be comparable to similar investments that have a developed market. Moreover, you may not be able to sell small or large amounts of certificates at prices comparable to those available to other investors.

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

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

Fannie Mae Guaranty Considerations

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

GENERAL

The material under this heading summarizes certain features of the Certificates and is not complete. You will find additional information about the Certificates in the other sections of this prospectus, as well as in the Information Statement and the Trust Agreement. 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 laws of the United States, under the authority contained in Section 304(d) of the Federal National Mortgage Association Charter Act (12 U.S.C. 1716 *et seq.*), will create the Fannie Mae REMIC Trust specified on the cover of this prospectus (the “Trust”) and a separate trust (the “Lower Tier REMIC”) pursuant to a trust agreement (the “Trust Agreement”) dated as of February 1, 1999 (the “Issue Date”). We will execute the Trust Agreement in our

corporate capacity and as trustee (the “Trustee”). We will issue the Guaranteed REMIC Pass-Through Certificates (the “Certificates” or “Classes”) pursuant to the Trust Agreement.

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

- The Certificates (except the R and RL Classes) will be the “regular interests” in the Trust.
- The R Class Certificate will be the “residual interest” in the Trust.
- The interests in the Lower Tier REMIC other than the RL Class (the “Lower Tier Regular Interests”) will be the “regular interests” in the Lower Tier REMIC.
- The RL Class will be the “residual interest” in the Lower Tier REMIC.

The assets of the Trust will consist of the Lower Tier Regular Interests. The assets of the Lower Tier REMIC will consist of the Mortgage Loans.

Authorized Denominations. We will issue the Certificates (except the R and RL Classes) in minimum denominations of \$1,000 and whole dollar increments above that amount. We will issue the R and RL Classes as single Certificates with no principal balances.

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

Although not offered by this prospectus, we will issue the R and RL Certificates in fully registered, certificated form. The “Holder” or “Certificateholder” of the R or RL Certificate is its registered owner. The R or RL 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 or RL Certificate and may require payment to cover any tax or other governmental charge.

The Holder of the R Class will receive the proceeds of any remaining assets of the Trust, and the Holder of the RL Class will receive the proceeds of any remaining assets of the Lower Tier REMIC, in each case only by presenting and surrendering the related Certificate at the office of the paying agent. State Street will be the initial paying agent.

See “Description of the Certificates—Book-Entry Procedures” and “—Certificated Classes” in this prospectus.

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

- required installments of interest on the Certificates on time,
- payments of principal on the Mortgage Loans, to the extent actually received, and
- the principal balance of each Class of Certificates no later than the Final Distribution Date, whether or not we have received sufficient payments.

If we were unable to perform these guaranty obligations, Certificateholders would receive only the amounts paid and other recoveries on the Mortgage Loans. If that happened, delinquencies and defaults on the Mortgage Loans would directly affect the amounts that Certificateholders would receive each month. Our guaranty is not backed by the full faith and credit of the United States.

Distribution Dates. We will make monthly payments on the Certificates on the 25th day of each calendar month, or the next business day if the 25th is not a business day. We refer to such date as a “Distribution Date.” We will make the first payments to Certificateholders on March 25, 1999.

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 or, in the case of the initial Distribution Date, to Holders of record on the date we issue the Certificates (expected to be February 26, 1999).

Class Factors. As soon as practicable following the eleventh calendar day of each month, we will publish class factors (carried to eight decimal places) for each Class of Certificates. When the factor is multiplied by the original principal balance of a Certificate of that Class, the product will equal the remaining principal balance of that Certificate after giving effect to the distribution of principal to be made in the same month.

Optional Termination. We may effect an early termination of the Lower Tier REMIC and the Trust as described herein under “The Trust Agreement—Termination.”

THE MORTGAGE LOANS

General

We expect that the Lower Tier REMIC will consist of approximately 2,360 mortgage loans (collectively, the “Mortgage Loans”) having an aggregate principal balance of approximately \$156,921,571 as of the Issue Date. This aggregate amount may vary by plus or minus 5%. The seller and servicer of the Mortgage Loans will be a party with Fannie Mae to a sale and servicing agreement dated as of February 1, 1999 (the “Sale and Servicing Agreement”).

The Mortgage Loans consist of first and second lien, one- to four-family, fixed-rate, fully amortizing and balloon payment mortgage loans. Each Mortgage Loan is evidenced by a promissory note or similar evidence of indebtedness (a “Mortgage Note”) that is secured by a first or second mortgage or deed of trust on a one-to-four-family residential property. Each Mortgage Note requires the borrower to make monthly payments of principal and interest. We refer to the property that secures repayment of a Mortgage Loan as the “Mortgaged Property.”

As of the Issue Date, approximately 96.4% of the Mortgage Loans were secured by first liens on the related Mortgaged Properties and approximately 3.6% of the Mortgage Loans were secured by second liens on the related Mortgaged Properties (in each case based upon the aggregate principal balance of the Mortgage Loans as of such date).

As of the Issue Date, approximately 85.6% of the Mortgage Loans (based upon the aggregate principal balance of the Mortgage Loans as of such date) are fully amortizing Mortgage Loans and approximately 14.4% are Balloon Mortgage Loans. A “Balloon Mortgage Loan” is a Mortgage Loan providing for amortization on the basis of an amortization schedule extending beyond its stated maturity with a disproportionate payment due on a stated maturity date equal to the remaining principal balance of such Mortgage Loan. The monthly payments for the Balloon Mortgage Loans in the Lower Tier REMIC generally are based upon 30 year amortization schedules, with lump sum payments on the related dates of maturity (in most cases, 15 years from origination). See “Description of the Certificates—Maturity Considerations and Final Distribution Dates” in this prospectus.

As of the Issue Date, approximately 99.2% of the Mortgage Loans are Actuarial Loans (as defined below) and approximately 0.8% of the Mortgage Loans are Simple Interest Loans (as defined below), in each case based upon the aggregate principal balance of the Mortgage Loans as of such date.

