Prospectus

FNMA FEDERAL NATIONAL MORTGAGE ASSOCIATION

Guaranteed Mortgage Pass-Through Certificates

(Fixed Rate Residential Mortgage Loans)

Principal and Interest payable on the 25th day of each month

THE OBLIGATIONS OF FNMA UNDER ITS GUARANTY ARE OBLIGATIONS SOLELY OF FNMA AND ARE NOT BACKED BY THE FULL FAITH AND CREDIT OF THE UNITED STATES. THE CERTIFICATES ARE EXEMPT FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT OF 1933 AND ARE "EXEMPTED SECURITIES" WITHIN THE MEANING OF THE SECURITIES EXCHANGE ACT OF 1934.

The Guaranteed Mortgage Pass-Through Certificates ("Certificates") are issued and guaranteed by the Federal National Mortgage Association ("FNMA" or the "corporation"), 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.*).

Each Certificate offered hereby and by the Supplement related hereto will represent an undivided interest in a pool of mortgage loans ("Pool") to be formed by FNMA. Each Pool will consist of fixed rate residential mortgage loans ("Mortgage Loans") either previously owned by FNMA or purchased by it in connection with the formation of the Pool Each Pool will consist entirely of one of the following: (i) fixed rate level installment conventional Mortgage Loans, (ii) fixed rate level installment Mortgage Loans that are insured by the Federal Housing Administration or guaranteed by the Veterans Administration, or (iii) fixed rate conventional growing equity Mortgage Loans that provide for scheduled annual increased payments, with the full amount of the increase applied to principal.

Interests in each Pool will be evidenced by a separate issue of Certificates. Information regarding the Pass-Through Rate with respect to an issue and the aggregate principal amount and characteristics of the related Pool (including, without limitation, the type of Mortgage Loans in the Pool) will be furnished in a Supplement to this Prospectus at the time of the identification of the Pool.

FNMA will have certain contractual servicing responsibilities with respect to each Pool. In addition, FNMA will be obligated to distribute scheduled monthly installments of principal and interest (adjusted to the applicable Pass-Through Rate) to Certificateholders, whether or not received. FNMA also will be obligated to distribute to Certificateholders the full principal balance of any foreclosed Mortgage Loan, whether or not such principal balance is actually recovered.

The date of this Prospectus is March 1, 1984

Retain this Prospectus for future reference. This Prospectus may not be used to consummate sales of Certificates unless accompanied by a Prospectus Supplement.

No salesman, dealer, bank or other person has been authorized to give any information or to make any representation other than those contained in this Prospectus and, if given or made, such information or representation must not be relied upon as having been authorized by FNMA. This Prospectus does not constitute an offer to sell or a solicitation of an offer to buy any securities other than the Certificates offered hereby and by the related Supplement nor an offer of the Certificates to any person in any state or other jurisdiction in which such offer would be unlawful.

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SUMMARY OF PROSPECTUS

The following summary of certain pertinent information is qualified in its entirety by reference to the detailed information appearing elsewhere in this Prospectus and by reference to the information with respect to each pool of Mortgage Loans (a "Pool") contained in the supplement to this Prospectus (a "Prospectus Supplement") to be prepared in connection with the issue of Guaranteed Mortgage Pass-Through Certificates (the "Certificates") evidencing undivided interests in such Pool

Title of Security	Guaranteed Mortgage Pass-Through Certificates.
Issuer and Guarantor	Federal National Mortgage Association ("FNMA" or the "corporation"), a corporation organized and existing under the laws of the United States See "Federal National Mortgage Association " The obligations of FNMA under its guaranty are obligations solely of FNMA and are not backed by, nor entitled to, the full faith and credit of the United States
Description of Security	Each Certificate will represent a fractional undivided interest in a Pool of Mortgage Loans to be formed by FNMA A Certificate will initially represent at least $25,000 unpaid principal amount of Mortgage Loans The Certificates will be in fully registered form only
Interest	Interest at the Pass-Through Rate on each Mortgage Loan will be passed through monthly to Certificateholders, commencing on the 25th day of the month following the month of initial issuance of the related Certificates The Pass-Through Rate for a particular issue of Certificates will be specified in the Prospectus Supplement and will not be greater than the lowest annual interest rate borne by any Mortgage Loan in the related Pool, less a specified minimum annual percentage representing compensation for servicing and FNMA's guaranty See "Yield Considerations "
Principal (including pre-payments)	Passed through monthly, commencing on the 25th day of the month following the month of initial issuance of the related Certificates See "Maturity and Prepayment Assumptions" and "Description of Certificates."
FNMA Guaranty	FNMA is obligated to distribute scheduled monthly installments of principal and interest (adjusted to the Pass-Through Rate) on Mortgage Loans in a Pool, whether or not received FNMA is also obligated to distribute to Certificateholders the full principal balance of any foreclosed Mortgage Loan, whether or not such principal balance is actually recovered If FNMA were unable to perform these guaranty obligations, distributions to Certificateholders would consist solely of payments and other recoveries on Mortgage Loans and, accordingly, delinquencies and defaults would impact monthly distributions to Certificateholders
Servicing	FNMA will be responsible for the servicing of the Mortgage Loans and will contract with mortgage lenders to perform certain servicing functions on its behalf See "Description of Certificates—Servicing Through Lenders "
The Mortgage Pools	Each Pool will consist entirely of Mortgage Loans of only one of the following types (i) fixed rate level installment conventional Mortgage Loans, (ii) fixed rate level installment Mortgage Loans that are insured by the Federal Housing Administration or guaranteed by the Veterans Administration, or (iii) fixed rate conventional growing equity Mortgage Loans that provide for scheduled annual increased payments, with the full amount of the increase applied to principal The Mortgage Loans in each Pool will have unpaid principal balances aggregating not less than $1,000,000 Each Mortgage Loan will be secured by a first lien on a one-family or two- to four-family residential property and each Mortgage Loan will meet the applicable standards set forth under "FNMA Purchase Program " No conventional Mortgage Loan with a loan-to-value ratio in excess of 95% will be included in any Pool Mortgage Loans comprising a Pool either will be provided by FNMA from its own portfolio or will be purchased pursuant to criteria set forth under "FNMA Purchase Program " Pool information as to the type of Mortgage Loans, the aggregate principal balance of the Mortgage Loans as of the Issue Date, the Pass-Through Rate and the latest maturity date of any Mortgage Loan will be contained in the related Prospectus Supplement
FNMA Financial Results	FNMA was profitable in 1983 after experiencing losses in 1982 and 1981 The primary cause of the losses in 1982 and 1981 was the excess of the cost of outstanding debt over the yield on the mortgage portfolio (or "negative spread") In 1983 the negative spread narrowed substantially and its impact was more than offset by income from other sources See "Selected Financial Data," "Management's Discussion and Analysis of Financial Results" and "FNMA's Spread on Its Mortgage Portfolio" herein

THE MORTGAGE POOLS

FNMA has implemented a program for: (a) the setting aside of fixed rate residential mortgage loans (the "Mortgage Loans") into separate pools (the "Pools") bearing distinctive identification, and (b) the issuance and sale of trust certificates of beneficial interest evidencing pro rata undivided ownership interests in the Mortgage Loans comprising each separate Pool (the "Guaranteed Pass-Through Certificates" or "Certificates"). The Mortgage Loans may be purchased by FNMA expressly for the Pools or may be Mortgage Loans that have been held by FNMA in its own portfolio. Each Pool will consist of Mortgage Loans evidenced by promissory notes (the "Mortgage Notes") secured by first mortgages or deeds of trust (the "Mortgages") on one-family or two- to four-family residential properties (the "Mortgaged Properties") A Pool will contain Mortgage Loans of only one of the following types: (i) fixed rate level installment conventional (i.e., not insured or guaranteed by any U.S. government agency) Mortgage Loans ("Conventional Mortgage Loans"), (ii) fixed rate level installment Mortgage Loans that are insured by the Federal Housing Administration or guaranteed by the Veterans Administration ("FHA/VA Mortgage Loans"), or (iii) fixed rate conventional growing equity Mortgage Loans that provide for scheduled annual increased payments, with the full amount of the increase applied to principal ("GEMs"). The Mortgage Loans purchased expressly for the Pools will be sold to FNMA by eligible institutions that meet certain requirements set forth under "FNMA Purchase Program" and are referred to herein as "Lenders." No Pool will consist of Mortgage Loans having an aggregate unpaid principal balance of less than $1,000,000 on the first day of the month of issuance of the related Certificates. See "FNMA Purchase Program—Mortgage Loan Eligibility" for a description of certain criteria applicable to the eligibility of Mortgage Loans for inclusion in Pools.

Interests in each Pool will be evidenced by a separate series of Certificates (an "Issue") FNMA will acquire the Mortgage Loans that it has purchased expressly for Pools under purchase contracts with Lenders either for immediate delivery or, alternatively, for delayed delivery on a date not more than six months after the date of execution of such contracts (plus an additional six months if extended with FNMA's consent during the initial six month period). By entering into such contracts, FNMA will obligate itself to issue Certificates to, or to the order of, the Lenders named in the contracts, upon delivery to FNMA of the required Mortgage Loans conforming to FNMA's standards. **FNMA will not insure or guarantee the performance by any Lender of its obligation to deliver Mortgage Loans and, correspondingly, does not insure or guarantee the performance by any person of any obligation to deliver Certificates.**

FNMA will cause the Mortgage Loans in each Pool to be held for the benefit of the holders of Certificates ("Certificateholders" or "Holders") pursuant to the combined terms of a trust indenture executed by FNMA in its corporate capacity and in its capacity as Trustee (the Trust Indenture dated as of November 1, 1981, as modified and amended by a First Supplemental Indenture dated as of February 15, 1982, a Second Supplemental Indenture dated as of October 1, 1982, and a Third Supplemental Indenture dated as of August 1, 1983, being herein called the "Trust Indenture" or "TI"), and a supplement thereto for the related Issue (the "Issue Supplement"). Certain capitalized words or series of words in this Prospectus refer to and are further defined in the Trust Indenture. FNMA will be responsible for the administration and servicing of the Mortgage Loans in the Pool, including the supervision of the servicing activities of Lenders, if appropriate, the collection and receipt of payments from Lenders, and the remittance of distributions and certain reports to Certificateholders. FNMA will be entitled to receive a fee for its guaranty obligations and its services pursuant to the Trust Indenture. The fee to FNMA for any Mortgage Loan (out of which it will compensate Lenders for servicing the Mortgage Loans) will be equal to the difference between the annual interest rate borne by the Mortgage Loan and the annual rate of interest paid to Certificateholders at the Pass-Through Rate for the related Pool. FNMA will reserve the right to remove the servicing responsibility from a Lender at any time if it considers such removal to be in the best interest of Certificateholders. In such event, FNMA will meet its obligation to provide servicing either by directly servicing the Mortgage Loans itself or by finding a replacement Lender that meets the eligibility standards.

FNMA's obligations with respect to the Mortgage Loans will be limited to the servicing responsibilities under the Trust Indenture, its representations and warranties made therein (see "Description of Certificates—Representations and Warranties of FNMA") and, in the event of any delinquency in payment or loss on any Mortgage Loan, its obligation to make supplemental payments in amounts described herein under "Description of Certificates—FNMA Guaranty."

Because the principal amount of the Mortgage Loans in a Pool will decline monthly as principal payments, including prepayments, are received, each Certificate Principal Balance (defined to be the principal amount appearing on the face of the related Certificate or, subsequent to the first Distribution Date, the last amount reported to the Holder of such Certificate by FNMA as the principal balance thereof) will also decline over time See "Maturity and Prepayment Assumptions "

YIELD CONSIDERATIONS

Each Pool will consist of Mortgage Loans that bear simple interest at fixed annual rates ("Mortgage Interest Rates"). A Pool may include Mortgage Loans that bear different Mortgage Interest Rates. The Pass-Through Rate of interest payable to Certificateholders of each Issue, as set forth on the face of the Certificates, will be equal to the lowest Mortgage Interest Rate borne by any Mortgage Loan in the related Pool, less a specified minimum annual percentage representing compensation for servicing and FNMA's guaranty. Since the Pass-Through Rate for an Issue will not be greater than the lowest Mortgage Interest Rate for the related Pool, any disproportionate principal prepayments among Mortgage Loans bearing different Mortgage Interest Rates will not affect the return to Certificateholders.

The effective yield to Certificateholders will be reduced slightly below the yield otherwise produced by the applicable Pass-Through Rate because the distribution of interest which accrues from the first day of each month will not be made until the 25th day of the month following the month of accrual.

When a Mortgage Loan is prepaid or otherwise liquidated, the proceeds of such prepayment or liquidation will, unless FNMA elects in its discretion to make any distribution thereof in the following month, be passed through to Certificateholders in the second month following the month of such prepayment or other liquidation. Since FNMA will agree in each Certificate to distribute on each Distribution Date to the Holder thereof an amount as to interest representing one month's interest on the Certificate Principal Balance, any prepayment or other liquidation of a Mortgage Loan and the timing of the distribution of the proceeds thereof will have no effect on the interest return to Certificateholders

Assuming performance by FNMA of its obligations under its guaranty, the net effect of each distribution respecting interest will be the pass-through to each Certificateholder of an amount which is equal to one month's interest at the Pass-Through Rate on the Certificate Principal Balance of such Holder's Certificate. See "Description of Certificates—Payments on Mortgage Loans; Distributions on Certificates "

MATURITY AND PREPAYMENT ASSUMPTIONS

The original maturities of substantially all of the Conventional Mortgage Loans in each Pool are expected to be between either 8 to 15 years or 20 to 30 years. The maturities of substantially all of the FHA/VA Mortgage Loans at origination are expected to be 30 years. Each Mortgage Loan with an original maturity of 30 years will provide for amortization of principal according to a schedule which, in the absence of prepayments, would result in repayment of one-half of the original principal amount of such Mortgage Loan by approximately the 23rd to 27th year, with higher Mortgage Interest Rates resulting in slower amortization of principal. A 15-year fully amortizing Conventional Mortgage Loan would, in the absence of prepayments, result in repayment of one-half of the original principal amount by approximately the 10th to 12th year, with higher Mortgage Interest Rates resulting in slower amortization of principal

A significant number of the Conventional Mortgage Loans and GEMs may provide by their terms that in the event of the sale of all or some of the underlying property the full unpaid principal balance of the Mortgage Loan is due and payable at the option of the holder. FHA/VA Mortgage Loans contain no such "due-on-sale" provisions. As set forth under "Description of Certificates—Collection and Other Servicing Procedures," the Trust Indenture requires FNMA to exercise its right to accelerate the maturity of the Conventional Mortgage Loan or GEM in such an event so long as acceleration is permitted under applicable law unless it elects to repurchase such Mortgage Loan.

The ability of mortgage lenders and their assignees and transferees to enforce "due-on-sale" clauses was addressed by the "Garn-St Germain Depository Institutions Act of 1982," which was passed by Congress and signed into law on October 15, 1982. This legislation, subject to certain exceptions, pre-empts state statutory and case law that prohibits the enforcement of "due-on-sale" clauses. Exempted from this pre-emption are mortgage loans (originated other than by federal savings and loan associations and federal savings banks) that were made or assumed during the period beginning on the date a state, by statute or statewide court decision, prohibited the exercise of "due-on-sale" clauses and ending on October 15, 1982. Mortgage lenders, however, may require any successor or transferee of the borrower to meet customary credit standards. The exemption for such loans ends on October 15, 1985 unless the state acts to otherwise regulate these loans by that date. In addition, prior to October 15, 1985, the Comptroller of the Currency and the National Credit Union Administration Board may regulate, as otherwise authorized, such mortgage loans originated by lenders that they regulate. The legislation also enumerates nine circumstances under which a lender may not enforce "due-on-sale" clauses, *e.g.*, the creation of a subordinate encumbrance which does not relate to a transfer of rights of occupancy in the property, a transfer by devise, descent, or operation of law on the death of a joint tenant or tenant by the entirety and the granting of a leasehold interest of three years or less not containing an option to purchase.

Conventional Mortgage Loans purchased by FNMA from November 10, 1980 to October 15, 1982 in jurisdictions where, on the date of origination, the law substantially restricted lenders from enforcing "due-on-sale" provisions may provide that they are due and payable at the holder's option at the end of seven years. As described in "Description of Certificates—Collection and Other Servicing Procedures," the Trust Indenture provides that FNMA will exercise or refrain from exercising any such "call option rider" in a manner that is consistent with then-current policies or practices employed by FNMA respecting comparable mortgage loans held in its own portfolio.

Past experience of the Federal Housing Administration ("FHA") relating to government-insured single-family mortgage loans at various interest rates with original maturities of 26 to 30 years indicates that, while some of such mortgage loans remain outstanding until the scheduled maturity, a pool of 30-year FHA-insured single-family mortgage loans will produce an average loan life of 12 years. A 12-year prepayment assumption is the mortgage industry norm for quoting yields and is used in most generally accepted yield tables. Based upon published information and FNMA's own experience, the rate of prepayments on 30-year single-family loans has fluctuated significantly in recent years, including a substantial reduction in the prepayment rate during 1980, 1981 and 1982, and a significant increase in the rate in 1983. FNMA believes such fluctuation is due to a number of factors, including general economic conditions, mortgage market interest rates and homeowner mobility, and that such factors will affect the prepayment experience for the Mortgage Loans in Pools. Accordingly, FNMA cannot estimate what such prepayment experience will be or how it might compare to the FHA 12-year prepayment assumption respecting insured mortgage loans. See "Description of Certificates—Termination" for a description of FNMA's option to repurchase the Mortgage Loans in any Pool when the aggregate principal balance thereof becomes less than 10 percent of the aggregate principal balance of the Mortgage Loans in the Pool on the Issue Date.

As set forth under "FNMA Purchase Program—Mortgage Loan Eligibility—GEMs" below, a GEM provides for scheduled annual increases in the mortgagor's monthly payments. Since the additional scheduled portion of the monthly payments is applied to reduce the unpaid principal balance of a GEM, the scheduled maturity of a GEM will be significantly shorter than the 25- or 30-year term used as the basis for calculating the initial level installment of principal and interest applicable until the first adjustment. No GEM which matures by its terms more than 15 years subsequent to the Issue Date of the related Certificates will be eligible for inclusion in a Pool Since GEMs have not, until recently, been originated in any appreciable volume, there are no reliable data available regarding their prepayment experience.

