

## Prospectus



### **Guaranteed MBS Pass-Through Securities (“Mega Certificates”) (Backed by Ginnie Mae Certificates)**

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#### **The Mega Certificates**

We, the Federal National Mortgage Association or Fannie Mae, will issue and guarantee the Mega Certificates. Each issue of Mega Certificates will have its own identification number and will represent the ownership of principal and interest distributions on certain Ginnie Mae Certificates and/or Ginnie Mae Platinum Certificates. The Ginnie Mae Certificates and Ginnie Mae Platinum Certificates represent the direct or indirect ownership of pools of residential mortgage loans secured by single-family or multifamily properties.

We will prepare a prospectus supplement for each issue of Mega Certificates. In deciding whether to purchase Mega Certificates, you should read this prospectus together with the applicable prospectus supplement.

#### **Fannie Mae Guaranty**

We guarantee that the holders of the Mega Certificates will receive timely payments of interest and principal. **Neither the Mega Certificates nor interest on the Mega Certificates are guaranteed by the United States, and they do not constitute a debt or obligation of the United States or any of its agencies or instrumentalities other than Fannie Mae.**

**Consider carefully the risk factors beginning on page 5. Unless you understand and are able to tolerate these risks, you should not invest in the Mega Certificates.**

**The Mega Certificates are exempt from registration under the Securities Act of 1933 and are “exempt securities” under the Securities Act of 1934.**

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**The date of this Prospectus is April 1, 1999**

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\* Beginning with the section of this prospectus entitled “Ginnie Mae and the Ginnie Mae Certificates,” we often use certain capitalized terms that are defined in this prospectus. The Index of Defined Terms tells you the numbers of the pages where we define these capitalized terms.

## INFORMATION ABOUT PROSPECTUS SUPPLEMENTS

We will prepare a prospectus supplement for each issue of Mega Certificates. The disclosure documents for any particular issue of Mega Certificates are this prospectus and the related prospectus supplement, together with any information incorporated in these documents by reference as discussed below under the heading “Additional Information About Fannie Mae.” Each prospectus supplement that is prepared for a particular issue of Mega Certificates will contain specific information about that issue. Accordingly, you should rely on the information in the prospectus supplement to the extent it is different from the information in this prospectus.

The prospectus supplement for each issue of Mega Certificates backed by underlying multifamily mortgage loans generally will include the following:

- identification of the particular FHA Programs under which any multifamily mortgage loans backing the related Ginnie Mae Certificates and Ginnie Mae Platinum Certificates were made;
- information with respect to prepayment fee terms and lockout terms applicable to the multifamily mortgage loans directly or indirectly backing the related Ginnie Mae Certificates and Ginnie Mae Platinum Certificates.

In connection with the initial distribution of a particular issue of Mega Certificates, you should obtain a copy of this prospectus (if it has not yet been delivered to you) and the related prospectus supplement from the securities dealer offering that issue. We also make copies of these documents available for informational purposes. Write us at Fannie Mae, Area 2H-3S, 3900 Wisconsin Avenue, N.W., Washington, D.C. 20016 or call the Fannie Mae Helpline at 1-800-237-8627 or (202) 752-6547. You also can access our World Wide Web site at <http://www.fanniemae.com>. The prospectus supplement is generally available three business days before settlement of the related issue of Mega Certificates.

## FANNIE MAE

Fannie Mae is a federally chartered and stockholder-owned corporation organized and existing under the Federal National Mortgage Association Charter Act, 12 U.S.C. § 1716 *et seq.* (the “Fannie Mae Charter Act”). We were established in 1938 as a United States government agency to provide supplemental liquidity to the mortgage market and were transformed into a stockholder-owned and privately managed corporation by legislation enacted in 1968. Today, we are the largest investor in residential mortgage loans in the United States.

We provide funds to the mortgage market by purchasing mortgage loans from lenders. In this way, we replenish their funds so they can make additional loans. We acquire funds to purchase these loans by issuing debt securities to capital market investors, many of whom ordinarily would not invest in mortgages. Thus, we are able to expand the total amount of funds available for housing. By issuing Mega Certificates, we further fulfill our statutory mandate to increase the liquidity of residential mortgage loans.

In addition, we offer various services to lenders and others for a fee. These services include issuing certain types of mortgage-backed certificates and providing technology services for originating and underwriting mortgage loans.

Our principal office is located at 3900 Wisconsin Avenue, N.W., Washington, D.C. 20016 (telephone: (202) 752-7000).

#### **ADDITIONAL INFORMATION ABOUT FANNIE MAE**

You should read our current Information Statement dated March 31, 1999. We publish our Information Statement annually and update it from time to time generally to reflect quarterly and annual financial results. When we use the term "Information Statement" in this prospectus, we mean our most recent Information Statement as of the issue date for a particular issue of Mega Certificates, together with any supplements that update the Information Statement. You should always rely on the most current information.

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

You can read our Information Statement and other information about us at the offices of the New York Stock Exchange, the Chicago Stock Exchange and the Pacific Exchange. We are not subject to the periodic reporting requirements of the Securities Exchange Act of 1934, so we do not file reports or other information with the Securities and Exchange Commission.

You can request free copies of our Information Statement, any other documents incorporated by reference and additional information about us, without charge, by writing us at Office of Investor Relations, Fannie Mae, 3900 Wisconsin Avenue, N.W., Washington, D.C. 20016, or by calling us at 1-800-701-4791. You also can obtain certain of these documents from our World Wide Web site at <http://www.fanniemae.com>.

We may discontinue providing any of the information referred to in this section at any time without notice.

## RISK FACTORS

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

### Suitability

The Mega Certificates are **not** a suitable investment for every investor.

- Before investing, you should have sufficient knowledge and experience to evaluate the merits and risks of the Mega Certificates and the information contained in this prospectus, the applicable prospectus supplement and the documents incorporated by reference.
- You should understand thoroughly the terms of the Mega Certificates.
- You should understand thoroughly the terms of the Ginnie Mae Certificates and/or the Ginnie Mae Platinum Certificates underlying the Mega Certificates.
- You should be able to evaluate (either alone or with the help of a financial advisor) the economic, interest rate and other factors that may affect your investment.
- You should have sufficient financial resources and liquidity to bear all risks associated with the Mega Certificates.
- You should investigate any legal investment restrictions that may apply to you.

### Yield Considerations

Your effective yield on the Mega Certificates will depend upon:

- the price you paid for the Mega Certificates;
- how quickly or slowly borrowers prepay mortgage loans in the underlying pools;
- if and when mortgage loans in the underlying pools are liquidated due to borrower defaults, casualties or condemnations affecting the properties securing those loans;
- if and when mortgage loans in the underlying pools are repurchased; and
- the actual characteristics of the mortgage loans in the underlying pools.

Generally, if you purchase a Mega Certificate at a discount and the rate at which principal is paid on the related mortgage loans is slower than you anticipate, your yield on that Mega Certificate will be less than you expect. Similarly, if you purchase a Mega Certificate at a premium and the rate at which principal is paid on the related mortgage loans is faster than you anticipated, your yield on that Mega Certificate also will be less than you expect.

Even if the average rate at which principal is paid on the mortgage loans in the underlying pools is consistent with your

expectations, how the actual rate varies over time can affect your yield significantly. Generally, the earlier the payment of principal, the greater the effect on the yield to maturity. As a result, if the rate of principal prepayment during any period is faster or slower than you anticipate, a corresponding reduction or increase in the prepayment rate during a later period may not fully offset the effect of the earlier rate on your yield.