The table following the paragraph below summarizes certain assumed characteristics of the Mortgage Loans as of the Issue Date. The information in the table is presented in aggregated form, on the basis of the characteristics specified in the table, and does not reflect actual or assumed

characteristics of any individual Mortgage Loan. The information in the table 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 (the “Mortgage Interest Rate”), less 0.88%. For any Distribution Date, the “Weighted Average Mortgage Rate” is the weighted average of the Mortgage Interest Rates of the Mortgage Loans during the preceding calendar month, weighted on the basis of the principal balances of the Mortgage Loans during the Due Period (as defined herein). For any Distribution Date, the “Weighted Average Net Mortgage Rate” is the weighted average of the Net Mortgage Rates of the Mortgage Loans during the preceding calendar month, weighted on the basis of the principal balances of the Mortgage Loans during the Due Period (as defined herein). The “Weighted Average Remaining Amortization Term” is the weighted average remaining amortization term of the Mortgage Loans. The “Weighted Average Age” is the weighted average loan age of the Mortgage Loans. The “Weighted Average Months to Balloon Payment” is the weighted average term until the final balloon payment is due on the Balloon Mortgage Loans.

<u>Principal Balance</u>	<u>Weighted Average Net Mortgage Rate</u>	<u>Weighted Average Mortgage Rate</u>	<u>Weighted Average Remaining Amortization Term (in months)</u>	<u>Weighted Average Age (in months)</u>	<u>Weighted Average Months to Balloon Payment</u>
\$ 22,519,659.26	8.436%	9.316%	356	4	176
9,691,551.45	8.056	8.936	113	5	—
32,443,966.55	7.921	8.801	175	5	—
31,046,436.53	7.955	8.835	234	6	—
61,219,957.30	7.847	8.727	351	7	—
<u>\$156,921,571.09</u>	7.981%	8.861%	277	6	

Interest Payments on the Mortgage Loans

Each Mortgage Loan provides for monthly payments by the obligor on the related Mortgage Note (the “borrower”) according to one of the following methods: the “actuarial method” (assumed to be calculated on the basis of a 360-day year consisting of twelve 30-day months) (such Mortgage Loans, the “Actuarial Loans”) or the “simple interest” method (such Mortgage Loans, the “Simple Interest Loans”).

Actuarial Loans provide that interest is charged to each related borrower and payments are due as of a scheduled day in each month that is fixed at the time of origination. Scheduled monthly payments by a borrower on an Actuarial Loan either earlier or later than the scheduled due date will not affect the amortization schedule or the application of the payments to principal and interest.

Simple Interest Loans provide that interest is charged to each related borrower at the rate of interest set forth on the related Mortgage Note (the “Mortgage Interest Rate”) on the outstanding principal balance and calculated based on the number of days elapsed between receipt of the borrower’s last payment through receipt of the borrower’s most recent payment. Interest is deducted from the borrower’s payment amount and the remainder, if any, of the payment is applied to reduce the outstanding principal balance of the related Mortgage Loan. Although the borrower is required to remit equal monthly payments on a specified monthly payment date that would reduce the outstanding principal balance of the Mortgage Loan to zero on the Mortgage Loan’s maturity date, payments by the borrower after the due date would cause the outstanding principal balance of such Mortgage Loan not to be reduced to zero. In such case, the borrower would be required to make an additional principal payment at the related maturity date.

Fannie Mae Mortgage Purchase Program

General

We summarize below certain aspects of our program for purchasing residential mortgage loans for inclusion in a given pool. We may grant exceptions to the requirements of the program for a particular transaction. In several instances, the characteristics of the Mortgage Loans included in the Lower Tier REMIC do not match the criteria described below. For more specific details regarding the Mortgage Loans included in the Lower Tier REMIC see “The Mortgage Loans—General” above.

Eligible Lenders

We purchase mortgage loans from the following types of eligible institutions:

- federally and state-chartered savings and loan associations, savings banks, commercial banks and similar financial institutions whose accounts are insured by the Federal Deposit Insurance Corporation (“FDIC”) or the National Credit Union Administration (“NCUA”);
- state-insured financial institutions; and
- financial institutions, principally mortgage bankers, and finance companies that are Fannie Mae-approved mortgage sellers.

We determine whether to approve a particular financial institution as a lender under our purchase program by applying certain criteria which generally include depth of mortgage origination experience, servicing experience and financial capacity.

We will enter into a Fannie Mae Mortgage Selling and Servicing Contract with each approved lender.

Eligible Mortgage Loans

We may include both residential property loans and cooperative share loans in a given pool. Unless we make an exception, each mortgage loan that we include in a pool will comply with the terms of our current Selling Guide and, if underwritten through Desktop Underwriter*, our Guide to Underwriting with Desktop Underwriter (or any of our multifamily guides in the case of a Mortgage Loan secured by a multifamily property). Generally, we do not include construction loans or land development loans in our pools.

A “residential property loan” is a mortgage loan that is secured by a mortgage or similar instrument on (1) a single-family residence (including a unit in a condominium project or planned unit development) or a manufactured home, or (2) a multifamily project with five or more apartments. A “cooperative share loan” is a mortgage loan secured by the stock, shares, membership agreement or other contractual agreements that evidence the borrower’s ownership in the cooperative as well as the assignment of the occupancy rights to the borrower’s dwelling unit in the cooperative. Each mortgage loan will be documented by either the appropriate Fannie Mae/FHLMC Uniform Instruments in effect at the time the loan is originated, or by an FHA or VA mortgage or other instruments that we accept. Each mortgage loan also will comply with all applicable federal and local laws, including laws covering usury, equal credit opportunity, and disclosure.

We do not require that payments on every mortgage loan that we can include in a pool be due on the first day of the month.

In general, no mortgage loan can have a maturity date later than 30 years after origination.

* Desktop Underwriter® is our automated underwriting software application.

Conventional Mortgage Loans—Single-Family

- As required by our Selling Guide, a conventional mortgage loan that is a residential mortgage loan must be in an original amount that did not exceed certain maximum amount limitations for first lien loans established by federal law for us (for computing this original amount, the original balance of any subordinate lien mortgage loan in which we have an interest must be added).
- A conventional mortgage loan that is a cooperative share loan must be in an original amount that did not exceed our maximum amount limitations for first liens on one-family residences established by federal law. (If we also own an interest in the project mortgage for that cooperative, the usual maximum for a cooperative share loan must be reduced by the portion of the project mortgage that is attributable to the cooperative share loan.)
- The maximum dollar amounts for both the residential property loans and the cooperative share loans that we can purchase is subject to adjustment each year. Any adjustment is effective as of January 1st and is set forth in our Selling Guide or in a Selling Guide announcement. (You may obtain our current maximum dollar purchase limitations by calling us at 1-800-237-8627.)
- The maximum amounts for loans secured by single-family properties in Alaska, Hawaii, and the Virgin Islands are 50% higher than the limits for the rest of the country that appear in our Selling Guide or Selling Guide announcement.
- The original principal balance of a mortgage loan that is in subordinate lien position must not exceed 50% of our first lien limit for a single-family property. In addition, if we have dealt with the first lien loan on a single-family property, we will buy a subordinate lien on that property only if the combined original balances of the first lien and the subordinate lien do not exceed our maximum dollar purchase amounts for single-family loans.