FNMA PURCHASE PROGRAM

Set forth below is a description of certain aspects of FNMA's purchase program for mortgage loans eligible for inclusion in a Pool (the "Program"). The Prospectus Supplement to be prepared with respect to each Issue will contain information on the Mortgage Loans in the Pool, including information as to the type of Mortgage Loans, the aggregate principal balance of the Mortgage Loans as of the Issue Date, the Pass-Through Rate and the latest maturity date of any Mortgage Loan.

Lender Eligibility

FNMA will purchase Mortgage Loans from eligible federally and state-chartered savings and loan associations, mutual savings banks, commercial banks, credit unions and similar financial institutions, the deposits or accounts of which are insured by the Federal Savings and Loan Insurance Corporation ("FSLIC"), the Federal Deposit Insurance Corporation ("FDIC") or the National Credit Union Administration ("NCUA"), from certain other state-insured financial institutions and from certain institutions, principally mortgage bankers, that are FNMA-approved mortgage sellers. FNMA, on an individual institution basis, will determine whether such institutions will be approved as eligible Lenders for the Program by applying certain criteria, which may include depth of mortgage origination experience, servicing experience, and financial capacity. With respect to financial capacity, FNMA requires eligible Lenders who service Mortgage Loans under the Program to maintain net worth in an amount not less than $250,000 plus two percent of the aggregate principal balance of all Mortgage Loans serviced under the Program by such Lenders. Approved Lenders will be party with FNMA to a Mortgage Selling and Servicing Contract. Also, each Mortgage Loan purchased for inclusion in a Pool will be subject to and must comply with the terms of a Selling and Servicing Guide applicable to the Program. The Selling and Servicing Guide may be amended from time to time.

Mortgage Loan Eligibility

General

The Mortgage Loans to be included in each Pool will be one- to four-family Mortgage Loans on residential properties. These Mortgage Loans are permanent loans (as opposed to construction and land development loans) secured by Mortgages on properties comprised of one- to four-family dwelling units, including units in condominium projects, planned unit developments, and *de minimis* planned unit developments. Each Mortgage Loan will be documented by the appropriate FNMA/FHLMC Uniform Instrument in effect at the time of origination, FHA or VA mortgage instrument or other instrument as approved by FNMA, and will comply with all applicable federal and local laws, including laws relating to usury, equal credit opportunity and disclosure.

There is no requirement that Mortgage Loans be payable on the first day of the month in order to be eligible for inclusion in a Pool. The Mortgage Loans must have had maturities of not more than 30 years from their date of origination.

Conventional Mortgage Loans

Pursuant to the requirements of the Selling and Servicing Guide, Conventional Mortgage Loans must be real estate loans with stated constant annual rates of interest, secured by first Mortgages on residential properties, with principal balances which (when combined with the unpaid principal balance of any second mortgage in which FNMA has an interest), at the time of purchase by FNMA, did not exceed certain federally imposed maximum principal balance limitations applicable to FNMA. In 1984, the maximum dollar purchase limitations for Conventional Mortgage Loans are as follows: $114,000 for mortgages secured by single-family residences ($171,000 in Alaska and Hawaii); $145,800 for mortgages secured by two-family residences ($218,700 in Alaska and Hawaii); $176,100 for mortgages secured by three-family residences ($264,150 in Alaska and Hawaii); and $218,900 for mortgages secured by four-family residences ($328,350 in Alaska and Hawaii).

No Conventional Mortgage Loan with a loan-to-value ratio in excess of 95 percent will be included in any Pool. Conventional Mortgage Loans with loan-to-value ratios exceeding 80 percent must have the principal amount of the indebtedness in excess of 75 percent of the appraised value of the Mortgaged Property insured by a policy of primary mortgage guaranty insurance. Each mortgage insurer must be licensed to transact a mortgage guaranty insurance business in the state where the Mortgaged Property is located and be acceptable to FNMA as a mortgage insurer. As an alternative to the requirement to obtain mortgage insurance for Conventional Mortgage Loans with loan-to-value ratios in excess of 80 percent, Lenders may contract with FNMA to repurchase such Conventional Mortgage Loans at a price equal to the unpaid principal balance thereof in the event of default before the loan-to-value ratio has been reduced to 80 percent of the original value.

The maximum loan-to-value ratio at the time of purchase for a Conventional Mortgage Loan secured by a first Mortgage on an owner-occupied property including the unpaid principal balances of all subordinate financing is 95 percent. In the case of a Conventional Mortgage Loan secured by a first Mortgage on a non-owner occupied property, the maximum loan-to-value ratio including the unpaid principal balances of all subordinate financing is 90 percent. The maximum loan-to-value ratio for Mortgage Loans secured by non-owner occupied properties is generally 80 percent but may vary based on FNMA's evaluation of the age of a Mortgage Loan and its experience with the Lender from whom it purchases such Mortgage Loan.

Each Conventional Mortgage Loan must be repayable in equal monthly installments that reduce the principal balance of the loan to zero at the end of the term.

Pursuant to the requirements of the Selling and Servicing Guide, each eligible Lender that sells a Conventional Mortgage Loan to FNMA for the purposes of the Program must assume responsibility for underwriting such Conventional Mortgage Loan using FNMA's published criteria for mortgage loan underwriting, as from time to time in effect, as guidelines. After delivery of the Conventional Mortgage Loans, FNMA will conduct reviews of the quality of credit and property underwriting used in the origination of certain randomly selected Conventional Mortgage Loans.

GEMs

The foregoing description of Conventional Mortgage Loans that are eligible for purchase under the Program applies equally to GEMs except for the requirement that amortization be on a level installment basis over the life of the Mortgage Loan. Each GEM must provide for scheduled annual increases of either three percent, four percent or five percent of the Mortgagor's monthly payments, which increases must be applied to reduce the unpaid principal balance of the GEM. All GEMs in a single Pool must have (i) scheduled payment increases of the same percentage amount and (ii) scheduled annual increases in monthly payments that occur within a four-month period. The original monthly payment on a GEM must be based on either a 25- or 30-year level installment amortization schedule.

FHA/VA Mortgage Loans

Pursuant to the requirements of the Selling and Servicing Guide, FHA/VA Mortgage Loans must be real estate loans with stated constant annual rates of interest, secured by first Mortgages on residential properties. Each FHA/VA Mortgage Loan must be repayable in equal monthly installments that reduce the principal balance of the loan to zero at the end of the term. The principal balance and loan-to-value ratio of each FHA Mortgage Loan must comply with the standards established by the FHA. In the case of VA Mortgage Loans, FNMA has imposed a maximum principal balance limitation of $135,000. In addition, the unguaranteed portion of the VA Mortgage Loan amount cannot be greater than 75 percent of the lesser of (i) the purchase price of the property or (ii) the VA's estimate of reasonable value. For two- to four-family properties, such unguaranteed portion cannot be greater than 75 percent of the least of (i) above, (ii) above or the appraiser's estimate of market value. Each FHA/VA Mortgage Loan must be insured or guaranteed by a valid and subsisting policy or guaranty in full force and effect. In addition, each FHA/VA Mortgage Loan must have been originated prior to the 12-month period preceding FNMA's purchase of the Mortgage Loan for inclusion in a Pool.

DESCRIPTION OF CERTIFICATES

Each Issue of Certificates will be issued pursuant to the Trust Indenture, which has been executed by FNMA in its corporate capacity and as Trustee for Certificateholders. The Trust Indenture will, as to each Issue, be supplemented by an Issue Supplement, which will be prepared at the time of the creation of such Issue. The Issue Supplement will set forth the specific terms of the Issue, such as the Pass-Through Rate applicable thereto and the Issue Date. The Issue Supplement will also contain any variation from the basic Trust Indenture applicable to a particular Issue, any such variation also being described in the Prospectus Supplement relating to such Issue As set forth under "Legal Opinion," the validity of each Issue of Certificates, the Trust Indenture and the applicable Issue Supplement will be passed upon by the General Counsel of FNMA upon the request of any Holder of Certificates of such Issue

Mortgage Loans not previously held in FNMA's portfolio will be purchased pursuant to a Pool Purchase Contract from FNMA-approved Lenders for cash or in exchange for Certificates in the related Pool Such Mortgage Loans will be serviced for FNMA by FNMA-approved Lenders, normally the same entity as the loan originator, pursuant to the terms of the Pool Purchase Contract, as supplemented by the Selling and Servicing Guide, which is incorporated therein by reference. Copies of the Trust Indenture and the Pool Purchase Contract, together with the Selling and Servicing Guide, may be obtained from FNMA's Washington, D C. office, from any of FNMA's regional offices in Philadelphia, Atlanta, Chicago, Dallas, and Los Angeles, or from FNMA's fiscal office in New York.

The following summaries describe certain provisions of the Trust Indenture These summaries do not purport to be complete and are subject to, and qualified in their entirety by reference to, the more complete provisions of the Trust Indenture.

General

The Certificates will be issued in fully registered form only and will represent Fractional Undivided Interests in the Trust Fund created pursuant to the Trust Indenture and Issue Supplement for each Issue. The Fractional Undivided Interest represented by a particular Certificate will be equal to the initial principal denomination of such Certificate set forth on the face thereof divided by the aggregate Stated Principal Balance[1] of the Mortgage Loans in the Pool (the "Pool Principal Balance") as of the Issue Date, which also will be set forth on the face of the Certificate The Trust Fund for an Issue consists of (i) such Mortgage Loans as from time to time are subject to the Trust Indenture and Issue Supplement, (ii) such payments or other recoveries on Mortgage Loans as from time to time may be considered to be held by FNMA for Certificateholders, (iii) property acquired by foreclosure of Mortgage Loans or by deed in lieu of foreclosure, and (iv) the interest of Certificateholders in the obligation of FNMA to supplement payments and other recoveries on Mortgage Loans to the extent necessary to make required distributions to Certificateholders

Certificates will not be issued in initial principal denominations of less than $25,000 (TI Section 7.01). In addition, Certificates may only be issued in integral multiples of $5,000 in excess of $25,000, with the exception of one odd denomination that may be issued for each Pool.

The Certificates will be freely transferable and exchangeable at the corporate trust office of Chemical Bank, New York, New York A service charge may be imposed for any exchange or registration of transfer of Certificates and FNMA may require payment of a sum sufficient to cover any tax or other governmental charge. (TI Section 7 02)

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[1]All references herein to the Stated Principal Balance of a Mortgage Loan or to the aggregate Stated Principal Balance of all Mortgage Loans in a Pool are to the principal balance or aggregate principal balance, as the case may be utilized by FNMA in calculating the then outstanding principal balances of Certificates Such Stated Principal Balances may differ from actual principal balances for a number of reasons, including supplemental payments by FNMA on delinquent Mortgage Loans pursuant to its guaranty obligations and delays in the distribution of certain Mortgage Loan receipts

Distributions of principal and interest on each Issue of Certificates will be made by FNMA on the 25th day of each month (the "Distribution Date") to the persons in whose names the Certificates are registered as of the close of business on the last day of the preceding month (the "Record Date"). The first distribution for each Issue of Certificates will be in the month following the month in which the Issue Date occurs. Distributions for each Issue will be made by check mailed to the address of the person entitled thereto as it appears on the Certificate Register not later than the 25th day of each month; provided, however, that the final distribution in retirement of Certificates of any Issue will be made only upon presentation and surrender of the Certificates at the office or agency of FNMA specified in the notice to Certificateholders of such final distribution.

Transfer of Mortgage Loans to Pools

Each Mortgage Loan transferred to a Pool will be identified in a Mortgage Loan Schedule appearing as an exhibit to the Issue Supplement for the related Issue of Certificates. Such Mortgage Loan Schedule will include the following information as to each Mortgage Loan: the address of the Mortgaged Property, the first payment date and original term, the original principal amount, the Issue Date Principal Balance, the Mortgage Interest Rate, whether such Mortgage Loan is insured by the FHA or guaranteed by the VA, and whether such Mortgage Loan is a GEM and, if so, the dates when adjustments are effective and the percentage amount thereof In addition, FNMA, as Trustee of the Mortgage Loans, will retain on behalf of Certificateholders the original Mortgage Note, endorsed in blank, and a completed and executed assignment to FNMA of the mortgage instrument in suitable form for recording but not recorded. At its option, FNMA may choose to maintain such documents either with a custodian institution (the Lender or another institution) whose deposits or accounts are insured by the FDIC, FSLIC or a state agency, or with a subsidiary of the Lender. FNMA will review the Mortgage Loan Schedule prior to the issuance of the Certificates and will conduct random spot checks to confirm the sufficiency of the documents after issuance of the Certificates.

Although the above procedures are intended to protect the interests of the Holders of Certificates in the Mortgage Loans in the related Pool, the law applicable to a liquidation, reorganization or similar proceeding involving the assets of a Lender or of FNMA is unclear and as a result no opinion can be rendered as to the status of Certificateholders' interests in the event of any such proceeding. FNMA's guaranty would, however, by its terms be available in the event of any such proceeding involving the assets of a Lender.

As described herein under "Rights Upon Event of Default," Holders of Certificates will have the right under certain circumstances to appoint a successor Trustee.

Representations and Warranties of FNMA

With respect to each Mortgage Loan in a Pool, FNMA will represent and warrant that as of the Issue Date of the related Certificates: (i) each Mortgage Loan is documented by appropriate FNMA/FHLMC mortgage instruments in effect at the time of origination, FHA or VA mortgage instruments or other instruments approved by FNMA; (ii) the Mortgaged Property securing each Mortgage Loan is improved with a one- to four-family dwelling unit, including units in a condominium project, a planned unit development or a *de minimis* planned unit development; (iii) each Mortgage Loan at the time it was made complied in all material respects with applicable state and federal laws, including usury, equal opportunity and disclosure laws; (iv) each Mortgage Loan conforms to the applicable eligibility requirements set forth in this Prospectus; (v) each Mortgage Loan at the time it was made had an original term not exceeding 30 years and each Mortgage Loan bears interest at a constant annual rate and, except for any GEM, provides for payment of equal monthly installments; (vi) the information set forth in the Mortgage Loan Schedule is true and correct in all material respects; (vii) immediately prior to the transfer thereof, FNMA had good and indefeasible title to such Mortgage Loan, and immediately upon the assignment thereof, the Trustee will have good and indefeasible title to such Mortgage Loan; (viii) each original Mortgage was recorded and, in the case of any Mortgage Note delivered to a custodian, an assignment in recordable form of the related Mortgage to FNMA was delivered to the custodian; (ix) each Mortgage and Mortgage Note is the legal, valid and binding obligation of the maker thereof and is enforceable in accordance with its terms, except only as such enforcement may be limited by laws affecting the enforcement of creditors' rights generally; (x) each Mortgage Loan is secured by a first and paramount lien on the Mortgaged Property, subject only to (1) the liens of current real property taxes and assessments and (2) covenants, conditions and restrictions, rights of way, easements and other matters of public record which are customarily acceptable to mortgage lending institutions generally or to which like properties are commonly subject and which do not materially affect the value or marketability of the Mortgaged Property; and (xi) each Mortgage Loan identified in the Mortgage Loan Schedule as being insured by the FHA or guaranteed by the VA is so insured or guaranteed on the Issue Date by a valid and subsisting policy or guaranty in full force and effect on such date. In addition, except for Pools consisting of Mortgage Loans previously held by FNMA in its own portfolio, FNMA will represent and warrant that as of the Issue Date of the related Certificates no Mortgage Loan is delinquent on the Issue Date to the extent of more than the monthly installment of principal and interest due after the first day of the month prior to the month of the Issue Date. The Prospectus Supplement to be prepared with respect to each Issue will state if the Pool consists of Mortgage Loans previously held by FNMA in its own portfolio.

Upon the discovery by FNMA of a breach of any representation and warranty which materially and adversely affects the interests of Certificateholders in and to the related Mortgage Loan (or which, in the case of the Prospectus and Prospectus Supplement description of the related Pool, causes that description to be materially incorrect), FNMA is obligated, within 60 days of such discovery, either to cure such breach in all material respects or to repurchase such Mortgage Loan from the Trust Fund at a price equal to its Stated Principal Balance together with interest thereon at the Pass-Through Rate. In lieu of any such repurchase, FNMA may, at its option, substitute a new Mortgage Loan for a defective Mortgage Loan; provided, however, that no such substitution may take place more than 120 days subsequent to the date of the original issue of the related Certificates and any such substitute Mortgage Loan must satisfy certain eligibility criteria designed to assure that the nature of the Pool will not be altered by any such substitution. Any amount by which the Stated Principal Balance of the defective Mortgage Loan exceeds the principal balance of the substitute Mortgage Loan (the substitute Mortgage Loan may not be larger than the Mortgage Loan it is replacing) will be passed through to Certificateholders.

Servicing Through Lenders

Pursuant to the Trust Indenture, FNMA is responsible for servicing and administering the Mortgage Loans but, in its discretion, is permitted to contract with the originator of each Mortgage Loan, or another eligible servicing institution, to perform such functions under the supervision of FNMA as more fully described herein. Any servicing contract or arrangement by FNMA with a Lender for the direct servicing of Mortgage Loans is a contract solely between FNMA and that Lender and the Certificateholders are not deemed to be parties thereto and have no claims, rights, obligations, duties or liabilities with respect to such Lender. (TI Section 5.01)

Lenders will be obligated pursuant to the Selling and Servicing Guide to perform diligently all services and duties customary to the servicing of mortgages, as well as those specifically prescribed by the Selling and Servicing Guide. FNMA will monitor the Lender's performance and has the right to remove any Lender for cause at any time it considers 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.

For each Mortgage Loan, FNMA retains the difference in interest between the annual Mortgage Interest Rate borne by the Mortgage Loan and the Pass-Through Rate on the Certificates. See "Yield Considerations." For example, if a Mortgage Loan with a 12.25 percent Mortgage Interest Rate is included in a Pool against which a Certificate with a 11.25 percent Pass-Through Rate is issued, FNMA would be entitled to receive total compensation of one percent per annum on the Mortgage Loan. FNMA is also entitled to retain prepayment fees, late charges, assumption fees, interest float on advance payments, and similar charges to the extent they are collected from borrowers. FNMA will compensate Lenders in an amount up to, but never exceeding, the amount of interest retention described above, less a prescribed minimum amount to be retained by FNMA for itself in consideration of its guaranty obligations and servicing responsibilities.