In addition, because interest accrues on the underlying Ginnie Mae Certificates and Ginnie Mae Platinum Certificates during each calendar month but is not paid to you, as the holder of a Mega Certificate, until the 25th day of the following month, your effective yield will be less than it would be if we paid interest earlier. As a result, the market value of the Mega Certificates will be reduced correspondingly.

### **Prepayment Considerations**

The rate of principal payments on the underlying Ginnie Mae Certificates and Ginnie Mae Platinum Certificates will depend on the rate of principal payments on the related mortgage loans. Principal payments occur as a result of scheduled amortization or prepayments.

When prevailing interest rates decline, borrowers often seek to refinance their loans by obtaining new loans secured by the same properties. Such refinances will affect the rate of prepayment. In general, the rates of prepayment may be influenced by:

- the level of current interest rates relative to the rates borne by the mortgage loans in a particular underlying pool;
- homeowner mobility;
- the existence of any prepayment fees or prepayment restrictions;

- borrower sophistication regarding the benefits of refinancing;
- solicitation by competing lenders; and
- general economic conditions.

Although many mortgage loans provide that the lender can require repayment in full if the borrower sells the property that secures the loan, the Federal Housing Administration generally permits the assumption of FHA-insured loans.

Because so many factors affect the rate of prepayment of a pool of mortgage loans, we cannot estimate the prepayment experience of the mortgage loans in a particular pool.

**You must make your own decision as to the principal prepayment assumptions you will use in deciding whether to purchase the Mega Certificates.**

### **Reinvestment Risk**

Generally, a borrower may prepay a mortgage loan at any time. In addition, the full principal balance of a Ginnie Mae Certificate or Ginnie Mae Platinum Certificate may be paid to holders of Mega Certificates upon the default of any underlying mortgage loan even if the default took place during an otherwise applicable lockout or prepayment fee period. As a result, we cannot predict the amount of principal payments on the Mega Certificates. The Mega Certificates may not be an appropriate investment for you if you need to receive a specific amount of principal payments on a regular basis or on a specific date. Because interest rates fluctuate, you may not be able to reinvest the principal payments on the Mega Certificates at an interest rate that is as high as the interest rate borne by the Mega Certificates. You may have to reinvest those funds at a much

lower interest rate. You should consider this reinvestment risk in light of other investments that may be available to you.

### **Market and Liquidity Considerations**

We cannot be sure that a market for resale of the Mega Certificates will develop. Further, if a market does develop, it may not continue or be sufficiently liquid to allow you to sell your Mega Certificates. Even if you are able to sell your Mega Certificates, their sale prices may not be comparable to those of similar investments that have a developed market. Moreover, you may not be able to sell small or large amounts of Mega Certificates at prices comparable to those available to other investors.

A number of factors may affect the resale of Mega Certificates, including the following:

- the method, frequency and complexity of calculating principal or interest;
- the average age of the mortgage loans in the underlying pools;
- the outstanding principal amount of Mega Certificates;
- the amount of Mega Certificates offered for resale from time to time;
- any legal restrictions or tax treatment limiting demand for Mega Certificates;
- the availability of comparable securities; and
- the level, direction and volatility of interest rates generally.

### **Multifamily Loan Considerations**

Multifamily loans are generally considered to be riskier than single-family loans for reasons that include those listed below.

- They typically are much larger in amount, thus increasing the risk reflected in a single borrower's default.
- Repayment of the loan usually depends upon successful operation of the multifamily property that secures the loan.
- Changing economic conditions will affect the supply and demand of rental units and the rents that a market will bear.
- Government regulations (such as rent control laws) may adversely affect future income from the property.

In addition, because individual multifamily loans often are large, principal prepayments resulting from defaults, casualties or condemnations may significantly affect your yield.

### **Fannie Mae Guaranty Considerations**

If we were not able to perform our guaranty obligations, holders of the Mega Certificates would receive only payments and other recoveries on the mortgage loans in the underlying pools. If that happened, delinquencies and defaults on the mortgage loans could have a direct effect on the amounts that the Certificateholders would receive each month.

## **GINNIE MAE AND THE GINNIE MAE CERTIFICATES**

### **Ginnie Mae**

The Government National Mortgage Association (“Ginnie Mae”) is a wholly-owned corporate instrumentality of the United States within the Department of Housing and Urban Development (“HUD”). Section 306(g) of Title III of the National Housing Act of 1934, as amended (the “Housing Act”), authorizes Ginnie Mae to guarantee the timely payment of principal and interest on certificates that are backed by a pool of mortgage loans insured or guaranteed by the Federal Housing Administration (“FHA”), the Veterans Administration (“VA”) or the Rural Housing Service (“RHS”).

Section 306(g) of the Housing Act provides that “the full faith and credit of the United States is pledged to the payment of all amounts which may be required to be paid under any guaranty under this subsection.” To meet these guaranty obligations, Ginnie Mae may borrow from the United States Treasury without limitation.

### **Ginnie Mae Certificates and Platinum Certificates**

A “Ginnie Mae Certificate” is a “fully modified pass-through” mortgage-backed security, guaranteed as to timely distribution of principal and interest by Ginnie Mae. A “Platinum Certificate” is a security, guaranteed as to timely distribution of principal and interest by Ginnie Mae, that is itself backed by Ginnie Mae Certificates.

### **Ginnie Mae Single Family Programs**

Each Ginnie Mae Certificate that underlies an issue of Mega Certificates (either directly or indirectly through a Platinum Certificate) and that represents ownership interests in a pool of single-family mortgage loans will be a “fully modified pass-through” mortgage-backed security issued and serviced by a mortgage banking company or other financial concern approved by Ginnie Mae as a seller-servicer of FHA-insured mortgage loans. The mortgage loans backing each Ginnie Mae Certificate will be insured or guaranteed by the FHA, VA or RHS. Ginnie Mae Certificates are issued under the Ginnie Mae I program (“Ginnie Mae I Certificates”) and the Ginnie Mae II program (“Ginnie Mae II Certificates”). Holders of Ginnie Mae I Certificates and Ginnie Mae II Certificates have essentially similar rights, although there are certain differences between the two programs.

#### *Ginnie Mae I Program*

A single Ginnie Mae issuer assembles a pool of mortgage loans (originated within two years of issuance) against which it issues and markets Ginnie Mae I Certificates. All mortgage loans underlying a particular Ginnie Mae I Certificate must be of the same type (for example, level payment, single-family mortgage loans) and have the same fixed annual interest rate. The annual pass-through rate on each Ginnie Mae I Certificate will be 0.50% less than the annual

interest rate on the mortgage loans included in the pool of mortgage loans backing that Ginnie Mae I Certificate. Payments of principal and interest are made to the registered holders of Ginnie Mae I Certificates on the 15th of each month.

### *Ginnie Mae II Program*

Mortgage pools may be formed by aggregating packages of mortgage loans (originated within two years of issuance) of more than one Ginnie Mae issuer. Under this option, packages submitted by various Ginnie Mae issuers for a particular issue date and pass-through rate are aggregated into a single pool which backs a single issue of Ginnie Mae II Certificates. Each Ginnie Mae II Certificate issued under a multiple issuer pool is backed by a proportionate interest in the entire pool rather than solely by the loan package contributed by any one Ginnie Mae issuer. In addition, single issuer pools also may be formed under the Ginnie Mae II program.