If a first lien conventional mortgage loan on a single-family property has a loan-to-value ratio greater than 80%, that loan usually must be insured or guaranteed by a qualified insurer at the coverage percentage specified in our Selling Guide. If a subordinate lien conventional mortgage loan on a single-family property, together with the related first lien, has a loan-to-value ratio greater than 70%, that subordinate loan generally must be insured or guaranteed by a qualified insurer at the coverage percentage our Selling Guide requires. Any mortgage insurer must be acceptable to us. As an alternative to mortgage insurance, lenders may contract with us either to repurchase conventional mortgage loans that go in default under certain circumstances or to retain a minimum 10% participation interest in the conventional mortgage loans.

The following table lists the maximum loan-to-value ratios (or combined loan-to-value ratios) we generally allow for various types of “purchase money” conventional mortgage loans.

<u>Category</u>	<u>LTV*</u>	<u>CLTV**</u>
A. One-family property		
• Owner-occupied principal residence without subordinate financing		
- Fully amortizing fixed-rate first mortgage	97%	
- Balloon fixed-rate first mortgage	90%	
- ARM first mortgage	90%	
- Cooperative share loan	90%	
• Owner-occupied principal residence with subordinate financing		90%
• Owner-occupied second home without subordinate financing	80%	
• Owner-occupied second home with subordinate financing		90%
• Investment property without subordinate financing	70%	
• Investment property with subordinate financing		70%
• Second mortgage		80%
B. Two-family property		
• Owner-occupied without subordinate financing	90%	
• Owner-occupied with subordinate financing		90%
C. Three-to-four-family property		
• Owner-occupied without subordinate financing	80%	
• Owner-occupied with subordinate financing		80%

* Loan-to-value ratio at time of purchase.

** Combined loan to-value ratio at time of purchase including the balance of the first lien conventional mortgage loan together with the subordinate financing or the balance of the second lien conventional mortgage loan together with the senior financing.

Additional Considerations

Our Selling Guide requires that each lender that sells us conventional mortgage loans under our purchase program assume responsibility for underwriting these loans using the same underwriting criteria that we apply to our portfolio purchases. (We can, however, grant exceptions to these criteria.) Using a random selection process, we review the quality of the credit and property underwriting applied to these loans.

DESCRIPTION OF THE CERTIFICATES

Book-Entry Procedures

We will issue the Certificates, other than the R and RL Classes, in book-entry form on the book-entry system of the U.S. Federal Reserve Banks.

The Federal Reserve Bank of New York will act as our fiscal agent. We have a fiscal agency agreement in effect with the Federal Reserve Bank of New York. Under this agreement, the regulations (found at 24 C.F.R. Part 81, Subpart E) that govern our use of the book-entry system and the pledging and transfer of interests apply to the book-entry Certificates. These regulations may be modified, amended, supplemented, superseded, eliminated or otherwise altered without the consent of any Certificateholder. The Federal Reserve Banks’ operating circulars and letters also apply. Book-

entry Certificates will have a minimum denomination of \$1,000 with additional increments of one dollar. The Certificates have been assigned a CUSIP number and will trade under that CUSIP number. The book-entry Certificates are freely transferable on the records of any Federal Reserve Bank but are not convertible to physical certificates.

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

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

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

Certificated Classes

Although not offered by this prospectus, we will issue the R and RL Classes in fully registered, certificated form and not in book-entry form. The “Holders” or “Certificateholders” of the R and RL Classes are the registered owners. The R and RL Class Certificates 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 or RL Class Certificate and may require payment to cover any tax or other governmental charge.

Distributions of Interest

Categories of Classes

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

<u>Interest Type*</u>	<u>Classes</u>
Fixed Rate	A1, A2, A3, A4, and A6
Weighted Average Coupon	A5 and X
Interest Only	X
No Payment Residual	R and RL

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

General. We will pay interest on the interest-bearing Certificates at the applicable interest rate shown on the cover or described in this prospectus. We will calculate interest based on a 360-day year consisting of twelve 30-day months. We pay interest monthly on each Distribution Date, beginning on March 25, 1999. Interest to be distributed on each interest-bearing Certificate on a Distribution Date will consist of one month’s interest on the related Certificate’s outstanding principal balance immediately prior to such Distribution Date.

A disproportionately high rate of prepayments on those Mortgage Loans with Net Mortgage Rates above the interest rate for the A5 Class relative to those Mortgage Loans with Net Mortgage Rates below such level could have the effect for any Distribution Date of reducing the Weighted Average Net Mortgage Rate. In such event, the interest rate for the A5 Class for such Distribution Date would be correspondingly reduced below the rate set forth on the cover of this prospectus.

Interest Accrual Period. Interest to be distributed on a Distribution Date will accrue on the interest-bearing Certificates during the one-month period set forth below (an “Interest Accrual Period”).

<u>Classes</u>	<u>Interest Accrual Period</u>
All interest-bearing Classes	Calendar month preceding the month in which the Distribution Date occurs

See “Risk Factors—Yield Considerations” in this prospectus.

Notional Class. The X Class, which will not be offered by this prospectus, will be a Notional Class. The Notional Class will be an interest only class, will not receive principal and will have no principal balance. During each Interest Accrual Period, the Notional Class will bear interest on its notional principal balance on each Distribution Date at a per annum rate equal to the Weighted Average Net Mortgage Rate of the Mortgage Loans minus the weighted average interest rate of the A Class Certificates. The notional principal balance of the Notional Class will equal 100% of the aggregate principal balance of the 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 to the principal balances of the Certificates generally shall refer also to the notional principal balance of the Notional Class.

Distributions of Principal

Categories of Classes

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

<u>Principal Type*</u>	<u>Classes</u>
Sequential Pay	A1, A2, A3, A4, A5, and A6
Notional	X
No Payment Residual	R and RL

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

Principal Distribution Amount

We will pay principal on the Certificates on each Distribution Date in an amount (the “Principal Distribution Amount”) equal to the aggregate amount of principal received on the Mortgage Loans during the calendar month preceding the month of such Distribution Date (each, a “Due Period”). Included in the Principal Distribution Amount are:

- the principal portion of any monthly payment actually received (including a balloon payment on a Balloon Mortgage Loan),
- the principal balance of any Mortgage Loan that was liquidated or prepaid in full during the related Due Period,

- the principal balance of any delinquent Mortgage Loan that we have elected to repurchase during the related Due Period as described in “The Trust Agreement—Collection and Other Servicing Procedures” below, and
- the amount of any partial prepayment of any Mortgage Loan received during the related Due Period.