Payments on Mortgage Loans; Distributions on Certificates

On the twenty-fifth day of each month (beginning with the month following the month of the Issue Date), FNMA will, respecting each Issue, distribute to Certificateholders an amount equal to the total of (i) the principal due on the Mortgage Loans in the related Pool during the period beginning on the second day of the month prior to the month of such distribution and ending on the first day of such month of distribution, (ii) the Stated Principal Balance of any such Mortgage Loan which was prepaid in full during the second month next preceding the month of such distribution (including as prepaid for this purpose any Mortgage Loan repurchased by FNMA as described herein because of the breach of a representation and warranty, or because of FNMA's election to repurchase the Mortgage Loan after it is delinquent, in whole or in part, with respect to four consecutive installments of principal and interest, or because of FNMA's election to repurchase such Mortgage Loan under the circumstances described in the last paragraph under "Collection and Other Servicing Procedures" below), (iii) the amount of any partial prepayment of a Mortgage Loan received in the second month next preceding the month of distribution, and (iv) one month's interest at the Pass-Through Rate on the Pool Principal Balance as reported to Certificateholders in connection with the previous distribution (or, respecting the first distribution, the Pool Principal Balance on the Issue Date). For purposes of distributions, a Mortgage Loan will be considered to have been prepaid in full if, in FNMA's reasonable judgment, the full amount finally recoverable on account of such Mortgage Loan has been received, whether or not such full amount is equal to the Stated Principal Balance of the Mortgage Loan. FNMA may, in its discretion, include with any distribution principal prepayments, both full and partial, received during the month prior to the month of distribution but is under no obligation to do so.

Distributions on any Distribution Date will be made to Certificateholders of record on the prior Record Date (the close of business on the last day of the immediately preceding month). Each Certificateholder will be entitled to receive an amount equal to the total amount distributed multiplied by the Fractional Undivided Interest evidenced by such Holder's Certificate.

FNMA Guaranty

FNMA's obligation described above to distribute amounts representing scheduled principal and interest, whether or not received, and its obligation to distribute the full principal amount of any foreclosed or otherwise finally liquidated Mortgage Loan, whether or not such principal amount is actually recovered, constitute FNMA's guaranty obligations in respect of the Certificates If FNMA were unable to perform such obligations, distributions to Certificateholders would consist solely of payments and other recoveries on Mortgage Loans and, accordingly, delinquencies and defaults would impact monthly distributions to Certificateholders.

Reports to Certificateholders

With respect to each distribution, FNMA will cause to be forwarded to each Certificateholder a statement setting forth the following information:

(i) the amount due on the Certificate on account of total scheduled and unscheduled principal,

(ii) the amount due on the Certificate on account of interest;

(iii) the total of the cash distribution on the Certificate; and

(iv) the Certificate Principal Balance of the Certificate after giving effect to such distribution

Within a reasonable period of time after the end of each calendar year, FNMA will furnish to each Person who at any time during the calendar year was a Certificateholder a statement containing the information set forth in items (i) and (ii) above, in summary form for such calendar year, or for any portion thereof during which such Person was a Certificateholder.

Servicing Compensation and Payment of Certain Expenses by FNMA

As compensation for its activities and obligations under the Trust Indenture, FNMA will be entitled to retain the amounts applicable to interest which are not required to be distributed to Certificateholders as described above. In addition, FNMA is entitled to retain any amounts by which the proceeds of the liquidation of a Mortgage Loan exceed (i) the Stated Principal Balance of that Mortgage Loan and (ii) interest thereon at the Pass-Through Rate. FNMA will pay all expenses incurred by it in connection with its servicing activities, including, without limitation, the fees to Lenders, and is not entitled to reimbursement therefor out of the Trust Fund.

Additional servicing compensation in the form of prepayment charges, assumption fees, late payment charges or otherwise will be retained by FNMA.

Collection and Other Servicing Procedures

FNMA is responsible for servicing the Mortgage Loans in each Pool and may, as set forth above, conduct such servicing through Lenders or through other FNMA-approved mortgage servicers. In connection with its servicing activities, FNMA has full power and authority to do or cause to be done any and all things as it may deem necessary or appropriate in its sole discretion, including the foreclosure or comparable conversion of a defaulted Mortgage Loan. In lieu of undertaking any such foreclosure, FNMA may, in its discretion and without obligation, repurchase from the Trust Fund any Mortgage Loan which is delinquent, in whole or in part, as to four consecutive installments of principal and interest. The purchase price will be equal to the Stated Principal Balance of the delinquent Mortgage Loan together with accrued interest at the Pass-Through Rate and will be distributed to Certificateholders in the same manner as full prepayments of Mortgage Loans. See "Description of Certificates — Payments on Mortgage Loans; Distributions on Certificates." (TI Sections 5.01 and 5.03)

Subject to the following paragraph and to the extent consistent with then-current policies of FNMA respecting mortgage loans held in its own portfolio, FNMA in its discretion may enforce or waive enforcement of any of the terms of any Mortgage Loan or enter into an agreement for the modification of any of the terms of any Mortgage Loan, or take any action or refrain from taking any action in servicing any Mortgage Loan In such connection, FNMA may waive any prepayment charge, assumption fee or late payment charge or may exercise or refrain from exercising any "call option rider"; provided, however, that any decision to exercise or refrain from exercising any "call option rider" must be consistent with then-current policies or practices employed by FNMA respecting comparable mortgage loans held in its own portfolio and must be without consideration of the ownership status of the related Mortgage Loan.

In connection with the transfer or prospective transfer of title to a Mortgaged Property, FNMA is obligated to accelerate the maturity of the related Mortgage Loan where that Mortgage Loan contains a "due-on-sale" clause permitting acceleration under those conditions unless FNMA is restricted by law from enforcing the "due-on-sale" clause or FNMA elects to withdraw such Mortgage Loan from the Pool. See "Maturity and Prepayment Assumptions."

In the event that, for any reason, FNMA is not obligated to accelerate the maturity of a Conventional Mortgage Loan or GEM upon the transfer, or prospective transfer, of title to the underlying Mortgaged Property, FNMA may enter into a transaction by which the obligor is released from liability on the related Mortgage Loan and the transferee assumes such liability; provided, however, that no such transaction shall (i) be entered into which would not have been entered into had the Mortgage Loan been held in FNMA's own portfolio or (ii) provide for reduction of the Mortgage Interest Rate.

The Trust Indenture provides that FNMA may repurchase from the related Pool, at a price equal to the Stated Principal Balance thereof plus accrued interest thereon at the applicable Pass-Through Rate, any Mortgage Loan respecting which the underlying Mortgaged Property is transferred, or proposed to be transferred, under circumstances permitting FNMA to accelerate the maturity of such Mortgage Loan pursuant to the terms of any "due-on-sale" clause contained therein.

Certain Matters Regarding FNMA

The Trust Indenture provides that FNMA may not resign from its obligations and duties thereunder, except upon determination that those duties are no longer permissible under applicable law. No such resignation will become effective until a successor has assumed FNMA's obligations and duties under the Trust Indenture; provided, however, that no successor will succeed to FNMA's guaranty obligations described above, FNMA continuing to be responsible thereunder notwithstanding any termination of its other duties and responsibilities under the Trust Indenture. In the event that FNMA is unable to fulfill its continuing guaranty obligations, the Trust Indenture 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 (TI Section 9.01)

The Trust Indenture also provides that neither FNMA nor any director, officer, employee or agent of FNMA will be under any liability to the Trust Fund or to Certificateholders for any action taken or for refraining from the taking of any action in good faith pursuant to such Trust Indenture, or for errors in judgment; provided, however, that neither FNMA nor any such person will be protected against any liability which would otherwise be imposed by reason of willful misfeasance, bad faith or gross negligence or by reason of willful disregard of obligations and duties.

In addition, the Trust Indenture provides that FNMA is not under any obligation to appear in, prosecute or defend any legal action which is not incidental to its responsibilities under the Trust Indenture and which in its opinion may involve it in any expense or liability. FNMA may, however, in its discretion undertake any such legal action which it may deem necessary or desirable in the interests of the Certificateholders. In such event, the legal expenses and costs of such action and any liability resulting therefrom will be expenses, costs and liabilities of FNMA which will not be reimbursable to FNMA out of the Trust Fund. (TI Section 8.02)

Any corporation into which FNMA may be merged or consolidated, or any corporation resulting from any merger, conversion or consolidation to which FNMA is a party, or any corporation succeeding to the business of FNMA, will be the successor of FNMA under the terms of the Trust Indenture. (TI Section 9.02)

Events of Default

Events of Default under the Trust Indenture will consist of (i) any failure by FNMA to distribute to Certificateholders any required payment which continues unremedied for 15 days after the giving of written notice of such failure to FNMA by the Holders of Certificates evidencing Fractional Undivided Interests aggregating not less than five percent of the related Trust Fund; (ii) any failure by FNMA duly to observe or perform in any material respect any other of its covenants or agreements in the Trust Indenture which failure continues unremedied for 60 days after the giving of written notice of such failure to FNMA by the Holders of Certificates evidencing Fractional Undivided Interests aggregating not less than 25 percent of the related Trust Fund; and (iii) certain events of insolvency, readjustment of debt, marshalling of assets and liabilities or similar proceedings and certain actions by or against FNMA indicating its insolvency, reorganization or inability to pay its obligations. (TI Section 9.03)

Rights Upon Event of Default

As long as an Event of Default under the Trust Indenture for any Issue remains unremedied, the Holders of Certificates evidencing Fractional Undivided Interests aggregating not less than 25 percent of the related Trust Fund may, in writing, terminate all of the obligations and duties of FNMA as Trustee and in its corporate capacity under the Trust Indenture in respect of such Issue (other than its guaranty obligations described above which continue notwithstanding any such termination) and name and appoint, in writing, a successor to succeed to all such responsibilities, duties and obligations of FNMA thereunder (other than FNMA's guaranty obligations) and to the legal title to the Mortgage Loans held in such Trust Fund. (TI Section 9.03)

Amendment

The Trust Indenture as it relates to any Issue may be amended by FNMA, without the consent of or notice to any of the Certificateholders, for one or more of the following purposes: (i) to add to the covenants of FNMA; (ii) to evidence the succession of another party or parties to FNMA and the assumption by such successor or successors of the obligations of FNMA thereunder in its corporate capacity or in its capacity as Trustee or in both such capacities; (iii) to eliminate any right reserved to or conferred upon FNMA in its corporate capacity; (iv) to make provisions for the purpose of curing any ambiguity or correcting or supplementing any provision in the Trust Indenture or any Issue Supplement, provided such provisions do not adversely affect the interests of any Certificateholder; or (v) to modify the Trust Indenture under the circumstances and for the purposes set forth in the final sentence of the first paragraph under "Certain Matters Regarding FNMA" above. (TI Section 11.01)

The Trust Indenture as it relates to any Issue may also be amended by FNMA with the consent of the Holders of Certificates evidencing Fractional Undivided Interests aggregating not less than 66 percent of the related Trust Fund so as to waive compliance by FNMA with any terms of the Trust Indenture or related Issue Supplement, or to allow FNMA to eliminate, change, add to, or modify the terms of the Trust Indenture or Issue Supplement. However, no such waiver or amendment may, without the consent of all Certificateholders, terminate or modify the guaranty obligations of FNMA or reduce the percentages of Certificates the Holders of which are required to consent to any waiver or amendments. In addition, no waiver or amendment shall, without the consent of each Certificateholder affected thereby, reduce in any manner the amount of, or delay the timing of, payments received on Mortgage Loans which are required to be distributed on any Certificate. (TI Section 11.02)

List of Certificateholders

With respect to each Pool, in the event that Holders of Certificates evidencing Fractional Undivided Interests aggregating not less than five percent of the related Trust Fund notify FNMA in writing that they desire to communicate with other Certificateholders of that Trust Fund, accompanied by a copy of the proposed communication, then, within five business days after receipt of such notification, FNMA will afford access to such Certificateholders during normal business hours to the most recent list of Certificateholders in such Pool. (TI Section 12.02)

Termination

The Trust Indenture as it relates to each Issue terminates upon the final payment or liquidation of the last Mortgage Loan remaining in the related Pool and distribution of all proceeds thereof. The Trust Indenture as it relates to each Issue will terminate also upon repurchase by FNMA, at its option, of all remaining Mortgage Loans in the related Pool at a price equal to 100 percent of the Stated Principal Balance of each such Mortgage Loan together with one month's interest thereon at the Pass-Through Rate. (TI Section 10.01) The exercise of such option will effect early retirement of the Certificates of that Issue, but FNMA's right to repurchase is conditioned upon the Pool Principal Balance at the time of repurchase being not more than ten percent of the Pool Principal Balance on the Issue Date. In no event, however, will the trust relating to each Pool as created by the Trust Indenture continue beyond the expiration of 21 years from the death of the last survivor of five persons named in the Trust Indenture. For each Issue, FNMA will give written notice of termination of the Trust Indenture as it relates to such Issue to each affected Certificateholder, and the final distribution will be made only upon surrender and cancellation of the Certificates at an office of FNMA specified in the notice of termination. (TI Section 10.01)

FEDERAL TAX ASPECTS

Taxation of Certificateholders

Set forth is a discussion of certain federal income tax consequences to persons purchasing Certificates. The discussion does not purport to deal with all aspects of federal taxation that may be relevant to particular investors. Prospective investors are advised to consult their 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 or other taxing jurisdiction.

The Internal Revenue Service recently issued Revenue Ruling 84-10, 1984-3 I.R.B. 9, which sets forth certain federal income tax consequences relating to investments in the Certificates issued with respect to a Pool. Pursuant to Revenue Ruling 84-10, a Pool will not be classified as an association taxable as a corporation, but will be classified as a trust of which the Certificateholders of the respective Pool are the owners under Subpart E of subchapter J of the Internal Revenue Code of 1954, as amended (the "Code"). Each Certificateholder will be treated as the owner of a pro rata undivided interest in the ordinary income and corpus of the trust attributable to that particular Pool and will be considered to be the equitable owner of a pro rata undivided interest in each of the Mortgage Loans included therein.

Accordingly, Certificateholders of a particular series will be required to report on their federal income tax returns, consistent with their methods of accounting, their pro rata share of the entire income from the Mortgage Loans in that particular Pool, including interest, prepayment penalties, assumption fees and late payment charges received by the Pool, plus any amount paid to the Pool by FNMA as interest under its guaranty. Certificateholders will be entitled to deduct their pro rata share of the servicing fee paid to FNMA, as provided in section 162 or section 212 of the Code, consistent with their methods of accounting.

Certificateholders must also report their pro rata share of any original issue discount on each of the Mortgage Loans as ordinary income, consistent with their methods of accounting. The special rules of sections 1232 and 1232A of the Code will be applicable to the Certificateholders' pro rata shares of such original issue discount on any Mortgage Loans in the Pool to the extent that the conditions for the application of those sections are met. With respect to any undivided interest in a Mortgage Loan purchased at a premium, the Certificateholder will not be entitled to a deduction for amortization under the special rules of section 171 of the Code unless the conditions for the application of that section are met. Certificateholders are advised to consult with their tax advisors as to whether premium or discount results from the acquisition of Certificates and the effect, if any, of such premium or discount upon any secondary market for Certificates. Certificateholders may be required to report annually as ordinary income an allocable share of any such discount but may not be permitted to deduct annually an allocable share of any such premium. Such premium might be deductible only upon sale or final distribution in respect of the Certificates, and then only as a short- or long-term capital loss, depending upon how long the Certificates have been held

The Internal Revenue Service also ruled in Revenue Ruling 84-10 as follows:

1. A Certificate owned by a domestic building and loan association is considered as representing "loans secured by an interest in real property" within the meaning of section 7701(a)(19)(C)(v) of the Code, provided the real property is (or, from the proceeds of the loan, will become) the type of real property described in that section of the Code.

2 A Certificate owned by a real estate investment trust is considered as representing "real estate assets" within the meaning of section 856(c)(5)(A) of the Code, and the interest income is considered "interest on obligations secured by mortgages on real property" within the meaning of section 856(c)(3)(B) of the Code.

3 A Certificate is considered as representing "qualifying real property loans" within the meaning of section 593(d) of the Code, provided the real property underlying the Mortgages is (or, from the proceeds of the Mortgage Loans, will become) the type of real property described in that section of the Code. Thus, a Certificate owned by a domestic building and loan association or any other thrift institution described in section 593(a) of the Code will represent "qualifying real property loans" within the meaning of section 593(d) of the Code, provided the real property underlying the Mortgages is (or, from the proceeds of the Mortgage Loans, will become) the type of real property described in that section of the Code.

FNMA will furnish to each Certificateholder with each distribution a statement setting forth the amount of such distribution allocable to principal and to interest. In addition, FNMA will furnish, within a reasonable time after the end of each calendar year, to each Certificateholder who at any time during such year held a Certificate, a statement setting forth such Certificateholder's pro rata share of interest income and administrative expense for such calendar year to assist the Certificateholder in the preparation of its tax return.

Backup Withholding

Section 3406 of the Code requires a payor of reportable interest and other reportable payments to solicit information from individuals, partnerships (not composed exclusively of corporations), trusts, estates, and certain other payees (not described below as exempt recipients) This solicitation must be made in connection with the payor's responsibility to report such payments to the Internal Revenue Service. If the information is not provided to the payor by a payee required to do so, the payor will be required to withhold on all reportable payments made to such payee after December 31, 1983. This withholding requirement is referred to as "backup withholding." Interest paid by a natural person is not subject to backup withholding. Certificateholders exempt from backup withholding include corporations, organizations that are exempt from taxation under section 501(a) of the Code, individual retirement plans, the United States Government and any wholly owned agency or instrumentality thereof, state and local governments, foreign governments, international organizations, securities or commodities dealers who are required to register under the laws of the United States or a state, futures commission merchants, real estate investment trusts, entities registered at all times during the taxable year under the Investment Company Act of 1940, common trust funds under section 584 of the Code, nominees and custodians known generally in the investment community as nominees or listed in the most recent publication of the American Society of Corporate Secretaries, Inc. Nominee List, financial institutions, and certain charitable trusts.

Any amounts deducted and withheld from a distribution to a Certificateholder would be allowed as a credit against such Certificateholder's federal income tax. Furthermore, certain penalties may be imposed by the Internal Revenue Service on a Certificateholder who is required to supply the information but who does not do so in the proper manner. FNMA or its agent may decide that it must deduct and withhold from each distribution made or credited to a Certificateholder who has not provided the required information an amount equal to 20 percent of the reportable interest or other reportable component of such distribution.