Each Ginnie Mae II Certificate pool consists entirely of fixed-rate mortgage loans or entirely of adjustable rate mortgage loans. Fixed-rate mortgage loans backing a particular Ginnie Mae II Certificate must be of the same type, but may have annual interest rates that vary by up to 1.00%. The annual pass-through rate on each Ginnie Mae II Certificate will be at least 0.50% and at most 1.50% less than the highest annual interest rate on any mortgage loan included in the pool of mortgage loans backing that Ginnie Mae II Certificate.

Adjustable rate mortgage loans backing any particular Ginnie Mae II Certificate will have interest rates that adjust annually based on the weekly average of the U.S. Treasury one-year constant maturity index. Ginnie Mae pooling specifications require that all adjustable rate mortgage loans in a given pool have an identical first interest adjustment date, annual interest adjustment date, first payment adjustment date, annual payment adjustment date, index reference date and means of adjustment. All of the mortgage loans must have initial interest rates that are at least 0.50% but not more than 1.50% above the interest rate of the related Ginnie Mae II Certificate. In addition, the mortgage margin for any given mortgage loan must be at least 0.50%, but not more than 1.50%, greater than the margin for the related Ginnie Mae II Certificate. The mortgage loans and Ginnie Mae II Certificates are subject to an annual interest rate adjustment cap of 1.00% above or below the interest rate being adjusted, a lifetime interest rate ceiling of 5.00% above the initial interest rate and a lifetime interest rate floor of 5.00% below the initial interest rate. One month after each annual interest adjustment date, the payment amount of an adjustable rate mortgage loan will be reset so that the remaining principal balance of that mortgage loan would fully amortize in equal monthly payments over its remaining term to maturity, assuming its interest rate were to remain constant at the new rate. Payments of principal and interest are made to the registered holder of each Ginnie Mae II Certificate through a paying agent (currently The Chase Manhattan Bank) on the 20th of each month.

### *Ginnie Mae Platinum Program*

Under the Ginnie Mae Platinum program, a holder of a number of Ginnie Mae I Certificates with identical coupon rates may deposit them into a trust, and the holder of a number of Ginnie Mae II Certificates with identical coupon rates may deposit them into a trust. In each case, the depositor will receive a larger denominated Platinum Certificate with the same fixed coupon rate as the underlying Ginnie Mae Certificates. For purposes of this prospectus, references to “Ginnie Mae I Certificates” and “Ginnie Mae II Certificates” include Platinum Certificates backed by Ginnie Mae I Certificates and Ginnie Mae II Certificates, respectively.

### **Ginnie Mae and the FHA Multifamily Insurance Programs**

#### *General*

Each Ginnie Mae Certificate that underlies an issue of Mega Certificates (directly or indirectly through a Platinum Certificate) and that represents ownership interests in a pool of multifamily mortgage loans will be a “fully modified pass-through” mortgage-backed security issued and serviced by a mortgage banking company or other financial concern approved by Ginnie Mae as a seller-servicer of loans insured by the FHA.

The underlying multifamily mortgage loans may be fixed-rate mortgages or adjustable rate mortgages and may have balloon payments, deferred interest and other unique features. Each multifamily mortgage loan is secured by a mortgage, deed of trust or deed to secure debt that creates a first or second lien on the borrower’s fee simple estate in a property consisting of five or more dwelling units. Certain characteristics of the multifamily mortgage loans underlying a particular issue of Mega Certificates, including lien priority, will be set forth in the related prospectus supplement.

#### *FHA Insurance Programs*

FHA multifamily insurance programs generally are designed to assist private and public borrowers in obtaining insured financing for the construction, purchase or rehabilitation of rental housing pursuant to the Housing Act. Mortgages are provided by FHA-approved institutions, including:

- mortgage bankers,
- commercial banks,
- savings and loan associations,
- trust companies,
- insurance companies,
- pension funds,
- state and local housing finance agencies, and
- certain other approved entities.

The Housing Act provides that mortgages for multifamily projects must not exceed certain dollar amounts or loan ratio limitations that vary with the particular section of the Housing Act under which a given mortgage is being insured. However, the FHA may increase the dollar amount limitations by up to 110% in certain high cost areas and by up to 140% on a project-by-project basis.

In general, to qualify under the FHA multifamily insurance programs, particular Housing Act sections provide that mortgage loans must not exceed 90% of the estimated value or replacement cost of the mortgaged property. In some cases, however, the applicable limit may be as low as 70% or as high as 100%. In addition, in some cases, the insurable loan limit is equal to the cost of refinancing or aggregate operating losses. Further, certain sections provide that insurable loan limits may be based on statutory dollar amounts calculated on a per unit basis (which may vary depending on the number of bedrooms in each unit).

Mortgages insured under the programs described below will have the maturities and amortization features that the FHA approves. In general, the minimum mortgage term will be at least ten years and the maximum mortgage term will not exceed (a) 40 years or (b) 75% of the estimated remaining economic life of the improvements on the mortgaged property, whichever is less.

Tenant eligibility for FHA-insured projects generally is not restricted by income, except for projects where rental subsidies are made available for some or all of the units or to specified tenants.

In the sections that follow, we have given a brief description of the FHA multifamily insurance programs under which the multifamily mortgage loans backing the Ginnie Mae Certificates may be insured.

#### *Section 207 (Project Mortgage Insurance)*

Section 207 of the Housing Act provides for federal insurance of private mortgage loans to public and private developers to construct multifamily housing and to construct or rehabilitate manufactured home courts and parks that offer rental rates tailored to families within the market area. For a Section 207 project to be eligible for FHA insurance, the property or project must be economically sound.

#### *Section 213 (Cooperative Mortgage Insurance)*

Section 213 of the Housing Act provides for federal insurance of cooperative project mortgages financed by either private or public mortgagors approved by the FHA. The four types of projects insured under Section 213 are (i) management projects owned by nonprofit housing corporations or trusts that restrict permanent occupancy to their members, (ii) sales projects owned by nonprofit housing corporations or trusts organized to purchase land and construct homes for their members, (iii) investor projects built by profit-motivated developers who certify their intention to sell the project to a cooperative group within two years, and (iv)

existing construction projects involving supplemental (subordinate) cooperative loans to nonprofit housing corporations or trusts for properties already insured under Section 213.

*Section 220 (Urban Renewal Mortgage Insurance)*

Section 220 of the Housing Act provides for federal insurance of mortgage loans on multifamily rental projects located in areas with federally aided urban renewal or slum clearance activities or in areas having a local redevelopment or urban renewal plan certified by the FHA. The mortgages may finance the rehabilitation of existing salvable housing (including the refinancing of existing loans) or the replacement of slums with new housing. Insurance on multifamily project mortgages may include coverage of construction advances. The purpose of Section 220 is to help eliminate slums and housing blight and to prevent the deterioration of residential property by supplementing the insurance available under Section 207.

*Section 221(d) (Low and Moderate Income Multifamily Housing Mortgage Insurance)*

Sections 221(d)(3) and 221(d)(4) of the Housing Act provide for federal mortgage insurance to assist private industry in the construction or substantial rehabilitation of rental and cooperative housing for low- and moderate-income families, as well as for families that have been displaced as a result of urban renewal, governmental actions or disasters.

*Section 223(a)(7) (Refinancing of FHA-Insured Mortgages)*

Section 223(a)(7) of the Housing Act permits the FHA to refinance mortgage loans previously made under any section or title of the Housing Act. Such refinancing results in prepayment of the existing insured mortgage. The principal amount of the new, refinanced mortgage loan generally is limited to (a) the original principal amount of the existing mortgage loan or (b) the unpaid balance of the existing mortgage loan, whichever is less.