On each Distribution Date, the Principal Distribution Amount will be distributed as follows:

- to the A6 Class in an amount equal to the A6 Principal Distribution Amount (defined below), and
- the remaining Principal Distribution Amount will be distributed sequentially, as principal of the A1, A2, A3, A4, A5, and A6 Classes, in that order, until the respective principal balances of the A Class Certificates are reduced to zero.

The “A6 Principal Distribution Amount” for any Distribution Date will be equal to the lesser of the following:

- the product of the A6 Applicable Percentage (defined below) for the related Distribution Date and the A6 Class Pro Rata Principal Distribution Amount (defined below) for the related Distribution Date,
- the Principal Distribution Amount for the related Distribution Date, and
- the principal balance of the A6 Class immediately prior to the related Distribution Date.

The “A6 Applicable Percentage” for each Distribution Date shall be as follows:

<u>Distribution Dates</u>	<u>Applicable Percentage</u>
March 1999–February 2002	0%
March 2002–February 2004	45%
March 2004–February 2005	80%
March 2005–February 2006	100%
March 2006–and thereafter	300%

For any Distribution Date, the “A6 Class Pro Rata Principal Distribution Amount” will be an amount equal to the product of the following:

- the principal balance of the A6 Class immediately prior to the related Distribution Date divided by the aggregate principal balances of all A Class Certificates immediately prior to the related Distribution Date, and
- the Principal Distribution Amount for the related Distribution Date.

We will pay principal payments (including prepayments and liquidation proceeds) as long as the servicer gives us information about them in time for the published factors to reflect these payments. See “Reference Sheet—*Class Factors*”. If we do not receive the information on time, we will pay the principal payments on the next Distribution Date. For purposes of payments, we consider a Mortgage Loan to be prepaid in full if, in our reasonable judgment, the full amount finally recoverable on such Mortgage Loan has been received, even if such amount is not equal to the principal balance of the Mortgage Loan.

Class Definitions and Abbreviations

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

<u>Abbreviation</u>	<u>Category of Class</u>	<u>Definition</u>
PRINCIPAL TYPES		
NPR	No Payment Residual	Receives no payments of principal.
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.
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.
NPR	No Payment Residual	Receives no payments of interest.
W	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 R and RL Class Certificates

If any assets of the Trust or the Lower Tier REMIC remain after the principal balances of the A Class Certificates are reduced to zero, we will pay the Holder of the R Class Certificate the proceeds from the Trust and will pay the Holder of the RL Class Certificate the proceeds from the Lower Tier REMIC. We do not expect that any material assets will remain in either the Trust or the Lower Tier REMIC.

No R or RL Class 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 an R or RL Class 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 R or RL Class 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 R or RL Class Certificate will not be owned directly or indirectly by a disqualified organization,
- it is not acquiring the R or RL Class 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 R or RL Class Certificate,
- it intends to pay taxes on the R or RL Class Certificate as they become due, and
- it will not transfer the R or RL Class 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 Residual 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 an R or RL Class Certificate, it may be subject to additional taxes if a disqualified organization is a record holder in the entity.

No R or RL Class 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. An R or RL Class 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 R or RL Class 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 R or RL Class Certificate, determined as of the date the R or RL Class 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—Treatment of Original Issue Discount” and “—Taxation of Beneficial Owners of Residual Certificates.”

Under the Treasury regulations, the phrase “a significant purpose of the transfer to impede the assessment or collection to tax” means that the transferor of the R or RL Class 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 an R or RL Class Certificate, you should consult your tax advisor for further information.

The Holder of the R Class Certificate will be considered to be the holder of the “residual interest” in the REMIC constituted by the Trust. The Holder of the RL Class Certificate will be considered to be the holder of the “residual interest” in the REMIC constituted by the Lower Tier REMIC. See “Certain Federal Income Tax Consequences—REMIC Elections and Special Tax Attributes.” Pursuant to the Trust Agreement we will be obligated to provide to the Holder or Holders of the R and RL Class Certificates (i) information needed to prepare federal income tax returns and (ii) any reports regarding the R or RL Class Certificate 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 on the basis of (i) the assumed characteristics of the Mortgage Loans set forth herein 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 HEP levels specified in the related tables;
- the closing date for the sale of the Certificates occurs on February 26, 1999; and
- the first Distribution Date for the Certificates occurs on March 25, 1999.

Prepayment Assumptions. Prepayments of mortgage loans commonly are measured relative to a prepayment standard or model. The model used in this prospectus is the “Home Equity Prepayment” or “HEP” model (the “Prepayment Assumption”). HEP assumes that a pool of loans prepays in the first month of the life of the loans at a constant prepayment rate that corresponds in CPR (as defined below) to one-tenth the given HEP percentage and increases by an additional one-tenth each month thereafter until the tenth month, where it remains at a CPR equal to the given HEP percentage. “CPR” represents an assumed constant rate of prepayment each month, expressed as an annual rate, relative to the then outstanding principal balance on a pool of mortgage loans for the life of such loans. For example, a 21% HEP assumes a CPR of 2.1% for the Mortgage Loans in the first month of the life of the Mortgage Loans and an additional 2.1% CPR each month thereafter until the tenth month. Beginning in the tenth month and in each month thereafter during the life of the Mortgage Loans, 21% HEP assumes a CPR of 21% each month. *This model does not purport to be an historical description of the prepayment experience of any pool of mortgage loans or a prediction of the anticipated rate of prepayment of any pool of mortgage loans, including the Mortgage Loans. It is highly unlikely that the Mortgage Loans will prepay at rates consistent with the*

assumptions made in this prospectus until maturity or that all of the Mortgage Loans will prepay at the same rate.