LEGAL OPINION

Any purchaser of Certificates will be furnished upon request an opinion by Caryl S. Bernstein, Esq., Executive Vice President, General Counsel and Secretary of FNMA, as to the validity of the Certificates, the Trust Indenture and the relevant Issue Supplement.

ERISA CONSIDERATIONS

On May 13, 1982, the Department of Labor issued a final regulation (29 C.F.R. § 2550.401b-1), effective June 17, 1982, which provides that in the case where an employee benefit plan ("plan") subject to the Employee Retirement Income Security Act of 1974 ("ERISA") acquires a "guaranteed governmental mortgage pool certificate" then, for purposes of the fiduciary responsibility provisions of ERISA and the prohibited transaction provisions of the Code, the plan's assets include the certificate and all of its rights with respect to such certificate under applicable law, but do not, solely by reason of the plan's holding of such certificate, include any of the mortgages underlying such certificate. Under the regulation, the term "guaranteed governmental mortgage pool certificate" is specifically defined to include a mortgage pool certificate with respect to which interest and principal payable pursuant to the certificate are guaranteed by FNMA. The effect of such regulation is to make clear that the sponsor (that is, the entity which organizes and services the pool, in this case FNMA), the trustee, and other persons, in providing services with respect to the mortgages in the pool, would not be subject to the fiduciary responsibility provisions of Title I of ERISA, nor be subject to the prohibited transaction provisions of Section 4975 of the Code, merely by reason of the plan's investment in a certificate. FNMA has been advised by its counsel, Brown, Wood, Ivey, Mitchell & Petty, that, on the basis of the final regulation and class exemptions previously issued by the Department of Labor, the acquisition from FNMA and holding of the Certificates by plans are not prohibited either by ERISA or related provisions of the Code.

FNMA

FNMA is a federally chartered and privately owned corporation organized and existing under the Federal National Mortgage Association Charter Act (12 U.S.C. §1716 *et seq.*) (the "Charter Act") It is the nation's largest supplier of residential mortgage funds, with a portfolio of $75.7 billion of mortgage loans as of December 31, 1983. FNMA was originally established in 1938 as a United States government agency to provide supplemental liquidity to the mortgage market and was transformed into a stockholder-owned and privately managed corporation by legislation enacted in 1968.

FNMA provides funds to the mortgage market primarily by purchasing home mortgage loans from local lenders, thereby replenishing their funds for additional lending. FNMA acquires funds to purchase home mortgage loans from many capital market investors that may not ordinarily invest in mortgages, thereby expanding the total amount of funds available for housing. Operating nationwide, FNMA helps to redistribute mortgage funds from capital-surplus to capital-short areas.

Although the Secretary of the Treasury of the United States has discretionary authority to lend FNMA up to $2.25 billion outstanding at any time, neither the United States nor any agency thereof is obligated to finance FNMA's operations or to assist FNMA in any other manner

The principal office of FNMA is located at 3900 Wisconsin Avenue, N.W., Washington, D.C. 20016, and there are five regional offices located in Atlanta, Georgia; Chicago, Illinois; Dallas, Texas; Los Angeles, California; and Philadelphia, Pennsylvania. FNMA also has a fiscal office at 100 Wall Street, New York, New York 10005.

Copies of FNMA's annual report and quarterly financial statements, as well as other financial information, are available from John Meehan, Senior Vice President—Finance and Treasurer, 100 Wall Street, New York, New York 10005 (Telephone: 212-425-9002) or Paul Paquin, Director of Investor Relations, FNMA, 3900 Wisconsin Avenue, N.W., Washington, D.C. 20016 (Telephone: 202-537-7115).

CAPITALIZATION

The following table sets forth the capitalization of FNMA as of December 31, 1983.

	Average Maturity	Average Annual Cost	Outstanding
			(Dollars in thousands)
Bonds, Notes and Debentures(1):			
Due within one year			
Short-term notes, net of unamortized discount	3 mos	9 68%	$10,833,282
Master notes	4 mos	9 50%	714,543
Debentures	6 mos.	11.26%	15 288 900
Mortgage-backed bonds	6 mos	7.26%	22,808
Total due within one year			26,859,533
Due after one year			
Debentures	3 yrs 5 mos	11 49%	45,794,435
Mortgage-backed bonds	5 yrs. 9 mos.	8 28%	401,859
Capital debentures, net of unamortized discount	7 yrs 3 mos.	10.36%	1,510,393
Convertible capital debentures	12 yrs 9 mos	4 43%	27,602
Total due after one year			47,734,289
Total Bonds, Notes and Debentures			$74,593,822
Total Stockholders' Equity			$ 1,275,911

(1) All of the above outstanding short-term and long-term debt was issued under Section 304(b) of the Charter Act except the subordinated capital debentures and subordinated convertible capital debentures which were issued under Section 304(e) and the mortgage-backed bonds which were issued under Section 304(d) See "Corporate Indebtedness" for a description of certain limitations applicable to indebtedness issued by FNMA

SELECTED FINANCIAL DATA

The following selected financial data for the years 1979 through 1983 (which data are not covered by the report of independent certified public accountants) have been summarized or derived from the audited financial statements. These data should be read in conjunction with the audited financial statements and notes to financial statements which are presented elsewhere in this Prospectus.

Condensed Statements of Operations
(Dollars in millions, except per share amounts)

	For The Year Ended December 31,				
	1979	1980	1981(1)	1982	1983
Interest margin	$ 322	$ 21	$ (463)	$ (506)	$ (62)
Commitment, guaranty, and other fees	60	68	125	301	238
Gain (loss) on sales of mortgages	(2)	—	—	44	91
Other expenses	(81)	(63)	(22)	(96)	(129)
Income (loss) before Federal income taxes and extraordinary item	299	26	(360)	(257)	138
Provision for Federal income taxes	137	12	(170)	(123)	63
Income (loss) before extraordinary item	162	14	(190)	(134)	75
Extraordinary item: gain on early retirement of debt(2)	—	—	—	29	—
Net income (loss)	$ 162	$ 14	$ (190)	$ (105)	$ 75
Earnings (loss) per share:					
Before extraordinary item:					
Primary	$2.81	$ .24	$(3.22)	$(2.20)	$1.15
Fully diluted	2.68	.23	(3.22)	(2.20)	1.13
Net:					
Primary	2.81	.24	(3.22)	(1.72)	1.15
Fully diluted	2.68	.23	(3.22)	(1.72)	1.13
Cash dividends per share	1.28	1.12	.40	.16	.16

Condensed Balance Sheets
(Dollars in millions)

	At December 31,				
	1979	1980	1981	1982	1983
Assets					
Mortgage portfolio, net	$49,655	$55,742	$59,846	$69,714	$75,665
Other assets	1,424	2,426	2,052	3,753	3,253
Total assets	$51,079	$58,168	$61,898	$73,467	$78,918
Liabilities					
Bonds, notes and debentures:					
Due within one year	$13,087	$15,542	$17,365	$25,781	$26,860
Due after one year	35,116	39,338	41,186	43,833	47,734
Other liabilities	1,375	1,831	2,104	2,650	3,048
Total liabilities	49,578	56,711	60,655	72,264	77,642
Stockholders' equity	1,501	1,457	1,243	1,203	1,276
Total liabilities and stockholders' equity	$51,079	$58,168	$61,898	$73,467	$78,918

(1) Results for the year ended December 31, 1981 include a $42.0 million reduction in the allowance for loan losses effected in the second quarter. There was also a decrease in the rate of providing for losses on conventional loans which resulted in a reduction in the loss provision of $8.3 million during the last three quarters of 1981. Exclusive of these reductions, the 1981 loss would have been $217.0 million or $3.67 per share.

(2) In September 1982, FNMA entered into a nontaxable transaction which resulted in the issuance of 6.3 million shares of its common stock in exchange for $101 million of its long-term debentures, which were retired.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL RESULTS

General

FNMA was profitable in 1983 after experiencing losses in 1982 and 1981. The primary cause of FNMA's losses in 1982 and 1981 was the combination of high interest rates and the mismatch in the maturities of the corporation's asset and debt portfolios. When interest rates rose to unprecedented levels in 1980 and 1981, large amounts of maturing debt had to be refinanced at much higher costs. Turnover of assets was much slower. Although FNMA purchased substantial volumes of high-yielding assets, the increase in yield on portfolio did not keep pace with the sharp increase in the cost of outstanding debt.

Starting in 1981, a new management team implemented a wide range of strategic and operating changes designed to mitigate this problem. The effect of these changes, aided by a moderation in interest rates, produced a sharp improvement in operating results in 1983.

Since the new management team started in 1981, FNMA has:

- Purchased substantial volumes of adjustable rate and second mortgages, which allow the corporation to more closely match the maturity on its assets with that of its borrowings;

- Restructured the channels for acquiring mortgages and greatly expanded the types of mortgage instruments purchased, resulting in purchases of high-yielding assets in record volumes;

- Increased the amount of revenue which is derived from sources other than interest income on the mortgage portfolio—commitment fees, mortgage-backed security guaranty fees, and gains on sales of mortgages; and,

- Issued liabilities with extended maturities when there were opportunities to do so at favorable rates, while relying on lower-cost, short-term borrowings in periods of higher interest rates.

This discussion and analysis describes how these management initiatives helped produce a return to profitability in 1983.

Results of Operations

FNMA's net income for 1983 was $75.5 million, compared with a net loss of $104.9 million in 1982 ($133.8 million excluding an extraordinary gain). In 1981, the corporation incurred a net loss of $190.4 million ($217.0 million excluding the effect of a reduction in the provision and allowance for conventional loan losses). The per share net income in 1983 was $1.13, fully diluted, compared with the 1982 per share loss of $1.72 ($2.20 before extraordinary item) and the 1981 per share loss of $3.22 ($3.67 before reduction of the conventional loan loss reserve).

In 1983, cash dividends were $.16 per share, compared with per share cash dividends of $.16 and $.40 in 1982 and 1981, respectively.

Overall portfolio performance is measured by the "spread" between the average net yield on the mortgage portfolio and the average cost of outstanding debt. In 1983, average portfolio yield was 10.67 percent and the average cost of outstanding debt was 11.12 percent, producing a negative spread of .45 percent. In 1982, average portfolio yield was 10.29 percent and the average cost of outstanding debt was 11.59 percent, resulting in a negative spread of 1.30 percent. In 1981, the average portfolio yield was 9.45 percent and the average cost of outstanding debt was 10.81 percent, producing a negative spread of 1.36 percent. This substantial improvement in spread was the major cause of the decrease in negative interest margin to $61.5 million in 1983 from $506.5 million in 1982 and $462.9 million in 1981.

Average portfolio yield was 10.70 percent during December 1983, compared with 10.69 percent during December 1982 and 9.82 percent during December 1981. The moderation in interest rates experienced in 1983 resulted in a significant increase in prepayments of many of the high rate loans in FNMA's mortgage portfolio and also resulted in a downward adjustment of the net yield on its adjustable rate mortgages. These factors, combined with sales of mortgages in the form of mortgage-backed securities, reduced the favorable impact of 1983's record purchases and limited the improvement in yield to one basis point during the year. The average cost of outstanding debt was 11.07 percent during December 1983, compared with 11.39 percent during December 1982 and 11.42 percent during December 1981.

Interest earned on marketable securities was $221.7 million in 1983, compared with $232.1 million in 1982 and $140.0 million in 1981. This reflects the corporation's decision to maintain an increased liquidity position in 1983 and 1982. The additional liquidity provides a temporary source of funding for mortgage purchases, which allows greater flexibility in structuring debt issues.

Other major sources of revenue are commitment fees, guaranty fees from mortgage-backed securities and gains on sales of mortgages. Commitment fees were $151.2 million in 1983, compared with $263.9 million in 1982 and $112.6 million in 1981. The decline in commitment fees in 1983 resulted primarily from a decrease of $2.9 billion or 21 percent in the volume of negotiated commitments and a decline of 45 percent in the average fee rate on negotiated transactions from 1.05 percent in 1982 to 0.58 percent in 1983. These declines reflect the increased competition in the mortgage market in 1983, which resulted from the lower interest rate environment.

Guaranty fees from mortgage-backed securities increased to $54.3 million in 1983 from $16.1 million in 1982 (the first full year of the program) and $0.3 million in 1981. This significant upward trend reflects the corporation's success in marketing these securities. Mortgage-backed securities outstanding totaled $25.1 billion at December 31, 1983, compared with $14.5 billion and $0.7 billion at December 31, 1982 and 1981, respectively. These fees are a stable source of revenue and help to insulate FNMA's earnings from fluctuations in interest rates.

Gains on sales of mortgages more than doubled in 1983 compared to 1982, increasing from $44.4 million in 1982 to $90.7 million in 1983. Sales volume increased from $3.0 billion in 1982 to $4.5 billion in 1983.

The Mortgage Portfolio

In 1983, FNMA issued $18.6 billion in mortgage purchase commitments, compared with $22.1 billion and $9.5 billion in 1982 and 1981, respectively. Negotiated transactions comprised 58 percent of commitments issued in 1983, compared with 62 percent in 1982 and 16 percent in 1981. FNMA further reduced its issuance of optional delivery commitments where the yield is fixed at the time of the commitment. In 1983, the corporation eliminated all such commitment programs (except for adjustable rate mortgages), including the Free Market System auctions which were the primary channel for acquisition of mortgages, prior to 1982. Such commitments result in mortgage deliveries primarily when interest rates increase, so that assets are generally purchased at yields below current market levels. When rates decline, lenders are free to sell the loans to other investors at a better price. Mandatory delivery commitments eliminate this risk, as lenders are required to deliver at the commitment yield whether this is above or below the current rate. They also allow the corporation to plan its borrowings and risk management strategies more effectively. As of December 31, 1983, total commitments outstanding were $5.5 billion, compared with $7.6 billion and $3.7 billion at December 31, 1982 and 1981, respectively.

FNMA's purchase volume in 1983 was a record $17.6 billion at an average net yield of 12.65 percent, compared with $15.1 billion at 15.00 percent in 1982 and $6.1 billion at 15.38 percent in 1981. The spread between the net yield on purchases and the cost of debt issued in 1983 was 258 basis points, compared with 218 basis points in 1982 and a negative 84 basis points in 1981. Adjustable rate mortgages and second mortgages comprised 24 percent and 8 percent, respectively, of 1983's purchase volume. In 1982, adjustable rate mortgages and second mortgages were 21 percent and 10 percent of total purchases, respectively. Adjustable rate and second mortgages together comprised only five percent of purchases in 1981. On December 31, 1983, the net mortgage portfolio was $75.7 billion, compared with $69.7 billion and $59.8 billion on December 31, 1982 and 1981, respectively.

Mortgage repayments increased substantially to $6 2 billion in 1983 compared with $2 1 billion in 1982 and $1.9 billion in 1981. As noted above, the moderation in interest rates in 1983 resulted in an increase in prepayments of high rate loans

Financing Activities

Since the corporation's assets have considerably longer maturities than the debt financing them, the average cost of outstanding debt is more volatile than the average yield on portfolio, and as a result, earnings will continue to be sensitive to interest rate changes In 1983, FNMA sought to maintain a balance between reducing the average cost of outstanding debt, by relying on lower cost shorter-term borrowings, and lengthening the average maturity of outstanding debt by issuing longer-term debentures when rates were favorable. In addition, the corporation took advantage of other financing opportunities in the market by reopening existing debentures, implementing a new Master Note Program and continuing its Residential Financing Security Program. Beginning in 1982, the corporation initiated a risk management program, which uses the interest rate futures and other financial markets to provide protection against increases in borrowing costs

In 1983, FNMA raised a total of $40.0 billion of debt at an average cost of 10.07 percent, compared with $55.0 billion at 12.82 percent in 1982 and $40 4 billion at 16.22 percent in 1981. The cost of debt issued in 1983, in addition to being substantially below that of 1982 and 1981, was also more stable throughout the year In 1983, the cost of debt issued ranged from a monthly high of 10 41 percent in August to a low of 9 46 percent in January The monthly high and low in 1982 were 15 41 percent in February and 9.72 percent in December, respectively

The average maturity of outstanding debt increased from two years, three months at December 31, 1982 to two years, five months at December 31, 1983 The corporation issued approximately $6.7 billion of debentures with maturities of five years or more in 1983, compared with $4 3 billion in this maturity range in 1982 Debt issued in 1983 included a $250 million 30-year debenture offering with a 10-year par call provision.

The capital markets continued to be receptive to the corporation's debt issues in 1983, as evidenced by narrower spreads between rates on FNMA securities and Treasury securities of similar maturities Based on secondary market quotes of the comparative yields on the securities, the spread between FNMA six-month discount notes and six-month Treasury bills on a bond equivalent basis averaged 17 basis points during 1983 This spread averaged 70 basis points in 1982 and 109 basis points in 1981 Measured similarly, the spread between FNMA five-year debentures and Treasury securities with a five-year maturity averaged 29 basis points during 1983, compared with 64 basis points in 1982 and 82 basis points in 1981.

Mortgage-Backed Securities

In 1983, FNMA issued $13.3 billion of guaranteed mortgage-backed securities ("MBS"), compared with $14 0 billion in 1982 The primary channel for issuance of MBS is "swap" transactions whereby participating lenders exchange pools of mortgages directly for securities FNMA also pools mortgages from its portfolio and issues securities for cash through public offerings and private placements MBS issues from portfolio, which are treated as sales of assets, totaled $4.4 billion in 1983 and $3.0 billion in 1982 These portfolio sales increase market liquidity and also have produced substantial gains

MBS guaranty fees grow in direct relation to the volume of MBS outstanding The corporation plans to continue being active in this market, which will provide it with a substantial stream of guaranty fee income that is not as interest rate sensitive as investing in mortgages for its own portfolio

FNMA'S SPREAD ON ITS MORTGAGE PORTFOLIO

FNMA's profitability depends on the difference, or "spread," between the return it receives on its mortgage portfolio and the cost of money it borrows to finance that portfolio. The following table sets forth the spread on the portfolio during the periods indicated.