*Section 223(d) (Insurance for Operating Loss Loans Secured by FHA-Insured Mortgages)*

Section 223(d) of the Housing Act authorizes the FHA to insure loans made to cover (i) operating losses during the first two years after project completion or (ii) up to 80 percent of the unreimbursed cash contributions by the project owner during any period of up to two years within the first ten years of operation. To be eligible the project must be secured by an existing FHA-insured multifamily mortgage loan. An “operating loss” for any project is defined as the amount by which the sum of taxes, interest on the mortgage debt, mortgage insurance premiums, hazard insurance premiums and expenses of maintenance and operation exceeds the income of the project.

*Section 223(f) (Purchase or Refinancing of Existing Projects)*

Section 223(f) of the Housing Act provides for federal insurance of mortgage loans originated by FHA-approved lenders in connection with the purchase or refinancing of existing multifamily housing complexes that do not require substantial rehabilitation. These complexes

may have been financed originally with conventional or FHA-insured mortgages. The principal objective of the Section 223(f) program is to provide for lower debt service on these complexes in order to preserve an adequate supply of affordable rental housing.

*Section 231 (Mortgage Insurance for Elderly Housing Projects)*

Section 231 of the Housing Act provides federal mortgage insurance for loans obtained to construct, acquire, substantially rehabilitate or refinance housing projects for the elderly and handicapped.

*Section 232 (Mortgage Insurance for Nursing Homes and Other Care Facilities)*

Section 232 of the Housing Act provides for federal insurance of private construction mortgage loans to finance new or rehabilitated nursing homes, intermediate care facilities, board and care homes and assisted living for the elderly, including equipment to be used in their operation. Section 232 also provides for supplemental loans to finance the purchase and installation of fire safety equipment in these facilities.

*Section 241 (Supplemental Financing and Equity Take-Out Loans)*

Section 241 of the Housing Act provides for FHA insurance to finance property improvements, energy-conserving improvements or additions to any FHA-insured multifamily mortgage loan. The overall purpose of the Section 241 loan program is to help multifamily housing projects remain competitive, extend their economic lives and finance the replacement of obsolete equipment without the refinancing of the existing mortgage.

*Section 242 (Mortgage Insurance for Hospitals)*

Section 242 of the Housing Act provides federal insurance for mortgage loans to finance the construction or rehabilitation of both non-profit and profit-motivated hospitals (including the financing of equipment necessary for hospital operation). The purpose of Section 242 is to help provide hospitals that are urgently needed for the care and treatment of people who are acutely ill or who otherwise require the medical care and related services furnished only by hospitals.

*Certain Additional Characteristics of the Multifamily Mortgage Loans*

*Lockouts.* Certain of the multifamily mortgage loans may have provisions that prohibit voluntary prepayment for a number of years following origination (“lockout provisions”). Further, in the case of mortgage loans insured under Section 232 of the Housing Act, non-profit borrowers cannot make full or partial prepayments without the prior written consent of the FHA. The enforceability of these lockout provisions under certain state laws is unclear. The prospectus supplement for each issue of Mega Certificates will set forth certain information with respect to any lockout provisions in the related multifamily mortgage loans.

*Mortgage Prepayment Fees.* Certain of the multifamily mortgage loans underlying the Mega Certificates may have a period (a “prepayment fee period”) during which voluntary and involuntary prepayments (except for prepayments resulting from condemnation or casualty losses) must be accompanied by a mortgage prepayment fee equal to a specified percentage of the principal amount of the multifamily mortgage loan being prepaid. The prepayment fee period may extend beyond the termination of the related lockout provision. Exhibit A to each prospectus supplement will set forth, for each underlying multifamily mortgage loan, a description of any applicable mortgage prepayment fee and the period during which the mortgage prepayment fee applies as well as the last month of any applicable lockout provision. Unless the related prospectus supplement provides otherwise, any mortgage prepayment fees actually received with respect to the Ginnie Mae Certificates and/or Platinum Certificates will be distributed to the related Mega Certificateholders.

Despite the foregoing, the multifamily mortgage loans underlying the Mega Certificates must include a provision which allows the FHA to override any lockout and/or prepayment fee provisions when the loan is in default, if the FHA determines that it is in the best interest of the federal government to allow the borrower to refinance or partially prepay the loan without restrictions or fees and thereby avoid or mitigate an FHA insurance claim.

*Coinsurance.* Certain of the multifamily mortgage loans underlying the Mega Certificates may be federally insured under FHA coinsurance programs. Under these programs, the mortgage lender retains a portion of the mortgage insurance risk that the FHA otherwise would assume. As part these programs, the FHA may delegate certain underwriting functions generally performed by the FHA to mortgage lenders that the FHA approves for participation in the coinsurance programs. Accordingly, no assurance can be given that such mortgage loans were underwritten in conformity with FHA underwriting guidelines applicable to mortgage loans that were solely federally insured, or that the default risk with respect to coinsured mortgage loans is comparable to that of FHA-insured mortgage loans. As a result, the likelihood of future default or the prepayment rate on the coinsured multifamily mortgage loans underlying the Mega Certificates cannot be predicted.

## DESCRIPTION OF THE MEGA CERTIFICATES

We will issue and guarantee each issue of our Guaranteed MBS Pass-Through Securities (the “Mega Certificates”) and will maintain the related trust under a trust agreement and any supplement to the trust agreement for that issue (together, the “Trust Agreement”). We will execute the Trust Agreement both in our corporate capacity and as trustee.

Each issue of Mega Certificates will consist of a single class representing the beneficial ownership interest in the trust created by the related Trust Agreement. This prospectus contains a general description of the rights of the Mega Certificates. The prospectus supplement for each issue will provide a more detailed description and disclose the particular terms that apply to that issue. The trust for each issue of Mega Certificates will consist of

- underlying Ginnie Mae Certificates and/or Platinum Certificates and
- the trust account, including all cash and investments in the trust account (the “Mega Certificate Account”).

We summarize below certain features that are common to each issue of Mega Certificates, unless the related prospectus supplement provides otherwise.

### Denominations and Forms

Unless we specify otherwise in the related prospectus supplement, we will issue the Mega Certificates in book-entry form on the book-entry system of the U.S. Federal Reserve Banks (the “Fed Book-Entry System”) or through the book-entry facilities of The Depository Trust Company (the “DTC Facilities”), in either case in a manner that permits separate trading and ownership. Each class of Mega Certificates will be assigned a CUSIP number and will trade separately under that number, subject to the rights of certain Mega Certificateholders to exchange all the Mega Certificates of a particular issue for the related Ginnie Mae Certificates or Platinum Certificates. See “—Exchanges of Mega Certificates for Ginnie Mae Certificates or Platinum Certificates” below.