Weighted Average Lives of the Certificates

The “weighted average life” of a Certificate refers to the average length of time, weighted by principal, that will elapse from the time we issue the Certificate 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 the 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, balloon payments, early payments under Simple Interest Loans, principal prepayments, liquidations due to default, casualty and condemnation and payments made pursuant to either our guaranty of payment or our option to repurchase. In addition, because no advances will be made to cover delinquent payments of principal on the Mortgage Loans, any such delinquencies will delay the receipt of principal payments on such Mortgage Loans, particularly in the case of final payments on Balloon Mortgage Loans. Such delay will affect the rate of principal payments on the Certificates. However, it is currently our intention to exercise our option to repurchase Mortgage Loans (including Balloon Mortgage Loans) that are delinquent, in whole or in part, with respect to three consecutive installments of principal and interest as described below. We cannot give any assurance that we will not change this policy. The interaction of the above factors may result in differing principal prepayment speeds on various Classes and the effects on any Class may vary at different times during the life of such Class. Accordingly, we cannot give any assurance as to the weighted average life of any Class.

Maturity Considerations and Final Distribution Dates

We expect the original maturities of substantially all of the Mortgage Loans to be between 10 and 30 years. Except for the Balloon Mortgage Loans, each Actuarial 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 and each Simple Interest Loan will provide for amortization of principal according to a schedule that, in the absence of late payments, would result in the repayment of the Mortgage Loan by its maturity date. Each Balloon Mortgage Loan provides for monthly payments, which generally are based upon a 30 year amortization schedule with a lump sum payment equal to the unpaid principal balance of the Balloon Mortgage Loan on its maturity date (generally 15 years from origination). With respect to Simple Interest Loans, an additional principal payment may have to be made by the borrower at the maturity of such Mortgage Loan if payments had previously been made after the due date. However, as described above, because no advances will be made with respect to delinquent payments of principal on the Mortgage Loans, such delinquencies will have the effect of delaying the receipt of principal and, accordingly, the rate of principal distributions on the Certificates (subject to the effect of the repurchase option referred to in the preceding paragraph). See “The Mortgage Loans—Interest Payments on the Mortgage Loans” in this prospectus.

The “Final Distribution Date” for a particular Class is the date by which the principal balance is required to be fully paid and is specified on the cover page of this prospectus. The Final Distribution Date of the respective Classes will be determined so that distributions on the Mortgage Loans will be

sufficient to retire the related Certificates on or before their Final Distribution Date without the necessity of any call on our guaranty.

Decrement Tables

The following tables indicate the percentages of the original principal balances of the specified Classes that would be outstanding after each of the dates shown at various percentages of HEP and the corresponding weighted average lives of the specified Classes. The table has 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
- will prepay at any constant percentage of the related HEP.

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

Percent of Original Principal Balances Outstanding

Date	A1 Class					A2 Class					A3 Class				
	HEP Prepayment Assumption					HEP Prepayment Assumption					HEP Prepayment Assumption				
	0%	10%	21%	30%	50%	0%	10%	21%	30%	50%	0%	10%	21%	30%	50%
Initial Percent	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100
February 2000	93	63	29	1	0	100	100	100	100	0	100	100	100	100	92
February 2001	86	27	0	0	0	100	100	46	0	0	100	100	100	66	0
February 2002	78	0	0	0	0	100	92	0	0	0	100	100	57	0	0
February 2003	70	0	0	0	0	100	45	0	0	0	100	100	0	0	0
February 2004	61	0	0	0	0	100	4	0	0	0	100	100	0	0	0
February 2005	52	0	0	0	0	100	0	0	0	0	100	63	0	0	0
February 2006	42	0	0	0	0	100	0	0	0	0	100	26	0	0	0
February 2007	34	0	0	0	0	100	0	0	0	0	100	5	0	0	0
February 2008	25	0	0	0	0	100	0	0	0	0	100	0	0	0	0
February 2009	15	0	0	0	0	100	0	0	0	0	100	0	0	0	0
February 2010	6	0	0	0	0	100	0	0	0	0	100	0	0	0	0
February 2011	0	0	0	0	0	92	0	0	0	0	100	0	0	0	0
February 2012	0	0	0	0	0	71	0	0	0	0	100	0	0	0	0
February 2013	0	0	0	0	0	47	0	0	0	0	100	0	0	0	0
February 2014	0	0	0	0	0	0	0	0	0	0	61	0	0	0	0
February 2015	0	0	0	0	0	0	0	0	0	0	43	0	0	0	0
February 2016	0	0	0	0	0	0	0	0	0	0	24	0	0	0	0
February 2017	0	0	0	0	0	0	0	0	0	0	2	0	0	0	0
February 2018	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
February 2019	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
February 2020	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
February 2021	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
February 2022	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
February 2023	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
February 2024	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
February 2025	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
February 2026	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
February 2027	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
February 2028	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
February 2029	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Weighted Average Life (years)**	6.2	1.4	0.8	0.5	0.3	13.7	4.0	2.0	1.4	0.8	15.9	6.5	3.2	2.2	1.2

Date	A4 Class					A5 Class					A6 Class				
	HEP Prepayment Assumption					HEP Prepayment Assumption					HEP Prepayment Assumption				
	0%	10%	21%	30%	50%	0%	10%	21%	30%	50%	0%	10%	21%	30%	50%
Initial Percent	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100
February 2000	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100
February 2001	100	100	100	100	18	100	100	100	100	100	100	100	100	100	100
February 2002	100	100	100	64	0	100	100	100	100	19	100	100	100	100	100
February 2003	100	100	90	10	0	100	100	100	100	0	99	94	89	84	60
February 2004	100	100	45	0	0	100	100	100	66	0	97	89	79	71	29
February 2005	100	100	14	0	0	100	100	100	41	0	95	79	64	52	14
February 2006	100	100	0	0	0	100	100	91	28	0	91	68	48	35	7
February 2007	100	100	0	0	0	100	100	82	28	0	79	43	20	12	3
February 2008	100	84	0	0	0	100	100	67	22	0	68	27	8	3	2
February 2009	100	65	0	0	0	100	100	52	16	0	58	17	3	1	1
February 2010	100	47	0	0	0	100	100	40	11	0	49	10	1	*	*
February 2011	100	30	0	0	0	100	100	30	7	0	41	6	1	*	*
February 2012	100	14	0	0	0	100	100	22	5	0	33	4	*	*	*
February 2013	100	0	0	0	0	100	99	16	3	0	25	2	*	*	*
February 2014	100	0	0	0	0	100	64	9	1	0	6	*	*	*	*
February 2015	100	0	0	0	0	100	53	7	1	0	5	*	*	*	*
February 2016	100	0	0	0	0	100	44	5	1	0	4	*	*	*	*
February 2017	100	0	0	0	0	100	36	3	*	0	3	*	*	*	*
February 2018	82	0	0	0	0	100	29	2	*	0	2	*	*	*	*
February 2019	66	0	0	0	0	100	23	2	*	0	1	*	*	0	*
February 2020	56	0	0	0	0	100	19	1	*	0	1	*	*	0	*
February 2021	45	0	0	0	0	100	16	1	*	0	1	*	*	0	*
February 2022	33	0	0	0	0	100	13	1	*	0	1	*	*	0	*
February 2023	19	0	0	0	0	100	10	*	*	0	*	*	0	0	*
February 2024	5	0	0	0	0	100	8	*	*	0	*	*	0	0	*
February 2025	0	0	0	0	0	85	6	*	*	0	*	*	0	0	*
February 2026	0	0	0	0	0	61	4	*	*	0	*	*	0	0	0
February 2027	0	0	0	0	0	36	2	*	*	0	*	*	0	0	0
February 2028	0	0	0	0	0	7	*	*	*	0	*	*	0	0	0
February 2029	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Weighted Average Life (years)**	21.6	10.9	5.0	3.3	1.8	27.4	17.8	10.9	6.9	2.7	11.1	7.9	6.6	6.1	4.7