For the Month	Net Portfolio at Month-End (In millions)	Average Yield(1)	Average Cost of Outstanding Indebtedness(1): Short-term Notes	Bonds and Debentures	Aggregate	Spread
December 1979	$49,655	8.74%	11.90%	8.29%	8.72%	.02%
December 1980	55,742	9.20	13.93	9.29	9.87	(.67)
December 1981	59,846	9.82	16.10	10.63	11.42	(1.60)
December 1982	69,714	10.69	10.85	11.55	11.39	(.70)
1983						
January	70,853	10.76	10.18	11.51	11.26	(.50)
February	71,238	10.74	9.78	11.44	11.17	(.43)
March	71,310	10.71	9.75	11.44	11.15	(.44)
April	71,208	10.65	9.56	11.45	11.16	(.51)
May	71,669	10.63	9.52	11.35	11.07	(44)
June	72,231	10.66	9.47	11.33	11.06	(.40)
July	72,220	10.63	9.48	11.34	11.06	(.43)
August	72,667	10.61	9.63	11.35	11.07	(.46)
September	72,789	10.62	9.63	11.37	11.11	(.49)
October	73,256	10.62	9.64	11.41	11.15	(.53)
November	74,291	10.65	9.59	11.34	11.07	(.42)
December	75,665	10.70	9.64	11.35	11.07	(.37)

(1) Average yield on portfolio is calculated for the month shown and converted to an annual interest rate using, as the numerator, the interest income plus the amortized discount less servicing fees and, as the denominator, the average outstanding unpaid principal balance of the mortgage portfolio less unamortized discount Similarly, the average cost of bonds and debentures and aggregate indebtedness is calculated using actual expense and the average outstanding applicable indebtedness during the month The average cost of short-term indebtedness is the average original issue cost computed on a 365-day basis

Approximately $13 8 billion principal amount of bonds and debentures (original term of one year or longer) mature during the twelve months following December 31, 1983.

Maturity Date	Principal Amount (In millions)	Weighted Average Cost
1984		
January 10	$ 500	14.11%
February 10	1,300	12.48
March 12	600	9.55
April 10	1,100	7.86
May 10	1,000	14.31
June 11	700	8.44
July 10	1,428	9.04
August 7	534	10.90
August 10	1,000	11.15
September 10	1,000	9.26
October 10	1,000	13.36
November 12	1,075	17.08
December 10	1,650	12.05
Other Dates	930	9.59

Continued improvement in the spread and a return to a positive spread will depend upon FNMA's ability to increase the yield on its mortgage portfolio and to refinance maturing borrowings at lower rates.

RECENT DEVELOPMENTS

The U S Senate passed the "Secondary Mortgage Market Enhancement Act of 1983" (S. 2040) on November 17, 1983. This legislation, if enacted, would remove certain technical impediments to trading and investing in mortgage-backed securities through the amendment of various securities laws and investment laws applicable to financial institutions The bill passed by the Senate would also amend FNMA's Charter Act to: (i) authorize FNMA to confer such voting rights on the holders of FNMA preferred stock as are permitted by the rules of the New York Stock Exchange; (ii) require FNMA to calculate, in the case of a participation interest purchased by FNMA, the conventional mortgage limit with respect to the total principal obligation of the mortgage; (iii) require the Secretary of the Department of Housing and Urban Development ("HUD") to respond within 45 days to any request from FNMA for approval of FNMA action authorized under the Charter Act, subject to a 15-day extension; (iv) remove the 80 percent loan-to-value ratio limitation on FNMA's conventional mortgage purchases of multifamily mortgages; (v) increase FNMA's board of directors to 18 by the addition of three new stockholder-elected directors; (vi) require the Secretary of HUD to report annually to Congress on FNMA's activities; (vii) increase the maximum dollar purchase limitations for FNMA to purchase conventional multifamily mortgages from 125 percent to 240 percent of the FHA limitations for multifamily mortgages in areas determined by HUD to require an increase under Section 207(c)(3) of the National Housing Act; (viii) limit FNMA's authority to purchase, service, sell, lend on the security of, and otherwise deal in conventional mortgages that are secured by second liens on one- to-four-family residences (1) by imposing a maximum dollar limitation of $50,000 for a one-family residence and $60,000 for a two- to four-family residence, (2) by requiring such mortgages to be upon the principal residence of the mortgagor, and (3) by restricting such authority to purchase-money mortgage loans or refinancing of the remaining balance of purchase-money loans (this second-lien authority would expire October 1, 1985)

A companion bill to S. 2040, also entitled the "Secondary Mortgage Market Enhancement Act of 1983" (H R 4557), was introduced in the House of Representatives on November 18, 1983 This bill would amend FNMA's Charter Act to: (i) require FNMA to calculate, in the case of a participation interest purchased by FNMA, the conventional mortgage limit with respect to the total principal obligation of the mortgage; (ii) limit FNMA's authority to purchase, service, sell, lend on the security of, and otherwise deal in conventional mortgages that are secured by second liens on one- to four-family residences by imposing a maximum dollar limitation of $50,000 for a one-family residence and $60,000 for a two- to four-family residence, but without restricting FNMA's ability to purchase any type of second mortgage (this second-lien authority would expire on October 1, 1985); (iii) authorize FNMA to confer voting rights on the holders of FNMA preferred stock; (iv) remove certain restrictions on FNMA loans on the security of mortgages, (v) increase FNMA's board of directors to 18 by the addition of three new stockholder-elected directors, (vi) remove the requirement that the Secretary of HUD approve the issuance of FNMA instruments except as to FNMA stock and debt obligations convertible into stock, (vii) require the Secretary of HUD to report annually to Congress on FNMA's activities; (viii) require the Secretary of HUD to respond within 45 days to any request from FNMA for approval of FNMA action authorized under the Charter Act, subject to a 15-day extension; (ix) increase the maximum dollar purchase limitations for FNMA to purchase conventional multifamily mortgages from 125 percent to 240 percent of the FHA limitations for multifamily mortgages in areas determined by HUD to require an increase under Section 207(c)(3) of the National Housing Act; and (x) remove the 80 percent loan-to-value ratio limitation on FNMA's conventional mortgage purchases of multifamily mortgages.

A bill (H.R 3420) was introduced in the House of Representatives on June 27, 1983 that would raise the single-family conventional mortgage limits for both FNMA and the Federal Home Loan Mortgage Corporation ("FHLMC") in HUD-designated high-cost areas As of January 31, 1983 this bill was sponsored by 102 Representatives. An identical bill (S 2130) was introduced in the Senate on November 17, 1983 This bill was sponsored by four Senators.

There is pending before Congress a proposal to create "Trusts for Investment in Mortgages" ("TIMs") to remove tax law obstacles to issuing mortgage-backed securities that satisfy investor objectives, including "call protection," active management of the mortgage pool, and issuance of securities with maturities differing from the underlying mortgages. This bill, S. 1822, would prohibit FNMA and FHLMC from being trustees, directors or shareholders of a TIM. The Administration is discussing a TIMs proposal that would prohibit use of FNMA or FHLMC-guaranteed securities as qualified assets of a TIM, or as collateral for TIMs-like transactions, including mortgage-backed bonds with multiple classes.

HISTORY AND BUSINESS

FNMA was incorporated on February 10, 1938 pursuant to Title III of the National Housing Act. FNMA was then a wholly owned government corporation that borrowed operating funds almost entirely from the United States Treasury. Its business primarily consisted of the purchase and resale of mortgages insured by the FHA and, since 1948, mortgages guaranteed by the VA, for the purpose of establishing and maintaining a secondary market for such mortgages. Title III was revised on August 2, 1954 and called the Federal National Mortgage Association Charter Act. Under the new Charter Act, FNMA became a mixed-ownership corporate instrumentality of the United States In connection with its secondary market operations, FNMA issued non-voting common stock to the institutions from which it purchased mortgages.

From 1950 to 1965, FNMA was a constituent agency of the Housing and Home Finance Agency and, from November 9, 1965 to September 1, 1968, FNMA operated in HUD. The Charter Act, as in effect prior to September 1, 1968, empowered FNMA to (1) conduct secondary market operations in FHA-insured and VA-guaranteed home mortgages consisting of purchases and sales of such mortgages ("Secondary Market Operations"), (2) perform special assistance functions in the purchase of mortgages as authorized by the President of the United States or by the Congress to assist in financing home mortgages in instances where established home financing facilities were inadequate ("Special Assistance Functions") and (3) manage and liquidate certain mortgages ("Management and Liquidating Functions").

Pursuant to amendments to the Charter Act enacted in the Housing and Urban Development Act of 1968 (the "1968 Act"), FNMA was, as of September 1, 1968, partitioned into two separate and distinct corporations. One, Government National Mortgage Association ("GNMA"), is a wholly owned corporate instrumentality of the United States within the Department of HUD. GNMA retained all of the assets and liabilities acquired and incurred under the Special Assistance Functions and Management and Liquidating Functions carried on by the predecessor corporation prior to the effective date of the 1968 Act.

The second, FNMA, now constituted as a federally chartered corporation, retained the assets and liabilities related to the Secondary Market Operations prior to the effective date of the 1968 Act. The 1968 Act changed each share of outstanding non-voting common stock of FNMA, par value $100 per share, into one share of voting common stock without par value and authorized FNMA to issue its common stock to the public The 1968 Act also provided for a transitional period for FNMA's stockholders to assume control of the corporation, and all preferred stock theretofore held by the Secretary of the Treasury was retired as of September 30, 1968. Accordingly, the entire equity interest in FNMA became, and is now, publicly owned.

Government Supervision

Although the 1968 Act eliminated all federal ownership interest in FNMA, it did not terminate the significant government regulation of the corporation. Under the Charter Act, approval of the Secretaries of the Treasury and HUD is required for FNMA's issuance of its obligations; however, the Secretary of HUD has delegated the authority to approve the issuance of FNMA debt instruments to the Secretary of the Treasury. The Secretaries of both the Treasury and HUD have approved the issuance and guaranty by FNMA of the Certificates described herein and in the Prospectus Supplement.

With regard to FNMA's issuance of debt instruments, the Charter Act specifically provides that the aggregate amount of the corporation's general obligations (under Section 304(b)) shall not exceed, at any one time, fifteen times the sum of capital, capital surplus, general surplus, reserves and undistributed earnings of FNMA unless a greater ratio is fixed by the Secretary of HUD. The Secretary of HUD has increased this ratio to thirty to one. Regulations adopted by HUD provide that, in the event of a reduction in the capital of FNMA, FNMA's debt to capital ratio will automatically increase to such figure as is necessary to include all obligations outstanding pursuant to Section 304(b) of the Charter Act. The Certificates described herein and in the Prospectus Supplement are authorized by Section 304(d) of the Charter Act, and, as such, are not subject to any Charter Act limitations as to the maximum amount which may be issued or outstanding at any time.

In addition to specific enumerated powers, including those described above, the Secretary of HUD is granted general regulatory power over FNMA under Section 309(h) of the Charter Act with authority to promulgate rules and regulations to carry out the purposes of the Charter Act. The Secretary also may require, pursuant to said Section 309(h), that a reasonable portion of FNMA's mortgage purchases be related to the national goal of providing adequate housing for low- and moderate-income families, but with a reasonable economic return to FNMA.

The Charter Act also gives the Secretary of HUD the authority to audit the books and examine the records of FNMA, but this authority has not been exercised.

Although ten members of FNMA's fifteen member Board of Directors are elected by the holders of FNMA common stock, the remaining five members are appointed by the President of the United States. One such appointed director is required to be from each of the home building, mortgage lending, and real estate industries. Any member of the Board of Directors, including a member elected by stockholders, may be removed by the President of the United States for good cause.

In addition to placing FNMA under significant federal supervision, the Charter Act also grants to FNMA certain privileges and immunities that it would not otherwise enjoy. For instance, securities issued by FNMA are deemed to be "exempt securities" under laws administered by the Securities and Exchange Commission to the same extent as securities that are obligations of, or guaranteed as to principal and interest by, the United States. Accordingly, no registration statement or other document with respect to the Certificates offered hereby and by the Prospectus Supplement has been filed with the Securities and Exchange Commission.

As described in "Corporate Indebtedness," the corporation has the authority to borrow up to $2.25 billion from the Secretary of the Treasury. Any such borrowing would be within the Secretary's discretion and FNMA has not used this facility since its transition from government control.

FNMA is exempt from all taxation by any state or by any county, municipality or local taxing authority except for real property taxes. FNMA is not exempt from payment of federal corporate income taxes. Also, FNMA may conduct its business without regard to any qualification or similar statute in any state of the United States, including the District of Columbia, the Commonwealth of Puerto Rico and the territories and possessions of the United States.

MORTGAGE PORTFOLIO

General

The principal activity of FNMA consists of the purchase of mortgages, primarily on residential properties, meeting certain eligibility requirements established by statute and by FNMA. Substantially all of such purchases are made by FNMA pursuant to forward purchase commitments issued by FNMA. Under such commitments, FNMA agrees in advance to purchase a specified dollar amount of loans at an agreed price. See "Mortgage Portfolio—Commitments" below.

Prior to 1972, all mortgages purchased were insured or guaranteed by the federal government, but since February 1972, under authority granted by the Emergency Home Finance Act of 1970, FNMA has also purchased mortgages which are not federally insured or guaranteed (so-called "conventional mortgages"). See "Mortgage Portfolio—Mortgage Purchase Activity" below.

Commitments

FNMA's mortgage loan purchases are based on its issuance of commitments by which FNMA agrees in advance to purchase a specified dollar amount of loans. Lenders generally pay fees, typically from one-quarter of one percent to three percent of the amount of the commitment, for these commitments depending on market conditions, the type of mortgage loan, and the length and characteristics of the commitment, but often do not pay fees for commitments to sell loans to FNMA that have an adjustable interest rate.

FNMA purchases most of its mortgages pursuant to mandatory delivery commitments. Under such commitments, lenders are obligated to sell mortgages to the corporation at the commitment yield. Most commitments currently issued by FNMA have a mandatory delivery requirement.

FNMA also issues standby commitments. Under these commitments, FNMA commits to purchase a designated amount of mortgages. A yield on the mortgages is not established at the time the standby commitment is issued In order to deliver the mortgages, the lender must convert the standby commitment to a mandatory delivery commitment. In such event, the lender must pay an additional fee to FNMA. The yield on the mortgages is established at the time of conversion.

On January 17, 1984, FNMA announced a test program involving guaranteed rate convertible commitments. Under this program, FNMA has committed to purchase adjustable rate and fixed rate mortgages at interest rates established during the offering period between January 23, 1984 and February 17, 1984. Mortgages can be delivered against the commitment until October 17, 1984. Such commitments will be hedged by FNMA using a variety of financial instruments. According to a specified fee schedule, conversion from a standby or optional delivery commitment to a mandatory delivery commitment may be made at any time before October 17, 1984.

The following table sets forth FNMA's mortgage commitment activity in connection with both FNMA's portfolio and mortgage-backed securities.

FNMA Mortgage Commitments
(Dollars in millions)

	For the Year Ended December 31,				
Commitments Issued	**1979**	**1980**	**1981**	**1982**	**1983**
Portfolio					
Home: Government insured or guaranteed	$ 5,698	$5,570	$2,971	$ 923	$ 141
Conventional: Fixed rate	4,441	2,511	4,927	13,405	10,562
Adjustable rate	—	—	1,360	6,024	6,573
Second trust	—	—	213	1,745	1,325
Total home mortgages	10,139	8,081	9,471	22,097	18,601
Project	40	2	—	9	6
Total portfolio	$10,179	$8,083	$9,471	$22,106	$18,607
Mortgage-backed securities	$ —	$ —	$3,259	$15,517	$15,722

	At December 31,				
Commitments Outstanding	**1979**	**1980**	**1981**	**1982**	**1983**
Portfolio					
Home: Government insured or guaranteed	$ 3,243	$2,246	$ 920	$ 44	$ 8
Conventional: Fixed rate	3,111	1,008	1,468	4,016	1,554
Adjustable rate	—	—	1,279	3,331	3,828
Second trust	—	—	31	206	66
Total home mortgages	6,354	3,254	3,698	7,597	5,456
Project	55	24	19	9	4
Total portfolio	$ 6,409	$3,278	$3,717	$7,606	$5,460
Mortgage-backed securities	$ —	$ —	$2,555	$2,331	$1,627

Mortgage Purchase Activity

As described above, FNMA currently purchases conventional mortgages as well as mortgages that are insured by the FHA or guaranteed by the VA. Substantially all loans currently in FNMA's portfolio are secured by first liens, but FNMA also purchases second lien whole loans and participations in such loans. With the exception of $5.2 billion of project loans, all of the mortgage loans purchased by FNMA and held in its portfolio are secured by residential one- to four-family properties. Since FHA-insured and VA-guaranteed loans are, because of their government backing, essentially risk-free from a credit standpoint, FNMA's basic eligibility criterion for their purchase is simply the FHA insurance or the VA guaranty. Because conventional loans have no federal government backing, FNMA has established certain eligibility criteria for their purchase in an effort to minimize the risk of loss from mortgagor defaults. The table under "Conventional Mortgage (Whole Loan) Portfolio" indicates that FNMA's loss experience for 1983 was affected by a one-time charge for the write-down to market of acquired properties. Notwithstanding the effect of this charge, the table shows that FNMA has experienced a low level of losses on its conventional mortgage portfolio. FNMA believes that such low level of losses results from a number of factors, including FNMA's purchase eligibility requirements and loan underwriting criteria as well as inflationary pressures which have tended to increase the market value of the homes securing its portfolio loans

Generally, FNMA requires that the unpaid principal amount of each conventional mortgage purchased by it (i) not be greater than 80 percent of the appraised value of the mortgaged property, or (ii) if it is greater than 80 percent, that the excess over 75 percent be insured by an acceptable mortgage insurance company for so long as the principal balance of the loan is greater than 80 percent of such original appraised value (or of the appraised value as determined by a subsequent appraisal). Mortgage insurance is not required on mortgages with loan-to-value ratios greater than 80 percent if the mortgage seller either retains a participation in the mortgage of not less than 10 percent or agrees to repurchase the loan in the event of default.

Sellers of mortgages to FNMA generally retain, subject to FNMA supervision, the responsibility for servicing the loans sold to FNMA. Servicers are compensated through the retention of a specified portion of each interest payment on a serviced mortgage loan Servicing includes the collection and remittance of principal and interest payments, administration of escrow accounts, collection of insurance claims and, if necessary, foreclosure In 1983, mortgage banking companies accounted for 43 percent of FNMA's purchases, savings and loan associations for 35 percent, investment bankers for 13 percent, banks for seven percent, and others for two percent.