#### *Fed Book-Entry System*

In the case of Mega Certificates on the Fed Book-Entry System (the “Fed Book-Entry Mega Certificates”), our fiscal agent is the Federal Reserve Bank of New York. Acting on our behalf, the Federal Reserve Bank of New York will make payments on the Fed Book-Entry Mega Certificates on each monthly payment date specified in the related prospectus supplement (each, a “Distribution Date”) by crediting accounts on its records (or on the records of other Federal Reserve Banks). Only entities that are eligible to maintain book-entry accounts with a Federal Reserve Bank may hold Fed Book-Entry Mega Certificates “of record,” although these entities will not necessarily be the beneficial owners of the Fed Book-Entry Mega Certificates. In the case of Fed Book-Entry Mega Certificates, we refer to these holders of record as

“Mega Certificateholders.” Ordinarily, beneficial owners will “hold” Fed Book-Entry Mega Certificates through one or more financial intermediaries, such as banks, brokerage firms and securities clearing organizations. A Mega Certificateholder that is not the beneficial owner of a Fed Book-Entry Mega Certificate will be responsible for establishing and maintaining accounts for its customer. In the same way, all the other financial intermediaries in the chain to the beneficial owner of that Fed Book-Entry Mega Certificate will be responsible for establishing and maintaining accounts for their customers. The rights of the beneficial owner of a Fed Book-Entry Mega Certificate with respect to Fannie Mae and the Federal Reserve Banks may be exercised only through a Mega Certificateholder. Neither we nor the Federal Reserve Banks will have any direct obligation to the beneficial owner of a Fed Book-Entry Mega Certificate who is not also a Mega Certificateholder according to the book-entry records maintained by the Federal Reserve Banks. In recording transfers of a Fed Book-Entry Mega Certificate, the Federal Reserve Banks will act only upon the instructions of a Mega Certificateholder.

There is a fiscal agency agreement in effect between the Federal Reserve Bank of New York and Fannie Mae. Under this agreement, the regulation<sup>1</sup> that governs our use of the Fed Book-Entry System and the pledging and transfer of interests apply to the Fed Book-Entry Mega Certificates. These regulations may be modified, amended, supplemented, superseded, eliminated or otherwise altered without the consent of any Mega Certificateholder. The Federal Reserve Banks’ operating circulars and letters also apply.

Fed Book-Entry Mega Certificates will have a minimum denomination of \$1,000 with additional increments of one dollar. They are freely transferable on the records of any Federal Reserve Bank but are not convertible to physical certificates.

#### *DTC Facilities*

Each of the Mega Certificates available through the DTC Facilities will be represented by one or more certificates (the “DTC Mega Certificates”) to be registered at all times in the name of the nominee of The Depository Trust Company, a New York-chartered limited purpose trust company, or any success depository selected or approved by Fannie Mae (the “Depository”). In accordance with its normal procedures, the Depository will record the position held by each Depository firm (each, a “Depository Participant”) in the DTC Mega Certificates, whether held for its own account or as a nominee for another person.

No person acquiring a beneficial ownership interest in the DTC Mega Certificates (a “beneficial owner” or an “investor”) will be entitled to receive a physical certificate representing such ownership interest. An investor’s interest in the DTC Mega Certificates will be recorded on the records of the brokerage firm, bank, thrift institution or other financial intermediary (a “financial intermediary”) that maintains such investor’s account for such purpose. In turn, the financial intermediary’s record ownership of such interest will be recorded on the records of the Depository (or of a Depository Participant that acts as an agent for the financial intermediary if such intermediary is not a Depository Participant). When we

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<sup>1</sup> Found at C.F. T. Part 81, Subpart H, as amended.

use the term “Mega Certificateholders” in this prospectus with respect to the DTC Mega Certificates, we are referring to the Depository since it is the sole holder of record of the DTC Mega Certificates. Accordingly, an investor will not be recognized by the Trustee or the Depository as a Mega Certificateholder and must rely on the foregoing arrangements to evidence its interest in the DTC Mega Certificates. Beneficial ownership of an investor’s interest in the DTC Mega Certificates may be transferred only by compliance with the procedures of an investor’s financial intermediary and of Depository Participants. In general, beneficial ownership of an investor’s interest in the DTC Mega Certificates will be subject to the rules, regulations and procedures governing the Depository and Depository Participants as in effect from time to time.

Each payment on the DTC Mega Certificates will be distributed to the Depository in immediately available funds. The Depository will be responsible for crediting the amount of such distributions to the accounts of the Depository Participants entitled thereto, in accordance with the Depository’s normal procedures, which currently provide for distributions in same-day funds settled through the New York Clearing House. Each Depository Participant and each financial intermediary will be responsible for disbursing such payments to the beneficial owners of the DTC Mega Certificates that it represents. Accordingly, the beneficial owners may experience some delay in the receipt of payments.

DTC Mega Certificates will have a minimum denomination of \$1,000 with additional increments of one dollar. They are freely transferable through the DTC Facilities but are not convertible to physical certificates.

### **Payments on Ginnie Mae Certificates and Platinum Certificates; Deposits in the Mega Certificate Account**

We will deposit or credit to the Mega Certificate Account an amount equal to the sum of the payments of principal and interest on the Ginnie Mae Certificates and Platinum Certificates in each trust as we receive them. Unless we specify otherwise in the related prospectus supplement, we also will credit or deposit to the Mega Certificate Account any mortgage prepayment fees in connection with the Ginnie Mae Certificates and Platinum Certificates as, and to the extent, we receive them. Amounts credited to the Mega Certificate Account as of a Distribution Date will be available for payment to the related Mega Certificateholders on such date to the extent described under “—Payments on the Mega Certificates” below. We will use any reinvestment earnings on amounts on deposit to pay the expenses of the trust and these earnings will not be included in the calculation of amounts payable to Mega Certificateholders.

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

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

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

### **Payments on the Mega Certificates**

Under the Trust Agreement pursuant to which we pool Ginnie Mae Certificates (either directly or indirectly through Platinum Certificates) into a trust, we will perform certain calculations.

We will aggregate the amount of principal reported as receivable on the Ginnie Mae I Certificates during each month on the basis of published Ginnie Mae factors for that month. For any Ginnie Mae I Certificate for which a factor is not available at that time (and for all Ginnie Mae II Certificates), we will calculate the amount of scheduled payments of principal payable in respect of the Ginnie Mae Certificates during that month on the basis of the assumed amortization schedules of the underlying mortgage loans.

In the case of any such Ginnie Mae Certificate relating to a pool of single-family mortgage loans, the amortization schedules will be prepared on the assumptions that:

- each of the mortgage loans underlying a single related Ginnie Mae Certificate had an original term to maturity of 360 months (or in the case of Ginnie Mae Certificates backed by 15-year mortgage loans, 180 months) and has a remaining term to maturity equal to the remaining term to maturity of the latest maturing mortgage loan backing that Ginnie Mae Certificate at the date of issuance of the Ginnie Mae Certificate;
- each mortgage loan backing a Ginnie Mae I Certificate bears an annual interest rate 0.50% above the pass-through rate of that Ginnie Mae I Certificate; and
- each mortgage loan backing a Ginnie Mae II Certificate bears an annual interest rate 1.50% above the pass-through rate of that Ginnie Mae II Certificate.

In the case of any Ginnie Mae Certificate or Platinum Certificate relating to a pool of multifamily mortgage loans, we will create those schedules by using available remaining term to maturity and interest rate information and adjusting such remaining term to maturity to the current month. These calculations will reflect payment factor information previously reported to us and subsequent scheduled amortization (but not prepayments) on the related mortgage loans.

Our determination of principal payments in accordance with the methodology described above will be final and binding.

All such amounts, whether reported in Ginnie Mae factors or calculated by us, will be reflected in the factors for the related issue of Mega Certificates for the Distribution Date (the “Mega Trust Factors”) in such month and will be distributed to the related Mega Certificateholders on the following Distribution Date, whether or not we receive them. In addition, the excess of (a) the payments of principal on the Ginnie Mae Certificates and Platinum Certificates that we received during the month prior to the month of such Distribution Date, over (b) the amounts of principal calculated as payable previously in accordance with the Ginnie Mae factors and the assumed amortization schedules specified above will be reflected in the Mega Trust Factors and payable as principal on that Distribution Date.