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

** Determined as specified under “Weighted Average Lives of the Certificates” in this prospectus.

THE TRUST AGREEMENT

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

Transfer of Mortgage Loans to the Lower Tier REMIC

The Trust Agreement will contain a mortgage loan schedule that will identify the Mortgage Loans that are being transferred to the Lower Tier REMIC. 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. Usually assignments are in a form suitable for recording but they are not recorded. However, a blanket assignment may be used for the transfer of a large number of Mortgage Loans, even if the properties are not located in the same recording jurisdiction, depending on the Lender's servicing experience and its financial condition. 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 effect 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 FDIC or the NCUA. 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 a Lender 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 Through Lenders

Pursuant to the Trust Agreement, we are responsible for servicing and administering the Mortgage Loans. We are permitted, in our discretion, to contract with the originator of each Mortgage Loan, or another eligible servicing institution, to perform such functions under our supervision as more fully described below (each, a "Lender"). Any servicing contract or arrangement by us with a Lender for the direct servicing of Mortgage Loans is a contract solely between us and that Lender. Therefore, Certificateholders will not be deemed to be parties to such contract and will have no claims, rights, obligations, duties, or liabilities with respect to such Lender.

Except as otherwise agreed upon by us, Lenders will be obligated to perform diligently all services and duties customary to the servicing of mortgages in accordance with the applicable Guide. We will monitor the Lender's performance and we have the right to remove any Lender for cause at any time we consider such removal to be in the best interest of Certificateholders. The duties performed by Lenders include general loan servicing responsibilities, collection and remittance of principal and interest payments, administration of mortgage escrow accounts, collection of insurance claims, and, if necessary, foreclosure.

Each month, we will retain an amount calculated at the rate of 0.88% per annum based on the principal balance of each Mortgage Loan to pay various Trust expenses. We are also entitled to retain prepayment fees, late charges, assumption fees, and similar charges to the extent they are collected from borrowers. We will compensate Lenders in an amount up to, but never exceeding, the amount described above, less a prescribed minimum amount to be retained by us to compensate us for making our guaranty and for our servicing responsibilities.

Distributions on Mortgage Loans; Deposits in the Certificate Account

We will deposit or credit to one or more accounts (collectively, the “Certificate Account”) an amount equal to the sum of the amounts collected as principal and interest on the Mortgage Loans as these amounts are received.

Any amounts deposited into the Certificate Account on a Distribution Date will be available to pay (i) interest accrued and distributable on the Certificates on that date 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 applicable 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 benefit of 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 factors for each Class of Certificates on or shortly after the 11th calendar day of each month. If you multiply the class factor for a Class of Certificates by the original principal balance of that Class of Certificates, you will obtain the current principal balance of that Class of Certificates, after giving effect to the current month’s principal payment.

We will provide each Certificateholder 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.

Servicing Compensation and Payment of Certain Expenses by Fannie Mae

We will be entitled to retain an amount calculated at the rate of 0.88% per annum based on the principal balance of each Mortgage Loan for Trust expenses and as compensation for our activities and obligations under the Trust Agreement. In addition, we are entitled to retain a portion of the proceeds of the liquidation of a Mortgage Loan that exceeds (i) the principal balance of that Mortgage Loan and (ii) interest owed through the end of the month of such liquidation at the Mortgage Interest Rate. We will pay all expenses incurred in connection with our servicing activities, including, without limitation, the fees to Lenders, and we are not entitled to be reimbursed for such expenses out of the assets of the Lower Tier REMIC.

We will retain additional servicing compensation in the form of prepayment charges, assumption fees, late payment charges, or otherwise.

Collection and Other Servicing Procedures

We are responsible for servicing the Mortgage Loans and may, as set forth above, conduct such servicing through Lenders or through other Fannie Mae approved mortgage servicers. In connection with our servicing activities, we have full power and authority to do or cause to be done any and all things we may deem necessary or appropriate, including the foreclosure or comparable conversion of a defaulted Mortgage Loan. We may, in our discretion and without obligation, repurchase from the

Lower Tier REMIC any Mortgage Loan that is delinquent, in whole or in part, as to three consecutive installments of principal and interest. It is currently our intention to exercise this option when available. No assurance can be made that this policy will not change. The purchase price will be equal to the principal balance of the delinquent Mortgage Loan together with accrued interest at the Net Mortgage Rate. We will pay the purchase price to Certificateholders in the same manner as full prepayments of Mortgage Loans. See “Description of the Certificates—Distributions of Principal” in this prospectus.

With respect to each Mortgage Loan, the Lender makes certain warranties to Fannie Mae concerning the following matters:

- the recordation of the original Mortgage,
- the validity of the Mortgage Loan as a first or second lien on the Mortgaged Property, and
- compliance by such Mortgage Loans with applicable state and federal laws.

In the event of a material breach of any warranty or a material defect in the Mortgage Loan documentation, we may withdraw the Mortgage Loan from the Lower Tier REMIC at a price equal to its principal balance together with interest thereon at the Net Mortgage Rate. Alternatively, we may, at our 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 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 as principal.