Conventional mortgage loans may not be purchased by FNMA if their principal balance at the time of purchase exceeds $114,000, except for loans secured by properties in Alaska and Hawaii or by two- to four-family dwelling units, where higher maximums apply. Loans eligible for insurance by the FHA are subject to statutory maximum amount limitations, and FNMA imposes maximum amount limitations on loans guaranteed by the VA. Maximum principal balances applicable to FNMA's conventional mortgage purchases can be increased annually to reflect the increasing cost of homes.

Generally, conventional mortgages purchased by FNMA must conform with credit appraisal and underwriting guidelines established by FNMA. These guidelines are designed to assess the credit-worthiness of the mortgagor as well as to assure that the value of the mortgaged home is sufficient to secure the mortgage loan These guidelines are changed from time to time by FNMA, and FNMA may deviate from them respecting particular loans if other considerations warrant doing so.

At December 31, 1983, the vast majority of FNMA's mortgage portfolio consisted of fixed rate mortgage loans. Substantially all of such loans provide for level monthly installments of principal and interest, such installments consisting primarily of interest during the early and middle years, with the major portion of the original principal balance being payable during the years immediately preceding maturity. The great majority of such loans had original maturities of not less than 25 years (generally 30 years for single-family loans and 40 years for loans secured by projects). At December 31, 1983, the weighted average dollar life (based on the underlying amortization schedules and assuming no prepayments) of the mortgage loans in FNMA's mortgage portfolio was approximately 25 years, and the weighted average yield (net of servicing) was 10.70 percent.

The following table sets forth the composition of FNMA's mortgage loan portfolio, purchase activity, principal repayments and mortgage sales, the weighted average yield (net of servicing) on the mortgage portfolio and the average net yield on mortgages purchased.

FNMA Mortgage Portfolio
(Dollars in millions)

	1979	1980	1981	1982	1983
Unpaid Principal Balances At End of Period					
Home: Government insured or guaranteed	$29,381.7	$33,416.7	$34,550.7	$33,742.3	$30,999.9
Conventional: Fixed rate	16,106.0	18,358.0	21,153.2	27,789.6	32,533.3
Adjustable rate	—	—	106.8	3,331.9	7,126.3
Second trust	—	—	175.3	1,635.5	2,385.4
Project	5,609.1	5,551.9	5,425.9	5,314.4	5,211.3
Total unpaid balance	$51,096.8	$57,326.6	$61,411.9	$71,813.7	$78,256.2
Average yield net of servicing	8.75%	9.24%	9.85%	10.73%	10.70%
Purchases During Period					
Home: Government insured or guaranteed	$ 5,387.8	$ 5,272.5	$ 2,284.0	$ 901.1	$ 186.1
Conventional: Fixed rate	5,410.2	2,801.8	3,544.3	9,442.9	11,702.4
Adjustable rate	—	—	106.8	3,210.0	4,246.3
Second trust	—	—	175.9	1,552.3	1,407.9
Project	9.2	26.8	1.9	9.5	14.3
Total mortgages purchased	$10,807.2	$ 8,101.1	$ 6,112.9(1)	$15,115.8(1)	$17,557.0(1)
Average net yield on mortgages purchased	10.11%	12.27%	15.38%	15.00%	12.65%
Repayments During Period					
Home: Government insured or guaranteed	$ 2,060.7	$ 1,343.3	$ 1,252.1	$ 1,263.6	$ 2,045.5
Conventional: Fixed rate	827.9	549.2	740.5	909.6	3,474.0
Adjustable rate	—	—	—	28.9	451.9
Second trust	—	—	.6	92.1	658.0
Project	115.3	84.0	127.1	121.0	117.4
Total mortgage repayments	$ 3,003.9	$ 1,976.5	$ 2,120.3(1)	$ 2,415.2(1)	$ 6,746.8(1)
Sales During Period					
Home: Government insured or guaranteed	$ —	$ —	$ —	$ 518.2	$ 907.2
Conventional: Fixed rate	.7	.6	8.6	1,896.9	3,560.3
Adjustable rate	—	—	—	—	—
Second trust	—	—	—	—	—
Project	21.1	—	.8	—	—
Total sales	$ 21.8	$ .6	$ 9.4	$ 2,415.1	$ 4,467.5

(1) Includes $630 million, $617 million and $126 million principal amount of mortgage loans which were refinanced under FNMA's resale/refinance policy in 1981, 1982 and 1983, respectively.

As shown by the table, the level of principal repayments as a percentage of FNMA's mortgage portfolio increased sharply in 1983 compared with the unusually low levels of 1980-1982. Since all of the loans in FNMA's portfolio are prepayable by the borrower (in some cases with a small penalty), the moderation in interest rates experienced in 1983 resulted in a significant increase in prepayments of the high rate loans in FNMA's mortgage portfolio. This moderation in rates also affected FNMA's yield on its adjustable rate mortgages.

The low level of principal repayments experienced in 1980-82 contributed to FNMA's losses in 1981 and 1982. As a result, FNMA kept lower yielding mortgages on its books, which reduced significantly the increase in yield on its mortgage portfolio that, under more normal conditions, FNMA would otherwise have expected to realize. In addition, FNMA was forced to rely more heavily on high cost borrowings to finance new mortgage purchases and to refund maturing indebtedness.

FNMA believes that the significant reduction in principal paydowns during 1980-82 was due primarily to the high interest rate environment. Because of the substantially increased cost of new financing, a major portion of home sales was financed through so-called "creative" financing wherein the existing mortgage was assumed by the purchaser of the home (and generally coupled with second mortgage or purchase money financing) or "wrapped" by another loan from another lender. FNMA currently enforces "due-on-sale" clauses in conventional mortgages purchased by FNMA pursuant to commitments issued on and after November 10, 1980 and in conventional mortgages covering properties whose sale has been facilitated by "wraparound" or second mortgages made by institutional lenders. However, since at least 60 percent of FNMA's portfolio loans (including all FHA and VA loans) do not contain any such clause and a number of states substantially prohibit the enforcement of such clauses in mortgages originated or assumed during certain periods prior to October 15, 1982, FNMA has been unable to prevent assumptions on a major portion of its portfolio. (See "Description of Certificates—Collection and Other Servicing Procedures" for a description of FNMA's policy for Mortgage Loans in Pools.)

Conventional Mortgage (Whole Loan) Portfolio

The portfolio of conventional mortgages that FNMA purchased on a whole loan basis (as opposed to participation interests) consists predominantly of loans made to owner-occupants and secured by first liens on residential real property. Since 1972, FNMA has purchased $36.1 billion of such loans and on December 31, 1983 this portfolio approximated $25.1 billion. The loss and delinquency experience on this portfolio is summarized in the following tables. These tables exclude whole loans purchased and serviced by FNMA in summary format for which such statistics are not currently available.

Loss Experience

	Year Ended December 31,				
	1979	1980	1981	1982	1983
	(Dollars in millions)				
Principal Balance(1)	$15,864.5	$18,060 3	$20,268.9	$24,567.1	$25,080.9
Net Losses for the Period(2)	$ 8	$ .9	$ .8	$ 1.6	$ 38.4
Net Loss Ratio(3)	0.0050%	0.0050%	0 0039%	0.0065%	0.1531%
Total Number of Loans(1)	395,903	435,355	472,414	539,465	538,470
Total Number of Foreclosures for the Period	219	368	606	1,270	2,963
Percent Foreclosed(3)	0.0553%	0.0845%	0.1283%	0.2354%	0.5503%

(1) At end of period.

(2) For 1978 through 1982, net losses were determined upon disposition of foreclosed properties by subtracting from the proceeds realized the sum of the book value of the foreclosed asset and related foreclosure costs, expenses, interest accrued but uncollected to the date of foreclosure and imputed interest. In September 1983, estimated losses on acquired properties were charged to the allowance for losses when properties were acquired rather than at disposition. Write-downs to market for properties on hand produced a one-time charge of $20.1 million in September. Also charged to the allowance in September was $6.2 million related to below market financing on sales of acquired properties in all prior periods. The items have no effect on reported net income because losses are provided for previously.

(3) Ratio is based on amounts at the end of the period.

Delinquency Experience

(Percent of Portfolio By Number of Loans)

Period of Delinquency	At December 31, 1979	1980	1981	1982	1983
One month	2 9%	2.7%	2.9%	3 3%	3 5%
Two months	5	5	5	.7	.8
Three or more months	.2	1	2	3	5
Total (1)	3 6%	3 3%	3.6%	4.3%	4.8%
In foreclosure or under special lender forebearance (1)	4%	.8%	8%	1 0%	1 4%

(1) Delinquency percentages exclude loans in foreclosure or under special lender forebearance A substantial percentage of these loans are reinstated.

While these delinquency and loss rates represent past experience, there can be no assurance that the experience on the mortgage loans in a pool serving as the basis for certificates will be as favorable.

Mortgage Purchase Policies

Since 1981, FNMA has instituted a number of policies designed to make FNMA's mortgage portfolio more responsive to fluctuations in prevailing interest rates and to better match its borrowing costs. These policies have had a favorable short-term effect on FNMA's operations and are expected to be of considerable importance in the future in insulating FNMA from the risks associated with rising interest rates. They include:

- *Purchase of Adjustable Rate Mortgage Loans ("ARMs")* FNMA has developed standard plans applicable to the purchase of conventional mortgage loans that contain provisions for the automatic adjustment, both up and down, of their interest rates in accordance with changes in a specified index. FNMA also has entered into special negotiated purchases of ARMs that do not conform to its standard plans As of December 31, 1983, FNMA had purchased $7.6 billion of ARMs, had outstanding commitments totaling $3.8 billion, and expects that future purchases will be substantial. FNMA believes that these ARM loans will enable it to better avoid in the future the risk that its interest costs on debt will exceed the income realized on its mortgage portfolio.

- *Resale/Refinance Loans.* Since March 1981, FNMA has, in order to upgrade the yield on its portfolio, been offering financing to persons purchasing or refinancing homes that secure existing FNMA portfolio loans These new loans are offered at interest rates that result from combining the existing balance at its original rate with an additional amount at a market rate. The resulting rate tends to be less than prevailing market rates but significantly greater than that applicable to the refinanced loan In resale situations these refinanced loans facilitate the complete financing of the sale and discourage the assumption of the existing loan as part of a financing package. As of December 31, 1983, $2 4 billion resale/refinance loans had been made by FNMA and, of that amount, $1 0 billion, or 42 percent, represented newly loaned money.

- *Second Mortgages.* Substantially all of the loans currently in FNMA's portfolio are secured by first liens; however, FNMA has also begun to purchase conventional loans secured by second mortgages and participations in such loans Second mortgages generally bear higher interest rates than contemporaneous first mortgages, have shorter maturities, and are usually prepaid prior to maturity. At December 31, 1983, FNMA had purchased $3 1 billion of second mortgages and had commitments to purchase $0 1 billion

• *Guaranteed Mortgage Pass-Through Certificates.* In November 1981, FNMA began issuing guaranteed mortgage pass-through certificates evidencing beneficial interests in pools of conventional loans that are generally sold to FNMA by lenders in exchange for certificates. FNMA began issuing similar certificates representing beneficial interests in FHA/VA mortgages and similar certificates representing beneficial interests in GEMs in October and November 1982, respectively. As of December 31, 1983, $28.0 billion of guaranteed mortgage pass-through certificates had have been issued and $25.1 billion were outstanding. The FNMA lenders either hold the certificates or sell them to private investors. In addition, FNMA pools mortgages from its own portfolio or purchases mortgages from lenders in exchange for cash, assembles the mortgages in a pool, and sells the related certificates pursuant to public offerings. These securities, which are modeled after the highly successful GNMA mortgage-backed security program (which applies only to U.S. government-backed mortgages), are playing a significant role in FNMA's operations. FNMA receives fees for its origination, servicing and guaranty of certificates, a portion of which is paid by FNMA to institutions that directly service pooled loans on behalf of FNMA. FNMA expects that the guaranteed mortgage pass-through certificates will enable it to further its statutory purpose of increasing the liquidity of residential mortgages without requiring that FNMA take the financing or "spread" risk on the pooled loans.

However, because FNMA guarantees timely payment of loans in certificate pools, it absorbs the ultimate credit risk on all loans in these pools This risk may be offset somewhat to the extent that sellers of pools of loans elect, in order to obtain a higher servicing fee, to remain at risk on the loans sold. If the loss rate on conventional loans should appreciably increase, FNMA's losses could, to the extent not offset by recourse to sellers, become significant since it is likely that the amount of loans in such pools would be substantial, even in relation to FNMA's existing $75.7 billion mortgage portfolio. However, if losses on loans in pools mirror losses currently being experienced by FNMA respecting conventional loans held in its own portfolio, FNMA's exposure should be minimal.

CORPORATE INDEBTEDNESS

FNMA borrows more than any other privately owned corporation in the United States. Although FNMA is privately owned and its obligations (other than its outstanding mortgage-backed bonds guaranteed by GNMA) are not backed by the United States, or any agency thereof, FNMA's debt has traditionally been treated as "U.S. Agency" debt in the marketplace. FNMA, as a result, has historically enjoyed ready access to funds in the private credit markets at rates that are slightly higher than the yields on U.S. Treasury obligations of comparable maturities.

The following table sets forth at December 31, 1983 the maturity profile of FNMA's bonds and debentures that were originally issued with a maturity of one year or longer.

Maturing Within	Principal Amount	Weighted Average Cost
	(In millions)	
One year	$13,817	11.40%
One to two years	13,134	12.38
Two to three years	11,226	11.37
Three to four years	10,662	11.22
Four to five years	6,357	11.05
Over five years	6,375	10.22

At December 31, 1983, FNMA had short-term and master notes outstanding aggregating $11.8 billion at face amount. Such notes had a weighted average term to maturity of 106 days at such date and a weighted average cost of 9.67 percent.

All of the outstanding indebtedness of FNMA consists of general, unsecured obligations issued and outstanding under Section 304(b) of the Charter Act except the subordinated capital debentures (including the convertible capital debentures), which were issued under Section 304(e), and the mortgage-backed bonds, which were issued under Section 304(d) Section 304(b) provides that the aggregate amount of obligations outstanding thereunder shall not exceed, at any one time, fifteen times the sum of the capital (including, for this purpose, capital debentures), capital surplus, general surplus, reserves and undistributed earnings of FNMA unless a greater ratio is fixed by the Secretary of HUD On December 22, 1982 the Secretary of HUD increased this ratio to 30 1. Regulations adopted by HUD provide that this increased ratio is, in the event of a reduction in FNMA's capital, further automatically increased to such ratio as shall be necessary to include all obligations outstanding pursuant to Section 304(b) At December 31, 1983, this debt to capital ratio was 25 8:1 compared with a ratio of 24.6:1 at December 31, 1982

Issuances of indebtedness pursuant to Section 304(b) are also subject to the condition that, at the time of any such issuance, the aggregate amount of indebtedness outstanding under such Section 304(b), after giving effect to the indebtedness being issued, is not greater than FNMA's ownership, free from any liens or encumbrances, of cash, mortgages or other security holdings and obligations, participations, or other investments. Unlike the debt to capital ratio limitation described above, this Section 304(b) limitation is statutory and may not be waived or varied by the Secretary of HUD.

Section 304(d) of the Charter Act, pursuant to which the mortgage-backed bonds and the Guaranteed Mortgage Pass-Through Certificates are outstanding, contains no limitation on the amount of obligations that may be outstanding thereunder. Section 304(d) of the Charter Act provides, however, that the mortgages pledged or set aside must be sufficient at all times to make debt service payments on the securities Mortgage-backed bonds outstanding in the amount of $415,447,000 at December 31, 1983 are guaranteed by GNMA pursuant to Section 306(g) of the National Housing Act, and are thus backed by the full faith and credit of the United States

Section 304(c) of the Charter Act authorizes the Secretary of the Treasury, as a public debt transaction, to purchase obligations of FNMA up to a maximum of $2.25 billion outstanding at any one time FNMA has not used such borrowing facility with the U S. Treasury since its transition from government control. Although the Secretary of the Treasury is authorized to purchase the obligations of FNMA, he is under no requirement to do so. Any borrowings from the Secretary of the Treasury would be made pursuant to Section 304(b) of the Charter Act and, accordingly, would be subject to the applicable limitations and restrictions described above.

The following table sets forth FNMA's borrowing activity and outstanding borrowings at face amounts, the respective costs of borrowings and average maturities

FNMA Debt
(Dollars in millions)

	1979	1980	1981	1982	1983
Short-Term and Master Notes					
Issued during period					
—Amount	$10,567	$17,654	$30,185	$34,196	$20,262
—Cost	11.75%	14.29%	16.56%	12.31%	9.47%
—Average Maturity—Days	198	152	98	129	161
Outstanding at end of period					
—Amount	$ 6,593	$ 8,578	$ 9,189	$11,752	$11,841
—Cost	12 09%	14 68%	15 47%	10 48%	9.67%
—Average Maturity—Days	108	92	57	141	106
Bonds and Debentures					
Issued during period					
—Amount	$10,056	$11,500	$10,221	$20,785	$19,756
—Cost	9.71%	12 05%	15.26%	13 62%	10.66%
—Average Maturity—Months	57	48	43	36	53
Outstanding at end of period					
—Amount	$41,831	$46,604	$49,560	$58,300	$63,066
—Cost	8.33%	9.32%	10 71%	11.55%	11 38%
—Average Maturity—Months	45	41	36	32	34
Total Debt					
Issued during period					
—Amount	$20,623	$29,154	$40,406	$54,981	$40,018
—Cost	10.72%	13.37%	16.22%	12 82%	10.07%
—Average Maturity—Months	31	22	13	16	29
Outstanding at end of period					
—Amount	$48,424	$55,182	$58,749	$70,052	$74,907
—Cost	8 81%	10.11%	11.42%	11.38%	11 12%
—Average Maturity—Months	39	35	31	27	29

MANAGEMENT

The senior officers of FNMA, their ages as of March 1, 1984 and business experience are as follows:

David O. Maxwell, 53, has been Chairman of the Board of Directors and Chief Executive Officer since May 1981. He served briefly as the corporation's President and Chief Operating Officer from February 1981 until his election to his present position. Prior to his employment with the corporation, Mr. Maxwell was Chairman of the Board and Chief Executive Officer of Ticor Mortgage Insurance Company

Robert J. Mylod, 44, has been President and Chief Operating Officer since January 1983. Prior to his employment with the corporation, Mr Mylod was President of Advance Mortgage Corporation

Caryl S. Bernstein, 50, has been Executive Vice President since February 1982; Secretary since July 1981; and General Counsel since May 1981. Mrs. Bernstein was Senior Vice President from May 1981 until her election as Executive Vice President Prior to her employment with the corporation, Mrs. Bernstein held a number of positions with the Overseas Private Investment Corporation (OPIC), a U.S. government agency that encourages private investment in less developed countries and insures against certain risks involved in such overseas investments. Mrs Bernstein's most recent title at OPIC was Vice President for Insurance.