On each Distribution Date, we will pay each Mega Certificateholder of record on the close of business of the last day of the immediately preceding month its respective Percentage Interest (as defined below) in:

- principal payments on the related Ginnie Mae Certificates and Platinum Certificates (calculated as described above),
- interest payments on the related Ginnie Mae Certificates and Platinum Certificates, and
- unless we specify otherwise in the related prospectus supplement, any related mortgage prepayment fees that we receive.

The “Percentage Interest” of a Mega Certificate in principal and interest payments on the underlying Ginnie Mae Certificates and Platinum Certificates is equal to the percentage equivalent of a fraction, the numerator of which is the principal denomination of that Mega Certificate and the denominator of which is the total of the principal denominations of all Mega Certificates of the related issue.

### **Fannie Mae Guaranty**

We guarantee payment to the Mega Certificateholders of

- interest in an amount equal to one month’s interest on the unpaid principal balance of the Mega Certificates at the pass-through rate borne by the related Ginnie Mae Certificates and Platinum Certificates, and
- principal in an amount calculated as described under the heading “— Payments on the Mega Certificates” above, the total of such principal payments over the life of the Mega Certificates being equal to the original principal amount of the Mega Certificates.

We do **not** guarantee the collection or the distribution to Mega Certificateholders of any mortgage prepayment fees.

**Neither the Mega Certificates nor interest on the Mega Certificates are guaranteed by the United States, and they do not constitute a debt or obligation of the**

**United States or any of its agencies or instrumentalities other than Fannie Mae.** We alone are responsible for making payments on our guaranty.

### **Termination**

The trust for an issue of Mega Certificates will terminate when we have paid the related Mega Certificateholders all required interest and principal amounts. A trust may also be terminated earlier under the conditions set forth in “—Exchange of Mega Certificates for Ginnie Mae Certificates or Platinum Certificates” below.

### **Exchange of Mega Certificates for Ginnie Mae Certificates or Platinum Certificates**

Anyone who holds of record all the Mega Certificates of a single issue with a total original balance of at least \$25,000 may exchange the Mega Certificates for the underlying Ginnie Mae Certificates and/or Platinum Certificates held in the related trust. We may impose a fee for this exchange.

As a result of the way in which we calculate principal payments on the Mega Certificates, it is unlikely that their total outstanding principal balance will equal the total outstanding principal balance of the Ginnie Mae Certificates or Platinum Certificates that you receive in exchange. If you make such an exchange, you will not receive any funds remaining in the related trust but only the Ginnie Mae Certificates and/or Platinum Certificates that you receive in exchange. In no event will we be responsible for any funds remaining in the trust or for any difference between the total outstanding principal balance of the Mega Certificates you deliver and the total outstanding principal balance of the Ginnie Mae Certificates or Platinum Certificates you receive in exchange.

We have the right to limit the days of the month when such exchanges may occur. When Mega Certificates are exchanged, we will dissolve the related trust.

### **Reports to the Mega Certificateholders**

With each payment on the Mega Certificates we will forward a statement that indicates the total amount that we paid on each Mega Certificate and how the payment is to be allocated between principal and interest.

After the end of each calendar year, we will furnish to each person who was a Mega Certificateholder during that year any information required by the Internal Revenue Service.

## **THE TRUST AGREEMENT**

We summarize below certain provisions of the Trust Agreement that are not discussed elsewhere in this prospectus. However, you must understand that these summaries are not complete. If there is ever a conflict between the information in this prospectus and the actual terms of the Trust Agreement, the terms of the Trust Agreement will prevail.

## **Transfer of Ginnie Mae Certificates and Platinum Certificates to a Trust**

The Trust Agreement for each trust will contain a security schedule that will identify the Ginnie Mae Certificates and/or Platinum Certificates that are being transferred to the trust established for that issue of Mega Certificates. As trustee, we will hold (directly or indirectly) the underlying securities for the related Mega Certificateholders.

## **Certain Fannie Mae Matters**

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

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

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

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

## **Events of Default**

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

- if we fail to pay the Mega Certificateholders any required amount and our failure continues uncorrected for 15 days after Mega Certificateholders having Percentage Interests totaling at least 5% of the related trust have given us written notice;
- if we fail in a material way to fulfill any of our obligations under the Trust Agreement and our failure continues uncorrected for 60 days after Mega Certificateholders having Percentage Interests totaling at least 25% of the related trust have given us written notice; or
- if we become insolvent or unable to pay our debts or if other events of insolvency occur.

## **Rights upon Event of Default**

If one of the Events of Default under the Trust Agreement for a particular issue of Mega Certificates has occurred and continues uncorrected, Mega Certificateholders having Percentage Interests totaling at least 25% of the related trust have the right to terminate, in writing, all of our obligations under the Trust Agreement for that trust. These obligations include our duties as trustee as well as in our corporate capacity. However, the Fannie Mae guaranty will continue in effect. The same proportion of Mega Certificateholders also may appoint, in writing, a successor to assume all of our terminated obligations. This successor will take legal title to the underlying securities and other assets of the related trust.

## **Amendment**

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

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

If Mega Certificateholders having Percentage Interests totaling at least 66% of the related trust give their consent, we may amend the Trust Agreement to eliminate, change or add to its terms or to waive our compliance with any of those terms with respect to that trust. Nevertheless, we may not terminate or change our guaranty obligations or reduce the percentage of Mega Certificateholders who must consent to the types of amendments listed in the previous sentence. In addition, unless each affected Mega Certificateholder consents, no amendment may reduce or delay the funds that we must pay on any Mega Certificate.

## **MARGINABILITY; REPURCHASE AGREEMENTS**

The Mega Certificates are “exempted securities” for purposes of the margin rules of the Board of Governors of the Federal Reserve System and the New York Stock Exchange and transactions in the Mega Certificates, including repurchase agreements, are treated under those rules in the same manner as transactions in Fannie Mae MBS Certificates.

## **CERTAIN FEDERAL INCOME TAX CONSEQUENCES**

The Mega Certificates and payments on the Mega Certificates generally are subject to taxation. Therefore, you should consider the tax consequences of holding a Mega Certificate before you acquire one. The following discussion describes certain U.S. federal income tax consequences to beneficial owners of Mega Certificates. The discussion is general and does not purport to deal with all aspects of federal taxation that may be relevant to particular investors. This discussion may not apply to your particular circumstances for various reasons, including the following:

- This discussion reflects federal tax laws in effect as of the date of this prospectus. Changes to any of these laws after the date of this prospectus may affect the tax consequences discussed below.
- This discussion addresses only Mega Certificates acquired by beneficial owners at original issuance and held as “capital assets” (generally, property held for investment).
- This discussion does not address tax consequences to beneficial owners subject to special rules, such as dealers in securities, certain traders in securities, banks, tax-exempt organizations, life insurance companies, persons that hold Mega Certificates as part of a hedging transaction or as a position in a straddle or conversion transaction, or persons whose functional currency is not the U.S. dollar.
- This discussion may be supplemented by a discussion in the applicable prospectus supplement.
- This discussion does not address taxes imposed by any state, local or foreign taxing jurisdiction.

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

For purposes of this discussion, the term “Mortgage Loan” in the case of a participation interest means the interest in the underlying mortgage loan represented by that participation interest, and in applying a federal income tax rule that depends on the origination date of a

mortgage loan or the characteristics of a mortgage loan at its origination in such a case, the term “Mortgage Loan” means the underlying mortgage loan and not the participation interest.