Subject to the limitations discussed below, we 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 certain other modifications, such as reducing the mortgage interest rate or principal amount or extending the term of a Mortgage Loan. We may waive any prepayment charge, assumption fee, or late payment charge, or may exercise or refrain from exercising any “call option rider.” If we decide to take or refrain from taking any of the actions discussed above, our decision must be consistent with the then-current policies or practices that we follow for comparable mortgage loans held in our own portfolio. In making our decisions, we 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, we 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 we do not have to accelerate the maturity of a Mortgage Loan upon the transfer, or prospective transfer, of title to the related Mortgaged Property, we may enter into a transaction which releases the borrower from liability on the related Mortgage Loan and imposes such liability on the transferee, provided, however, that no such transaction shall provide for reduction of the Mortgage Interest Rate.

Certain Matters Regarding Fannie Mae

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

Even if our other duties under the Trust Agreement should terminate, we would still be obligated under that guaranty. In the event that we are unable to fulfill our continuing guaranty obligations, the Trust Agreement may be modified to provide for monthly distributions to be made from then-available Mortgage Loan payments and other recoveries in a manner similar to practices and procedures followed in the servicing of whole loans for institutional investors. See “—Rights Upon Event of Default” below.

We are not liable under the Trust Agreement to the Lower Tier REMIC, 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 involvement in any legal action that we think will expose us to expense or liability unless the action is related to our duties under the Trust Agreement. On the other hand, we may decide to participate in legal actions if we think our participation would be in the interests of the Certificateholders. In this case, we will pay our legal expenses and costs.

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

Events of Default

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

- if we fail to pay Certificateholders of any 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 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 Lower Tier REMIC and the Trust.

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; or
- to modify the Trust Agreement to maintain the legal status of Lower Tier REMIC and the Trust as REMICs.

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 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 any residual interest give their consent, no amendment may adversely affect their rights.

Termination

The Trust Agreement will terminate when the last Mortgage Loan remaining in the Lower Tier REMIC has been paid off or liquidated, and the proceeds of that loan have been paid to Certificateholders. The Trust Agreement also will terminate if we exercise our option to repurchase all remaining Mortgage Loans in the Lower Tier REMIC. 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).

We may not exercise our option to repurchase unless the aggregate principal balance of the remaining Mortgage Loans is less than one percent of the aggregate principal balance of all the Mortgage Loans as of the Issue Date. In addition, we do not intend to exercise such option if (i) we have knowledge that any related Certificate has been pledged to secure an issue of cash flow obligations or is included in assets underlying an issue of cash flow obligations and (ii) the exercise of such option would take place prior to the earliest date upon which the issuer of such cash flow obligations can exercise an option to redeem such obligations or purchase such Certificates without premium.

If we exercise our option to repurchase, we will have to retire all the Certificates. In no event, however, will the Lower Tier REMIC and 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 Elections and Special Tax Attributes
- Taxation of Beneficial Owners of Regular Certificates
- Taxation of Beneficial Owners of the Residual Certificates
- Taxes on the REMICs
- Reporting and Other Administrative Matters
- Backup Withholding
- Foreign Investors

REMIC Elections and Special Tax Attributes

We will elect to treat the Lower Tier REMIC and the Trust as REMICs 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 Lower Tier REMIC and the Trust will be treated as REMICs for federal income tax purposes. The Certificates (other than the R and RL Classes) will be designated as the “regular interests” in the Trust (each a “Regular Certificate” and, together, the “Regular Certificates”) and the R Class Certificate will be designated as the “residual interest” in the REMIC constituted by the Trust. The Lower Tier Regular Interests will be designated as the “regular interests” and the RL Class Certificate will be designated as the “residual interest” in the Lower Tier REMIC. (The R Class Certificate and the RL Class Certificate are each referred to herein as a “Residual Certificate” and, together, as the “Residual Certificates.”)

Because the Lower Tier REMIC and the Trust will qualify as REMICs, 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 Lower Tier REMIC 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 Lower Tier REMIC 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 Lower Tier REMIC 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.

Treatment of Original Issue Discount

The X Class Certificates will be issued with “original issue discount” (“OID”) within the meaning of section 1273(a) of the Code and certain other Classes of Certificates may be issued with OID. 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 OID 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 X Class Certificate, however, is equal to the sum of all distributions to be made to that 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 21% HEP. See “Description of the Certificates—Structuring Assumptions—*Prepayment Assumptions*” 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 Certificates—Maturity Considerations and Final Distribution Dates” and “—Decrement Tables” in this prospectus.

Weighted Average Coupon

The A5 Class Certificates may pay interest based on a weighted average of the interest rates on the Mortgage Loans and may not qualify as a “variable rate debt instrument” under the OID Regulations. Under the OID Regulations, a debt instrument that provides for a variable rate of interest but that does not qualify as a variable rate debt instrument is a contingent payment debt instrument. The regulations governing contingent payment debt instruments do not apply, however, to regular interests in a REMIC. For information reporting purposes with respect to the A5 Class Certificates, we intend to refer to the principles of the OID Regulations applicable to variable rate debt

instruments and to treat all interest payments on the A5 Class Certificates as not included in the stated redemption price at maturity of that Class.

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 X Class Certificates.

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 Lower Tier REMIC.

Taxation of Beneficial Owners of the 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 related REMIC for each day during a calendar quarter that the Residual Owner owns the Residual Certificate. For this purpose, the related REMIC is the REMIC in which the Residual Certificate represents a residual interest. 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 REMIC for the quarter and then allocating that amount among the Residual Owners with respect to that REMIC 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 related REMIC 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 the Residual Certificate.

Taxable Income or Net Loss of the REMICs

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

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 REMIC’s regular interests (but not its residual interest).
- Market discount equal to any excess of the total principal balances of the Mortgage Loans over the Lower Tier REMIC’s basis in these mortgages generally will be included in income by the Lower Tier REMIC as it accrues under a constant yield method, taking into account the prepayment assumption described above.
- If a REMIC 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 REMICs—Prohibited Transactions*” below) will be taken into account.

- A REMIC 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 REMIC 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 will be allowed for any expenses incurred in connection with the formation of the REMICs and the issuance of the Regular and Residual Certificates.
- Any gain or loss to a REMIC 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.

A REMIC’s basis in qualified mortgages is the aggregate of the issue prices of all the Regular and Residual Certificates in the REMIC 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 a REMIC exceed its gross income for a calendar quarter, the excess will be a net loss for the REMIC for that calendar quarter.