Stuart A. McFarland, 36, became Executive Vice President and Chief Financial Officer on October 31, 1983. From November 1982 until October 31, 1983, Mr McFarland was Executive Vice President and Chief Planning Officer. From May 1981 until November 1982, Mr. McFarland was the corporation's Executive Vice President—Operations Prior to his employment with the corporation, Mr. McFarland held a number of positions with Ticor Mortgage Insurance Company, most recently that of President.

Richard R. Betchley, 34, has been Senior Vice President—Marketing and Regional Activities since February 1982 Prior to his employment with the corporation, Mr. Betchley was the Manager of the Southern California Bond & Money Market Headquarters for Crocker National Bank. Mr. Betchley held a number of general management positions with Crocker National Bank, where he was employed from December 1975 until January 1982

Douglas Bibby, 37, became Senior Vice President for Corporate Affairs on October 18, 1983 Prior to his employment with the corporation, Mr. Bibby was Vice President of Russell Reynolds Associates, Inc., an executive recruiting firm. Mr. Bibby was previously employed by the J. Walter Thompson Company for twelve years, where his last position was as Senior Vice President.

Stephen Frank, 43, became Senior Vice President and Controller on October 18, 1983 From June 1981 until October 18, 1983, Mr Frank was Vice President and Controller. Mr Frank has been employed in the corporation's Office of the Controller since 1970.

F. G Gosling, 57, has been Senior Vice President—Administration since February 1982. From 1973 until assuming his present position, Mr Gosling was the corporation's Vice President for Administration

John P. Harding, 38, became Senior Vice President for Planning and Financial Analysis on October 18, 1983. From November 1981 until October 18, 1983, Mr Harding was Vice President for Corporate Planning Mr. Harding has been in the corporation's Office of Corporate Planning since June 1975.

J. Timothy Howard, 35, became Senior Vice President and Chief Economist on October 18, 1983 Mr Howard has been the corporation's Chief Economist since March 1982 Prior to his employment with the corporation, Mr. Howard was Vice President and Senior Financial Economist for Wells Fargo Bank

J. Donald Klink, 47, has been Senior Vice President for Mortgage Backed Securities since October 18, 1983. From June 15, 1982 until October 18, 1983, Mr Klink was Senior Vice President for Mortgage Securities and Negotiated Transactions. Mr Klink was the corporation's Vice President for Mortgage Marketing from August 1981 until February 1982, when he was elected Vice President for Mortgage Securities and Negotiated Transactions. Prior to his employment with the corporation, Mr Klink was employed by Coast Federal Savings and Loan Association for seven years, where he held the position of Senior Vice President in charge of mortgage banking.

Robert J. Mahn, 56, has been Senior Vice President—Mortgage Operations since February 1982 Mr. Mahn was the corporation's Vice President and Controller from April 1969 until June 1981, when he was elected Vice President—Mortgage Operations

John J. Meehan, 38, has been Senior Vice President—Finance and Treasurer since February 1982 Mr. Meehan was the corporation's Vice President—Finance and Treasurer from May 1981 until his election to his present position. Prior to that, Mr. Meehan was Vice President and Fiscal Agent. Mr. Meehan has been with the corporation since 1975.

Dale P. Riordan, 35, became Senior Vice President for Government Relations on October 19, 1983. Since 1981, Mr. Riordan has held various managerial positions with the company, most recently that of Vice President for Government Relations. Prior to his employment with the corporation, Mr Riordan was Chief Economist of the National Savings and Loan League.

BOARD OF DIRECTORS

The members of the Board of Directors of FNMA, their ages as of March 1, 1984 and their backgrounds are as follows:

Member and Age	Principal Occupation and Business Experience	First Became Director	Other Directorships(1)
Merrill Butler(2)—59	President, Chief Executive Officer, and Chairman of the Board, The Butler Group, Inc., a home building company, January 1984 to present; President and Chairman of the Board, Butler Housing Corporation, a home building company, 1971-1983; Chairman of the Board, Bullard Homes Corporation, a home building company, 1976 to present; President and Chairman of the Board, BHC Housing, Inc., a home building corporate subsidiary of Butler Housing Corporation, 1972 to present; President, National Association of Homebuilders, 1980	1981	Commodore Corporation
James B. Coles(2)—42	President and Chairman of the Board, James B. Coles, Inc., a framing contractor, 1972 to present; The Coles Development Company, Inc., a home building company, 1979 to present; C&C SunWest Contractors, Inc., 1982 to present; Pacific SunWest Marketing, Inc., 1983 to present	1981	
Bert A. Getz(2)—46	President and Director, Globe Corporation, a banking, real estate and investment company, 1975 to present	1981	Arizona Bancwest Corporation

Member and Age	Principal Occupation and Business Experience	First Became Director	Other Directorships(1)
Joseph P Hayden—54	Chairman of the Board and Chief Executive Officer, The Midland Company and its subsidiaries, financing and insuring of manufactured housing, December 1980 to present; President and Chief Executive Officer, 1961 to December 1980	1969	The Midland Company; First National Cincinnati Corporation
Carla A Hills—50	Partner, Latham, Watkins & Hills, a law firm practicing in Washington, D.C, Illinois and California, 1978 to present, Secretary, U S. Department of Housing & Urban Development, 1975 to 1977	1982	American Airlines, Inc., Corning Glass Works; International Business Machines Corporation; The Signal Companies, Inc.; Standard Oil Company of California
Dianne E. Ingels(2)—42	Partner, The York Companies, a real estate development, acquisition and marketing firm, January 1984 to present, Principal, Dianne Ingels and Associates, an independent real estate broker, investor and consultant, 1977 to present; President, Ingels Company, 1976 to 1977, Chairman, Colorado Springs Urban Renewal Commission. 1974 to 1976	1981	
John E Krout—64	Chairman of the Board, Germantown Savings Bank, a mutual savings bank, 1977 to present; President, Germantown Savings Bank, 1971 to 1977	1970	Chicago Title & Trust Co ; Trustee, PNB Mortgage & Realty Investors
James E Lyon(2)—56	Chairman of the Board and Chief Executive Officer, River Oaks Bank & Trust Company, a commercial bank and trust company, Chairman of the Board of River Oaks Financial Corporation, and Ruska Instrument Corporation	1981	
David O. Maxwell—53	Chairman of the Board of Directors and Chief Executive Officer, FNMA, May 1981 to present, President and Chief Operating Officer, FNMA, February to May 1981, Chairman of the Board and Chief Executive Officer, Ticor Mortgage Insurance Company, private mortgage insurance, February 1973 to February 1981	1981	

Member and Age	Principal Occupation and Business Experience	First Became Director	Other Directorships(1)
Robert J Mylod—44	President and Chief Operating Officer, FNMA, January 1983 to present; President of Advance Mortgage Corporation, 1975-1982; Executive Vice President, Advance Mortgage Corporation, 1973-1975	1983	
James J O'Leary—69	Economic Consultant to United States Trust Company, a commercial bank and trust company, May 1979 to present; Vice Chairman, United States Trust Company, until May 1979	1971	Excelsior Income Shares, Inc.
John M. O'Mara—56	Senior Vice President, Wertheim & Co , a securities business, July 1981 to present; Vice President, Merrill Lynch White Weld Capital Markets Group, a securities business, 1978 to July 1981; First Vice President, White Weld & Co., Inc., 1974-1978	1970	Baldwin & Lyons, Inc.
Samuel J Simmons—56.....	President, National Caucus and Center on Black Aged, Inc., January 1982 to present; Housing and Real Estate Consultant, May 1981 to present, President, National Center for Housing Management, a non-profit research and training organization, 1972 to May 1981	1978	
Richard C Van Dusen—57	Executive Partner, Dickinson, Wright, Moon, Van Dusen & Freeman, a Detroit Law firm	1981	Pennwalt Corporation, Ticor Mortgage Insurance Company; Primark Corporation
Mallory Walker—44	President, Walker & Dunlop, Inc., a mortgage banking and real estate company, 1976 to present	1981	

(1) Companies with a class of securities registered pursuant to Section 12 of the Securities Exchange Act of 1934 or subject to the requirements of Section 15(d) of that Act or any company registered as an investment company under the Investment Company Act of 1940.

(2) Appointed by the President of the United States.

ACCOUNTANTS

The financial statements of Federal National Mortgage Association included herein have been examined by Peat, Marwick, Mitchell & Co., independent certified public accountants, to the extent and for the periods indicated in their report thereon. Such financial statements have been included in reliance upon the report of Peat, Marwick, Mitchell & Co. and given upon the authority of that firm as experts in accounting and auditing.

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

The Board of Directors and Stockholders
Federal National Mortgage Association:

We have examined the balance sheets of Federal National Mortgage Association as of December 31, 1983 and 1982, and the related statements of operations and changes in financial position for each of the years in the three-year period ended December 31, 1983. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the aforementioned financial statements present fairly the financial position of Federal National Mortgage Association at December 31, 1983 and 1982 and the results of its operations and the changes in its financial position for each of the years in the three-year period ended December 31, 1983, in conformity with generally accepted accounting principles applied on a consistent basis.

PEAT, MARWICK, MITCHELL & CO.

Washington, D.C.
January 25, 1984

FEDERAL NATIONAL MORTGAGE ASSOCIATION

BALANCE SHEETS

Assets

	December 31, 1983	December 31, 1982
	(Dollars in thousands)	
Mortgage portfolio, net	$75,664,817	$69,713,984
Cash	30,115	22,622
U S Government and Federal Agency securities at cost (market value of $227 7 million in 1983 and $631 7 million in 1982)	227,163	630,869
Federal funds	1,462,259	1,799,100
Accrued interest receivable	770,328	687,709
Federal income taxes refundable	152,601	330,505
Accounts receivable and other assets	202,660	61,861
Acquired property and foreclosure claims, less allowance for losses of $10 0 million in 1983 ($4 1 million in 1982)	347,035	168,961
Unamortized debenture issue costs	60,559	51,092
Total Assets	$78,917,537	$73,466,703

Liabilities and Stockholders' Equity

	1983	1982
Liabilities		
Bonds, notes and debentures, net:		
Due within one year	$26,859,533	$25,780,576
Due after one year	47,734,289	43,833,062
	74,593,822	69,613,638
Accrued interest payable	1,904,645	1,724,274
Mortgagors' escrow deposits, exclusive of approximately $609.6 million held by servicers in 1983 ($548.3 million in 1982)	271,440	266,231
Deferred Federal income taxes	568,200	488,194
Other liabilities	303,519	171,037
Total liabilities	77,641,626	72,263,374
Stockholders' Equity		
Common stock, $6.25 stated value, no maximum authorization—66,038,701 shares issued (65,650,117 shares in 1982)	412,742	410,313
Additional paid-in capital	310,913	305,750
Retained earnings	554,151	489,161
	1,277,806	1,205,224
Less Treasury stock, at cost—208,926 shares	1,895	1,895
Total stockholders' equity	1,275,911	1,203,329
Total Liabilities and Stockholders' Equity	$78,917,537	$73,466,703

See Notes to Financial Statements

FEDERAL NATIONAL MORTGAGE ASSOCIATION

STATEMENTS OF OPERATIONS

	Year Ended December 31, 1983	1982	1981
	(Dollars in thousands, except per share amounts)		
Interest income:			
Mortgage portfolio	$7,921,758	$6,806,975	$5,596,791
Less servicing fees	216,262	217,984	202,622
	7,705,496	6,588,991	5,394,169
Marketable securities	221,666	232,123	139,998
Total interest income	7,927,162	6,821,114	5,534,167
Interest on borrowings and related costs	7,988,663	7,327,570	5,997,097
Interest margin	(61,501)	(506,456)	(462,930)
Other income:			
Commitment fees	151,225	263,913	112,561
Gain on sales of mortgages	90,688	44,405	152
Guaranty fees	54,318	16,124	326
Other	32,622	20,617	11,883
Total other income	328,853	345,059	124,922
Other expenses:			
Administrative	80,760	60,067	49,462
Provision for losses	47,900	35,700	(27,600)
Total other expenses	128,660	95,767	21,862
Income (loss) before Federal income taxes and extraordinary item	138,692	(257,164)	(359,870)
Provision for Federal income taxes:			
Currently refundable	(15,200)	(200,900)	(271,300)
Deferred	78,400	77,500	101,800
	63,200	(123,400)	(169,500)
Income (loss) before extraordinary item	75,492	(133,764)	(190,370)
Extraordinary item: gain on early retirement of debt	—	28,899	—
Net income (loss)	$ 75,492	$ (104,865)	$ (190,370)
Per share:			
Earnings (loss) before extraordinary item:			
Primary	$ 1.15	$ (2.20)	$ (3.22)
Fully diluted	1.13	(2.20)	(3.22)
Net earnings (loss):			
Primary	1.15	(1.72)	(3.22)
Fully diluted	1.13	(1.72)	(3.22)
Cash dividends	.16	.16	.40
Average number of shares outstanding, in thousands	65,646	60,927	59,109

See Notes to Financial Statements

FEDERAL NATIONAL MORTGAGE ASSOCIATION

STATEMENTS OF CHANGES IN FINANCIAL POSITION

	Year Ended December 31,		
	1983	1982	1981
	(Dollars in thousands)		
Funds Provided			
Income (loss) before extraordinary item	$ 75,492	$ (133,764)	$ (190,370)
Items not (providing) using funds:			
Interest capitalized on graduated payment mortgages, net	(99,841)	(116,342)	(102,111)
Provision for deferred Federal income taxes, net	78,400	77,500	101,800
Provision for losses	47,900	35,700	(27,600)
Funds provided by (applied to) operations before extraordinary item	101,951	(136,906)	(218,281)
Extraordinary gain—No funds effect	—	—	—
Proceeds from issuance of debentures and bonds	19,733,939	20,743,135	10,236,006
Increase in short-term notes	213,817	2,342,988	714,575
Mortgage repayments, less discount amortized	5,735,250	1,224,576	1,052,168
Foreclosure claims collected	425,440	289,063	230,684
Sales of mortgages, excluding gains and losses	4,370,300	2,071,297	9,340
Net increase in stockholders' equity resulting from debt exchange and debenture conversions	7,592	103,552	5
Increase in accrued interest payable/receivable, net	21,852	138,727	39,815
Other items, net	195,802	94,412	(86,185)
Total funds provided	30,805,943	26,870,844	11,978,127
Funds Applied:			
Debentures and bonds retired	14,991,082	12,044,363	7,265,815
Mortgage purchases including refinancings, less discount	16,663,040	14,047,268	5,903,936
Mortgage refinancings	(125,627)	(617,033)	(630,490)
Dividends paid	10,502	9,709	23,643
Total funds applied	31,538,997	25,484,307	12,562,904
Increase (decrease) in cash and marketable securities	(733,054)	1,386,537	(584,777)
Cash and marketable securities, beginning of year	2,452,591	1,066,054	1,650,831
Cash and marketable securities, end of year	$ 1,719,537	$ 2,452,591	$ 1,066,054

See Notes to Financial Statements

FEDERAL NATIONAL MORTGAGE ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

Statement of Significant Accounting Policies

The corporation operates in the residential mortgage finance industry. Its accounting policies conform to generally accepted accounting principles. The following is a description of significant accounting policies and practices:

Mortgage Portfolio and Purchase Discount

Mortgages acquired for investment are carried at their unpaid principal balances less unamortized discount. Discount is recognized as income using an amortization method which produces a level yield over the estimated life of the related mortgages.

Allowance for Losses

In order to recognize losses which may be sustained due to defaults on conventional mortgages acquired for portfolio, the corporation maintains an allowance for losses which is established by charges to income when the mortgages are purchased. In 1981, the corporation reduced the allowance for losses by $42.0 million and also reduced the rate at which provisions are made for estimated losses on conventional loans.

Risk Management

In 1982, the corporation began taking positions in financial markets to hedge against fluctuations in interest rates which affect the cost of planned borrowings. Results of hedging activity are deferred and amortized to interest expense over the lives of the protected borrowings. There were no open positions at December 31, 1983.

Commitment Fees

Commitment fees are generally recognized as income upon the execution of the commitment contract. However, commitment fees that are considered to be an adjustment to the yield on the related mortgages purchased are deferred and recognized as income using an amortization method which produces a level yield over the estimated life of the related mortgages.

Income Taxes

Certain income and expense items are recognized in different periods for financial and income tax reporting purposes. Provisions for deferred income taxes are made for such timing differences. Investment tax credits are recognized as deductions from income tax expense in the year the related assets are purchased (flow-through method).

Earnings Per Share

Earnings per share are computed on the weighted average number of shares outstanding. Fully diluted earnings per share are computed on the assumption that all outstanding convertible capital debentures were converted at the beginning of the year, after increasing earnings for the related interest expense, net of Federal income taxes.