### **Taxation of the Mega Certificates**

Our special tax counsel, Arnold & Porter, has delivered an opinion to us that each trust pursuant to which Mega Certificates are issued will not be classified as an association taxable as a corporation for federal income tax purposes but instead will be classified as a trust under subpart E of part I of subchapter J of the Internal Revenue Code of 1986, as amended (the “Code”), and that a beneficial owner of a Mega Certificate will be considered the beneficial owner of a pro rata undivided interest in each of the Ginnie Mae Certificates and Platinum Certificates that underlie that Mega Certificate. A general discussion of the federal income tax consequences of the beneficial ownership of Ginnie Mae Certificates and Platinum Certificates is set forth below.

### **Taxation of the Ginnie Mae Certificates**

In Revenue Ruling 70-545, 1970-2 C.B. 7, the Internal Revenue Service (“IRS”) set forth certain federal income tax consequences relating to investments in the Ginnie Mae Certificates issued with respect to a pool. Pursuant to Revenue Ruling 70-545, a pool will not be classified as an association taxable as a corporation for federal income tax purposes. Instead, a pool will be classified as a trust under subpart E of part I of subchapter J of the Internal Revenue Code of 1986, as amended (the “Code”), and each beneficial owner will be considered to be the beneficial owner of a pro rata undivided interest in each of the Mortgage Loans included in that particular pool.

Revenue Ruling 70-545 does not specifically address participation interests in mortgage loans or Ginnie Mae Certificates held in the form of Platinum Certificates. Other IRS pronouncements, however, clearly indicate that the holdings of Revenue Ruling 70-545 are equally applicable to a Ginnie Mae Certificate backed by a pool consisting (in whole or in part) of participation interests and that a beneficial owner of a Platinum Certificate will be considered the beneficial owner of a pro rata undivided interest in each of the Ginnie Mae Certificates underlying that Platinum Certificate.

Pursuant to the holdings of Revenue Ruling 70-545, a beneficial owner of a particular issue of Ginnie Mae Certificates must report on its federal income tax return its pro rata share of the entire income from each Mortgage Loan in that particular pool, consistent with the beneficial owner’s method of accounting. The items of income from a Mortgage Loan include interest, original issue discount (discussed below), prepayment fees, assumption fees and late payment charges, plus any amount received by us and passed through as interest under the Ginnie Mae guaranty. A beneficial owner can deduct its pro rata share of the Ginnie Mae guaranty fee and any compensation for servicing the Mortgage Loans as provided in section 162 or section 212 of the Code, consistent with its method of accounting and subject to the discussion below.

A beneficial owner must also allocate its basis in a Ginnie Mae Certificate among the Mortgage Loans included in that pool in proportion to the relative fair market values of those Mortgage Loans. If the basis allocated to a Mortgage Loan is less than the principal amount of that Mortgage Loan, the beneficial owner may have “market discount” with respect to that Mortgage Loan, and if the basis exceeds the principal amount, the beneficial owner may have “premium” with respect to that Mortgage Loan. (Market discount and premium are discussed below.)

#### *Original Issue Discount*

Certain Mortgage Loans may be issued with original issue discount within the meaning of section 1273(a) of the Code. Original issue discount generally arises only with respect to adjustable rate mortgages that provide for an incentive interest rate or Mortgage Loans, including adjustable rate mortgages, that provide for the deferral of interest. If a Mortgage Loan is issued with original issue discount, a beneficial owner must include the original issue discount in income as it accrues, generally in advance of the receipt of cash attributable to such income.

#### *Market Discount*

A beneficial owner that acquires a Mortgage Loan for less than its principal amount generally has market discount in the amount of the difference between the principal amount and the beneficial owner’s basis in such Mortgage Loan. In general, three consequences arise if a beneficial owner acquires an interest in a Mortgage Loan with market discount. First, the beneficial owner must treat any principal payment with respect to a Mortgage Loan acquired with market discount as ordinary income to the extent of the market discount that accrued while such beneficial owner held an interest in that Mortgage Loan. Second, the beneficial owner must treat gain on the disposition or retirement of such a Mortgage Loan as ordinary income under the circumstances discussed below under “—Sales and Other Dispositions of Mega Certificates.” Third, a beneficial owner that incurs or continues indebtedness to acquire a Mega Certificate at a market discount may be required to defer the deduction of all or a portion of the interest on the indebtedness until the corresponding amount of market discount is included in income. Alternatively, a beneficial owner may elect to include market discount in income on a current basis as it accrues, in which case the three consequences discussed above will not apply. If a beneficial owner makes this election, the beneficial owner must also apply the election to all debt instruments acquired by the beneficial owner on or after the beginning of the first taxable year to which the election applies. A beneficial owner may revoke the election only with the consent of the IRS.

A beneficial owner must determine the amount of accrued market discount for a period using a straight-line method, based on the maturity of the Mortgage Loan, unless the beneficial owner elects to determine accrued market discount using a constant yield method. The IRS has authority to provide regulations for determining the accrual of market discount in the case of debt instruments, including Mortgage Loans, that provide for more than one principal payment, but has not yet issued such regulations. In addition, the legislative history to the Tax

Reform Act of 1986 states that market discount on certain types of debt instruments may be treated as accruing in proportion to remaining accruals of original issue discount, if any, or if none, in proportion to remaining distributions of interest. You should consult your own tax advisors regarding the method a beneficial owner should use to determine accrued market discount.

Notwithstanding the above rules, market discount on a Mortgage Loan is considered to be zero if the discount is less than 0.25 percent of the principal balance of the Mortgage Loan multiplied by the number of complete years from the date the beneficial owner acquires an interest in the Mortgage Loan to the maturity of the Mortgage Loan (“*de minimis* market discount”). The IRS has authority to provide regulations to adjust the computation of *de minimis* market discount in the case of debt instruments, including Mortgage Loans, which provide for more than one principal payment, but has not yet issued such regulations. The IRS could assert, nonetheless, that *de minimis* market discount should be calculated using the remaining weighted average life of a Mortgage Loan rather than its final maturity. You should consult your own tax advisors regarding the ability to compute *de minimis* market discount based on the final maturity of a Mortgage Loan.

#### *Character of Discount*

The Taxpayer Relief Act of 1997 amended section 1271 of the Code to provide that amounts received by a beneficial owner upon retirement of a Mortgage Loan of a natural person are considered to be amounts received in exchange therefor. The legislation applies to Mortgage Loans originated after June 8, 1997, and any interest in a Mortgage Loan acquired after June 8, 1997. The application of section 1271 to a retirement of a Mortgage Loan that was acquired at a discount is unclear, and you should consult your own tax advisors regarding the application of section 1271 to a Mega Certificate in such a case.

#### *Premium*

A beneficial owner that acquires a Mortgage Loan for more than its principal amount generally will have premium with respect to that Mortgage Loan in the amount of the excess. In that event, the beneficial owner may elect to treat the premium as “amortizable bond premium.” This election is available only with respect to an undivided interest in a Mortgage Loan that was originated after September 27, 1985. If the election is made, a beneficial owner must also apply the election to all debt instruments the interest on which is not excludible from gross income (“fully taxable bonds”) held by the beneficial owner at the beginning of the first taxable year to which the election applies and to all fully taxable bonds thereafter acquired by the beneficial owner. A beneficial owner may revoke the election only with the consent of the IRS.