For purposes of determining the taxable income or net loss of each REMIC, OID will be calculated by taking into account the following. First, because all the Lower Tier Regular Interests will be issued to the Trust, the Lower Tier Regular Interests will be treated as a single debt instrument because they will be issued to a single holder in a single transaction. Second, because the Trust will hold the Lower Tier Regular Interests as qualified mortgages, the Trust will elect to include in gross income all interest that accrues on the Lower Tier Regular Interests by using a constant yield method. See “—*Taxation of Beneficial Owners of Regular Certificates—Special Election*” above.

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 qualified mortgages are considered to be purchased by the REMIC at a discount, some or all of the regular interests in the REMIC are issued at a discount, and the discount included as a result of a prepayment on a qualified mortgage that is used to pay principal on the regular interests in the REMIC exceeds the REMIC’s deduction for unaccrued original issue discount relating to the regular interests in the REMIC.

Basis Rules and Distributions

A Residual Owner has an initial basis in the 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 that 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 a Residual Certificate, see “—*Foreign Investors*—Residual Certificates” below.

If a Residual Certificate is held by a real estate investment trust, the aggregate excess inclusions with respect to the Residual Certificate 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 the 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 6.15%.

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) of the Residual Certificate.

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 related REMIC, including the servicing and guaranty fees imposed at the level of the Mortgage Loans. See, for example, “The Trust Agreement—Servicing Through Lenders” and “—Servicing Compensation and Payment of Certain Expenses by Fannie Mae” above. 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 with respect to the REMIC 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 the 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 a 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 R and RL Class Certificates." A transferor of the Residual Certificate (or an agent of a transferee of the 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 the 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 transfer of a Residual Certificate has tax avoidance potential unless, at the time of the transfer, the transferor reasonably expects that, for each excess inclusion, the related 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 R and RL Class Certificates” for a discussion of additional provisions applicable to transfers of the Residual Certificates.

Amounts Paid to a Transferee of the Residual Certificates

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 related REMIC terminates by virtue of the final payment or liquidation of the last Mortgage Loan remaining in the Lower Tier REMIC and
- the Residual Owner’s adjusted basis in the 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 REMICs

Neither the Trust nor the Lower Tier REMIC will 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 or the Lower Tier REMIC will engage in any transactions that will give rise to a tax on either the Trust or the Lower Tier REMIC. In any event, pursuant to our guaranty obligation, we will make distributions on the Certificates without offset or deduction for any tax imposed on the Trust or the Lower Tier REMIC.

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 860G(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 and the Lower Tier REMIC will each be treated as a partnership and the Residual Owners in each REMIC will be treated as partners. We will prepare, sign and file federal income tax returns for the Trust and the Lower Tier REMIC, which returns are subject to audit by the IRS. We do not intend to register the Trust or the Lower Tier REMIC as a tax shelter pursuant to section 6111 of the Code. We will also act as the tax matters partner for the Trust and the Lower Tier REMIC, either as a beneficial owner of the Residual Certificates or as a fiduciary for the Residual Owners. Each Residual Owner, by the acceptance of a 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 a 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 the Residual Certificates, information necessary to compute the daily portions of the taxable income (or net loss) of the related REMIC for each day during that year.

If, with respect to the related REMIC, 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 REMIC, unless the Residual Owner either files a statement identifying the inconsistency or establishes that the inconsistency resulted from incorrect information received from the REMIC. The IRS may assert a deficiency resulting from a failure to comply with the consistency requirement without instituting an administrative proceeding at the REMIC 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 Lower Tier REMIC 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 the Residual Certificate—Treatment of Excess Inclusions.*”

LEGAL INVESTMENT CONSIDERATIONS

If you are an institution whose investment activities are subject to legal investment laws and regulations or to review by certain regulatory authorities, you may be subject to restrictions on investment in certain Classes of the Certificates. If you are a financial institution that is subject to the jurisdiction of the Comptroller of the Currency, the Board of Governors of the Federal Reserve System, the FDIC, the Office of Thrift Supervision, the NCUA or other federal or state agencies with similar authority, you should review any applicable rules, guidelines and regulations prior to purchasing the Certificates. You should also review and consider the applicability of the Federal Financial Institutions Examination Council Supervisory Policy Statement on Securities Activities (to the extent adopted by their respective federal regulators), which, among other things, sets forth guidelines for financial institutions investing in certain types of mortgage related securities, including securities such as the Certificates. In addition, you should consult your regulators concerning the risk-based capital treatment of any Certificate.

Pursuant to the Secondary Mortgage Market Enhancement Act of 1984 (“SMMEA”), securities that we issue or guaranty (such as the Certificates) will be legal investments for entities created under the laws of the United States or any state whose authorized investments are subject to state regulation to the same extent as obligations issued or guaranteed as to principal and interest by the United States or any agency or instrumentality thereof. Under SMMEA, if a state enacted legislation prior to October 4, 1991 specifically limiting the legal investment authority of any such entities with respect to securities that we issue or guaranty, such securities will constitute legal investments for such entities only to the extent provided in such legislation. Certain states have adopted such legislation prior to the October 4, 1991 deadline. You should consult your own legal advisors in determining whether and to what extent the Certificates constitute legal investments or are subject to restrictions on investment.

LEGAL OPINION

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

ERISA CONSIDERATIONS

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

The U.S. Department of Labor issued a final regulation covering the acquisition by a Plan of a “guaranteed governmental mortgage pool certificate,” defined to include certificates which are “backed by, or evidencing an interest in specified mortgages or participation interests therein” and are guaranteed by Fannie Mae as to the payment of interest and principal. Under the regulation, investment by a Plan in a “guaranteed governmental mortgage pool certificate” does not cause the assets of the Plan to include the mortgages underlying the certificate or 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 Certificates did not exist. However, we have been advised by our counsel, Arter & Hadden LLP, that the Certificates qualify under the definition of “guaranteed governmental mortgage pool certificates” and, as a result, the purchase and holding of Certificates by Plans will not cause the underlying mortgage loans or the assets of Fannie Mae to be subject to the fiduciary requirements of ERISA or to the prohibited transaction requirements of ERISA and the Code.

PLAN OF DISTRIBUTION

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

LEGAL MATTERS

Certain legal matters will be passed upon for the Dealers by Brown & Wood LLP. Brown & Wood LLP also regularly performs legal services for Fannie Mae not in connection with this transaction.

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

\$156,921,000
(Approximate)



Guaranteed REMIC
Pass-Through Certificates
Fannie Mae REMIC Trust 1999-W5

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PROSPECTUS

Prudential Securities Incorporated
Morgan Stanley Dean Witter

February 12, 1999