Mortgage Portfolio, Net

The mortgage portfolio balances consist of the following components:

	December 31, 1983	December 31, 1982
	(Dollars in millions)	
Home mortgages:		
First mortgages:		
Government insured or guaranteed:		
Whole loans	$30,970	$33,730
Participations	30	12
	31,000	33,742
Conventional fixed rate:		
Whole loans	28,108	24,662
Participations	4,425	3,127
	32,533	27,789
Conventional adjustable rate:		
Whole loans	6,120	2,775
Participations	1,006	557
	7,126	3,332
Second mortgages:		
Whole loans	989	382
Participations	1,397	1,254
	2,386	1,636
Project mortgages:		
Government insured	5,148	5,284
Conventional	63	31
	5,211	5,315
Total unpaid principal balance	78,256	71,814
Less:		
Unamortized discount	2,474	1,972
Allowance for losses	117	128
	$75,665	$69,714

Bonds, Notes and Debentures, Net

Bonds, notes and debentures consist of the following:

	December 31, 1983	December 31, 1982
	(Dollars in millions)	
Due within one year:		
Short-term notes—net of $293 million discount in 1983 ($418 million in 1982)	$10,833	$11,334
Master notes	715	—
Debentures	15,289	14,434
Mortgage-backed bonds	23	13
Total due within one year	26,860	25,781
Due after one year:		
Debentures	45,794	41,825
Mortgage-backed bonds	402	464
Capital debentures—net of $20 million discount in 1983 ($21 million in 1982)	1,510	1,509
Convertible capital debentures	28	35
Total due after one year	47,734	43,833
	$74,594	$69,614

Short-term notes are general obligations of the corporation. These notes are issued in both discount and interest-bearing form. Maturities range up to 360 days, and denominations range from $5,000 to $1,000,000 with a minimum original purchase of $50,000. Master notes are individually negotiated, variable principal amount short-term notes. These notes, which have varying maturities, carry a floating interest rate tied to 91-day U.S. Treasury bill rates which is adjusted weekly. Investors have the option of increasing or decreasing the principal amount outstanding on these notes on a daily basis, usually within a range of 80 to 120 percent of the original principal balance. The corporation had short-term and master notes outstanding of $11.8 billion (face amount) at December 31, 1983 and December 31, 1982. The largest amount of notes outstanding at any month-end was $11.8 billion in 1983; in 1982, $11.9 billion. The average cost to the corporation of notes outstanding at December 31, 1983 and 1982 was 9.7 percent and 10.5 percent, respectively. These rates represent the effective average cost computed on a 365 day basis, including commission and the effect of related hedging activity. The average remaining terms were approximately 106 and 141 days at December 31, 1983 and 1982, respectively. The average aggregate amount of notes outstanding during 1983 was $10.1 billion at an average cost of 9.67 percent; during 1982, it was $9.0 billion at an average cost of 13.27 percent.

The corporation has a $322 million line of credit with a group of commercial banks. The total amount is available to FNMA on the same day. Interest on any borrowings is calculated at the prime rate used by Continental Bank. The credit agreement is terminable by either party on the anniversary date with 45 days prior written notice.

Section 304(c) of the FNMA Charter Act authorizes the Secretary of the Treasury, as a public debt transaction, to purchase obligations of the corporation up to a maximum of $2.25 billion outstanding at any one time. The interest rate on such obligations is to be based upon the average rate on outstanding marketable obligations of the United States as of the last day of the month preceding the date of making such purchases.

The corporation did not utilize the commercial line of credit or the Treasury borrowing authority in 1983 or 1982.

A summary of bonds and debentures due after one year follows:

(Dollars in millions)	December 31,			
	1983		1982	
Maturity	Weighted Average Interest Rates	Amount Outstanding	Weighted Average Interest Rates	Amount Outstanding
Debentures:				
1984	—%	$ —	11.53%	$12,225
1985	12.37	12,600	12.42	12,350
1986	11.46	10,850	11.72	7,600
1987	11.16	10,650	11.59	5,150
1988	11.00	6,345	11 55	2,100
1989-1993	10.26	4,945	9 61	2,246
1994-1998	7.10	154	7.10	154
2013	12.35	250	—	—
	11.44	45,794	11.72	41,825
Mortgage-backed Bonds:				
1984	—	—	7.30	24
1985	6.70	34	6.76	34
1986	6.39	76	6.33	77
1987	9.01	12	9.08	13
1988	9.01	12	9.11	13
1989-1993	8.70	243	8.77	251
1994-1998	9.58	17	10.91	28
1999-2002	12.05	8	12.84	24
	8.22	402	8.50	464
Capital Debentures:				
1985	11.70	500	11.70	500
1986	8.15	300	8.15	300
1989	15.25	200	15.25	200
1997	7.40	250	7.40	250
2002	8.20	280	8.20	280
		1,530		1,530
Less Discount		(20)		(21)
	10.12	1,510	10.12	1,509
Convertible Capital Debentures:				
1996	4.38	28	4 38	35
Total	11 36%	$47,734	11 62%	$43,833

The convertible capital debentures are convertible into 1.4 million shares of common stock at a price of $19.63 per share, subject to adjustment in certain events. Such debentures are redeemable, at the option of the corporation, at par.

The 12.35 percent debentures, due in 2013, are redeemable at par, in whole or in part, at the option of the corporation, on any interest payment date commencing December 10, 1993.

The 7.40 percent and 8.20 percent capital debentures, due in 1997 and 2002, are redeemable at par, in whole or in part, at the option of the corporation, on any interest payment date commencing October 1, 1982 and July 10, 1988, respectively.

Pursuant to the corporation's Charter Act and related regulations, approval of the Secretary of Housing and Urban Development is required prior to a change in the stockholding requirements for lenders or the issuance of any stock of the corporation. In addition, no debt instrument may be issued without the approval of the Secretary of the Treasury. The maximum amount of the corporation's general obligations (those neither subordinated nor secured) outstanding at any one time may not exceed 30 times the sum of its stockholders' equity and outstanding subordinated obligations. Subordinated obligations include the capital debentures and the convertible capital debentures. The secured obligations, mortgage-backed bonds, of which $425 million were outstanding at December 31, 1983 and $477 million at December 31, 1982, were issued pursuant to authority contained in the Charter Act to issue and sell securities based upon mortgages set aside from the corporation's portfolio. There is no limitation on the amount of such obligations that may be outstanding. Under the provisions of a Trust Indenture entered into as of May 15, 1970 with Government National Mortgage Association (GNMA), as amended, $416 million of the mortgage-backed bonds outstanding at December 31, 1983 and $428 million of the mortgage-backed bonds outstanding at December 31, 1982 are guaranteed as to principal and interest by GNMA. Trust assets of approximately $898 million at December 31, 1983 and $867 million at December 31, 1982, consisting of the aggregate unpaid principal balances of specified mortgages, and U.S. government and Federal Agency securities, are restricted for the payment of principal and interest on the mortgage-backed bonds and are included in the accompanying balance sheets. Interest earned on trust assets exceeds bond interest requirements.

Annual maturities of all debt for the years 1985-1989 are $13.1, $11.2, $10.7, $6.4 and $1.4 billion, respectively.

Stockholders' Equity

Transactions in common stock, additional paid-in capital, retained earnings, and treasury stock accounts for the years 1981, 1982 and 1983 are summarized as follows:

	Common Stock	Additional Paid-in Capital	Retained Earnings	Treasury Stock	Total Stockholders' Equity
			(Dollars in Thousands)		
Balance, January 1, 1981	$370,735	$270,670	$817,748	$(1,895)	$1,457,258
Conversion of convertible debentures	2	3	—	—	5
Net loss	—	—	(190,370)	—	(190,370)
Dividends	—	—	(23,643)	—	(23,643)
Balance, December 31, 1981	370,737	270,673	603,735	(1,895)	1,243,250
Conversion of convertible debentures	259	565	—	—	824
Shares issued in exchange for outstanding debentures	39,317	34,512	—	—	73,829
Net loss	—	—	(104,865)	—	(104,865)
Dividends	—	—	(9,709)	—	(9,709)
Balance, December 31, 1982	410,313	305,750	489,161	(1,895)	1,203,329
Conversion of convertible debentures	2,429	5,163	—	—	7,592
Net income	—	—	75,492	—	75,492
Dividends	—	—	(10,502)	—	(10,502)
Balance, December 31, 1983	$412,742	$310,913	$554,151	$(1,895)	$1,275,911

FEDERAL NATIONAL MORTGAGE ASSOCIATION

NOTES TO FINANCIAL STATEMENTS—Continued

In 1982, the corporation adopted a performance share plan that makes awards to officers for three four-year periods starting in 1982, 1983 and 1984, provided certain financial goals are attained. Generally, contingent shares will be issued, if earned, half in cash and half in stock, but no more than 200,000 shares of common stock will be distributed under the plan Accordingly, as of December 31, 1983, 175,000 contingent performance shares are outstanding for the 1982-85 period, and 64,200 for the 1983-86 period.

In September 1982, FNMA entered into a nontaxable transaction which resulted in the issuance of 6 3 million shares of its common stock in exchange for $101 million of its long-term debentures, which were retired. Had this transaction and all conversions of convertible debentures during the year taken place on January 1, 1982, the net loss per share for 1982 would have been $1.56 ($2.00 before extraordinary item), compared with a loss of $1.72 per share ($2.20 before extraordinary item) as reported in the Statements of Operations.

Income Taxes

Deferred Federal income tax expense relating to timing differences consists of the following:

	1983	1982	1981
		(Dollars in millions)	
Amortization of purchase discount	$52.9	$71.3	$48.9
Losses on dispositions of mortgages	44.5	(3.9)	35.9
Provision for losses—conventional mortgages	(7.9)	0.8	19.7
Risk management activities	(9.4)	6.3	—
Other items, net	(1.7)	3.0	(2.7)
Total deferred Federal income tax expense	$78.4	$77 5	$101.8

The Internal Revenue Service has completed its examinations of the corporation's Federal income tax returns for the years 1979-1982, and has proposed certain adjustments. FNMA has filed a protest contesting these adjustments, and has filed a claim for refund for $124.9 million relating to losses on sales of participation interests in mortgages. In addition, FNMA plans to file amended returns for 1981 and 1982 to claim losses sustained on mortgages exchanged pursuant to the corporation's resale/refinance program. Such amended returns will result in a claim for refund of an additional $15.2 million for losses carried back to 1979. Losses claimed in excess of the amount carried back are sufficient to offset all 1983 taxable income Remaining losses would be carried forward to reduce future taxable income

All disputed amounts relate to items for which deferred taxes have been provided It is management's opinion that any unfavorable determinations would have no material adverse impact on the results of operations

The corporation is exempt from state and local taxes, with the exception of real estate taxes

Retirement Plans

All permanent, full-time employees of the corporation are covered by the non-contributory Federal National Mortgage Association Retirement Plan or the contributory Civil Service Retirement Law. Pension expenses for these plans were $.6 million and $.2 million, respectively, for the year ended December 31, 1983 ($.8 million and $.2 million in 1982, and $2.5 million and $.3 million in 1981). The corporation makes annual contributions to the plans equal to the amounts accrued for pension expense, which includes, as to the corporation's defined benefit pension plan, amortization over 10 years of unfunded past service costs. Accumulated plan benefits, total actuarial liabilities and plan assets for the corporation's defined benefit pension plan at January 1 are presented below:

	1983	1982
	(Dollars in millions)	
Actuarial present value of accumulated plan benefits:		
Vested	$ 5.8	$ 4.1
Nonvested	1.7	1.8
Total accumulated benefits	$ 7.5	$ 5.9
Total actuarial liability	$19.4	$16.7
Net assets available for benefits	$28.4	$23.1

The annual rate of return and the actuarial present value rate for determining accumulated plan benefits were 7.5 percent in 1983 and 1982. The rates were changed to 7.5 percent in 1982 from 6.0 percent in 1981. The changes had the effect of reducing the annual pension expense for 1982 by $1.6 million.

Commitments and Contingencies

Portfolio

The corporation had outstanding at December 31, 1983 mandatory delivery commitments for the purchase of $1.7 billion of mortgages at an average net yield of 12.36 percent compared with $3.3 billion at 12.85 percent at December 31, 1982.

The corporation also issues standby commitments, which must be converted to mandatory delivery commitments in order for the seller to deliver mortgages. The yield is set on the date of conversion. The corporation had $3.7 billion of such commitments outstanding at December 31, 1983, compared with $3.9 billion at December 31, 1982.

Further, the corporation issues certain commitments under which delivery is optional at the discretion of the seller, and the yield is set on the date of the commitment. The corporation had $0.1 billion of such commitments at an average net yield of 12.29 percent outstanding at December 31, 1983, compared with $0.4 billion (including $0.1 billion relating to mortgages to be refinanced) at 13.43 percent at December 31, 1982.

Mortgage-Backed Securities

The corporation packages pools of mortgages in pass-through securities (FNMA Mortgage-Backed Certificates) and guarantees the payment of principal and interest. The outstanding principal balance of the pools was $25.1 billion at December 31, 1983 compared with $14.5 billion at December 31, 1982. These securities represent interests primarily in fixed-rate mortgages held in trust by FNMA. The pools of mortgages are not assets of FNMA, nor are the outstanding securities liabilities of the corporation. FNMA as issuer and guarantor of the mortgage-backed securities is obligated to disburse scheduled monthly installments of principal and interest, whether or not such amounts have actually been received, unscheduled principal payments when received, and the full principal balance upon liquidation of any foreclosed mortgage whether or not such principal balance is recovered Either FNMA or the participating lender from whom the mortgages were acquired can assume the foreclosure loss risk on the mortgages in a pool FNMA establishes by charges to income a liability for estimated foreclosure losses for the securities on which the corporation has assumed the risk of loss. The outstanding principal balance of mortgage-backed securities on which FNMA has the foreclosure loss risk was $7.2 billion at December 31, 1983 compared with $3.1 billion at December 31, 1982. The amount of the related liability for estimated foreclosure losses was $15.6 million at December 31, 1983 and $4 7 million at December 31, 1982.

At December 31, 1983, the corporation had commitments outstanding to issue and guarantee $1 6 billion of mortgage-backed securities when the related mortgages are delivered by participating lenders at their option, compared with $2.2 billion at December 31, 1982. At December 31, 1982 the corporation also had $0.1 billion in outstanding mandatory delivery commitments to issue guaranteed mortgage-backed securities. There were no such commitments outstanding at December 31, 1983

Unaudited Interim Period Results of Operations

The following unaudited results of operations include, in the opinion of management, all adjustments (consisting only of normal recurring accruals) necessary for a fair statement of the results of operations for such periods.

	1983 Quarter Ended			
	December	September	June	March
	(Dollars in thousands, except per share amounts)			
Interest margin	$ (1,386)	$ (18,730)	$ (11,974)	$ (29,411)
Commitment fees	23,890	44,680	42,862	39,793
Gain on sales of mortgages	13,476	28,454	18,445	30,313
Guaranty fees	16,125	14,585	13,003	10,605
Other income	8,000	9,656	8,657	6,309
Other expenses	(35,994)	(32,792)	(30,197)	(29,677)
Income before Federal income taxes	24,111	45,853	40,796	27,932
Federal income taxes	10,500	21,000	18,800	12,900
Net income	$ 13,611	$ 24,853	$ 21,996	$ 15,032
Per share				
Net earnings				
Primary(a)	$ 21	$ .38	$ 34	$ 23
Fully diluted	.20	37	34	22
Cash dividends	.04	.04	.04	04

	1982 Quarter Ended			
	December	September	June	March
	(Dollars in thousands, except per share amounts)			
Interest margin	$(77,464)	$(144,514)	$(147,454)	$(137,024)
Commitment fees	57,070	56,845	80,333	69,665
Gain on sales of mortgages	18,259	22,943	2,398	805
Guaranty fees	7,613	4,624	2,611	1,276
Other income	5,539	6,950	4,400	3,728
Other expenses	(31,083)	(24,771)	(22,233)	(17,680)
Loss before Federal income taxes and extraordinary item	(20,066)	(77,923)	(79,945)	(79,230)
Federal income taxes	(14,400)(b)	(35,800)	(36,800)	(36,400)
Loss before extraordinary item	(5,666)	(42,123)	(43,145)	(42,830)
Extraordinary item: Gain on early retirement of debt	—	28,899(c)	—	—
Net loss	$ (5,666)	$ (13,224)	$ (43,145)	$ (42,830)
Per share:				
Loss before extraordinary item(a)	$ (.09)	$ (.71)	$ (.73)	$ (.72)
Net loss(a)	(.09)	(.22)	(.73)	(.72)
Cash dividends	.04	.04	.04	.04

(a) The total of the four quarters does not equal the amount for the year since the amount for each period is independently calculated based on the weighted average number of shares outstanding during that period In 1982, there were no differences between primary and fully diluted loss per share.

(b) Federal legislation that alters FNMA's tax status to give it a tax loss carryback and carryforward treatment for operating losses comparable to that of other financial institutions (10-year carryback and 5-year carryforward) was enacted in October, 1982. This legislation gives FNMA access to refunds not otherwise available Federal income taxes recorded in the fourth quarter of 1982 include an appropriate adjustment for this change in circumstances

(c) In September 1982, the corporation entered into a nontaxable transaction which resulted in the issuance of 6 3 million shares of its common stock in exchange for $101 million of its long-term debentures, which were retired.

Unaudited Financial Data Adjusted for Effects of Changing Prices

The corporation is subject to a requirement, promulgated by the Financial Accounting Standards Board (FASB), that it provide supplementary financial information which is intended to disclose the impact of changing prices (inflation) on its financial condition and the results of operations. As a financial institution, the corporation does not maintain inventories or significant amounts of plant and equipment. Accordingly, the adjustments to income required by the statement are not material and need not be reported.

The FASB statement provides that the impact of inflation on the corporation's financial condition be shown by reporting the loss from decline in purchasing power of its net monetary assets. For FNMA, the definition of net monetary assets includes virtually all assets and liabilities of the corporation. Net monetary assets are, therefore, approximately equivalent to stockholders' equity. The loss from decline in purchasing power is required to be measured by restating net monetary assets in constant dollars using the Consumer Price Index for All Urban Consumers.

In accordance with the FASB statement, an unaudited five-year comparison of the impact of changing prices on certain financial data is shown below:

Financial Data Adjusted for Effects of Changing Prices

	1983	1982	1981	1980	1979
	(Dollars in millions, except per share amounts)				
Interest margin:					
As reported	$ (62)	$ (506)	$ (463)	$ 21	$ 322
In constant dollars(1)	(62)	(523)	(507)	25	442
Net income (loss):					
As reported	75	(105)	(190)	14	162
In constant dollars(1)	75	(108)	(209)	17	222
Net monetary assets at end of year:					
As reported	1,233	1,164	1,204	1,419	1,461
In constant dollars(1)	1,207	1,184	1,272	1,636	1,892
Loss in purchasing power for the year of average net monetary assets	46	46	129	204	239
Per share:					
Fully diluted earnings(loss):					
As reported	1.13	(1.72)	(3.22)	.23	2.68
In constant dollars(1)	1.13	(1.78)	(3.53)	.28	3.68
Cash dividends:					
As reported	.16	.16	.40	1.12	1.28
In constant dollars(1)	.16	.17	.44	1.35	1.76
Year-end market price:					
As reported	23.00	24.50	8.50	11.88	16.13
In constant dollars(1)	22.52	24.93	8.98	13.70	20.88
Average consumer price index	298.5	289.1	272.4	246.8	217.4

(1) Constant dollars are computed by reference to the Consumer Price Index for All Urban Consumers and are expressed in average 1983 dollars.