If a beneficial owner makes this election, the beneficial owner reduces the amount of any interest payment that must be included in the beneficial owner’s income by the portion of the premium allocable to the period based on the Mortgage Loan’s yield to maturity. Correspondingly, a beneficial owner must reduce its basis in the Mortgage Loan by the amount of

premium applied to reduce any interest income. The amount of premium to be allocated among the interest payments on an adjustable rate mortgage is determined by reference to an equivalent fixed-rate debt instrument constructed as of the date the beneficial owner acquires an interest in the Mortgage Loan.

If a beneficial owner does not elect to amortize premium, (i) the beneficial owner must include the full amount of each interest payment in income, and (ii) the premium must be allocated to the principal distributions on the Mortgage Loan and, when each principal distribution is received, a loss equal to the premium allocated to that distribution will be recognized. Any tax benefit from premium not previously recognized will be taken into account in computing gain or loss upon the sale or disposition of the related Mega Certificate. See “—Sales and Other Dispositions of Mega Certificates.”

#### *Accrual Method Election*

A beneficial owner may elect to include in income its entire return on a Mortgage Loan (*i.e.*, the excess of all remaining payments to be received on the Mortgage Loan over the amount of the beneficial owner’s basis in the Mortgage Loan) based on the compounding of interest at a constant yield. Such an election for a Mortgage Loan with amortizable bond premium (or market discount) will result in a deemed election to amortize premium for all the beneficial owner’s debt instruments with amortizable bond premium (or to accrue market discount currently for all the beneficial owner’s debt instruments with market discount) as discussed above.

#### *Servicing Compensation and Guaranty Fees*

A beneficial owner’s ability to deduct its share of the servicing compensation paid to service the Mortgage Loans and its share of the guaranty fees is limited under section 67 of the Code in the case of (i) estates and trusts, and (ii) individuals owning an interest in the related Mega Certificate directly or through an investment in a “pass-through entity” (other than in connection with such individual’s trade or business). Pass-through entities include partnerships, S corporations, grantor trusts, and non-publicly offered regulated investment companies, but do not include estates, nongrantor trusts, cooperatives, real estate investment trusts and publicly offered regulated investment companies.

Generally, a beneficial owner can deduct its share of these costs only to the extent that these costs, when aggregated with certain of the beneficial owner’s other miscellaneous itemized deductions, exceed two percent of the beneficial owner’s adjusted gross income. For this purpose, an estate or nongrantor trust computes adjusted gross income in the same manner as in the case of an individual, except that deductions for administrative expenses of the estate or trust that would not have been incurred if the property were not held in such trust or estate are treated as allowable in arriving at adjusted gross income. In addition, section 68 of the Code provides that certain itemized deductions otherwise allowable for a beneficial owner who is an individual are reduced by an amount equal to 3% of the beneficial owner’s adjusted gross income in excess of a statutorily defined threshold, but not more than 80% of itemized

deductions otherwise allowable. Further, a beneficial owner may not be able to deduct any portion of these costs in computing its alternative minimum tax liability.

### **Sales and Other Dispositions of Mega Certificates**

Upon the sale, exchange or other disposition of a Mega Certificate, a beneficial owner generally will recognize gain or loss equal to the difference between the amount realized upon the disposition and the beneficial owner's adjusted basis in the Mega Certificate. The adjusted basis of a Mega Certificate generally will equal the cost of the Mega Certificate to the beneficial owner, increased by any amounts of original issue discount and market discount included in the beneficial owner's gross income with respect to the Mega Certificate, and reduced by distributions on the Mega Certificate previously received by the beneficial owner as principal and by any premium that has reduced the beneficial owner's interest income with respect to the Mega Certificate. Any such gain or loss generally will be capital gain or loss, except (i) as provided in section 582(c) of the Code (which generally applies to banks) or (ii) to the extent any gain represents original issue discount or accrued market discount not previously included in income (to which extent such gain would be treated as ordinary income). Any capital gain (or loss) will be long-term capital gain (or loss) if at the time of disposition the beneficial owner held the Mega Certificate for more than one year. The ability to deduct capital losses is subject to limitations.

### *Exchanges*

A beneficial owner's exchange of a Mega Certificate for the underlying Ginnie Mae Certificates or Platinum Certificates will not be a taxable event. Other federal income tax consequences are unclear, however, because the principal balance of the Mega Certificate may not equal the principal balances of the Ginnie Mae Certificates or Platinum Certificates for which it is exchanged. See "Description of the Mega Certificates—Exchange of Mega Certificates for Ginnie Mae Certificates or Platinum Certificates" above. You should consult your own tax advisors regarding the federal income tax consequences of any such exchange.

### **Special Tax Attributes**

In Revenue Ruling 70-545, as modified by Revenue Ruling 74-169, 1974-1 C.B. 147, the IRS ruled on the status of the Ginnie Mae Certificates under specific sections of the Code. In particular, the IRS ruled as follows:

1. A Ginnie Mae 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 underlying each Mortgage Loan is (or, from the proceeds of the Mortgage Loans, will become) the type of real property described in that section of the Code.
2. A Ginnie Mae Certificate owned by a real estate investment trust is considered as representing "real estate assets" within the meaning of section 856(c)(5)(B) 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.

If a Ginnie Mae Certificate represents an interest in a pool that contains a Cooperative Share Loan, an Escrow Mortgage Loan or a Lender Buydown Loan, you should also consider the following tax consequences applicable to an undivided interest in those loans.

#### *Cooperative Share Loans*

The IRS has ruled that a loan (a “Cooperative Share Loan”) that is made for the purchase of stock in a cooperative housing corporation described in section 216(b) of the Code (a “Cooperative”) and that is secured by such stock will be treated as “a loan secured by an interest in real property” within the meaning of section 7701(a)(19)(C)(v) of the Code, provided that the dwelling unit that the Cooperative’s stock entitles the tenant-shareholder to occupy is to be used as a residence. The IRS also has ruled that stock in a Cooperative qualifies as an interest in real property within the meaning of section 856(c)(5)(C) of the Code. Accordingly, interest on Cooperative Share Loans qualifies as “interest on obligations secured by mortgages on real property” for purposes of section 856(c)(3)(B) of the Code.

#### *Escrow Mortgage Loans*

In certain cases, a Mortgage Loan may be secured by additional collateral consisting of an escrow account held with a financial institution (an “Escrow Mortgage Loan”). A beneficial owner’s investment in an Escrow Mortgage Loan generally should be treated as a “loan secured by an interest in real property” within the meaning of section 7701(a)(19)(C)(v) of the Code, provided the escrow account does not represent an account with the beneficial owner. In addition, an investment in an Escrow Mortgage Loan by a real estate investment trust generally should be treated in its entirety as a “real estate asset” within the meaning of section 856(c)(5)(B) of the Code, provided the fair market value of the real property securing the Escrow Mortgage Loan equals or exceeds the principal amount of such Escrow Mortgage Loan at the time the real estate investment trust makes a commitment to acquire the related Mega Certificate. Because of uncertainties regarding the tax treatment of Escrow Mortgage Loans, you should consult with your tax advisors concerning the federal income tax treatment of investments in Escrow Mortgage Loans.

#### *Lender Buydown Loans*

Lenders may provide the funds for the interest rate buydown accounts that secure certain Escrow Mortgage Loans (“Lender Buydown Loans”). If the borrower is liable for the entire payment on a Lender Buydown Loan, without offset by any payments due from the buydown account, a Lender Buydown Loan may be treated properly as entirely the obligation of the borrower.

The IRS could take the position, however, that a Lender Buydown Loan should be treated as if the borrower were obligated only to the extent of the net payment after application of

the interest rate buydown account. If the IRS were able to maintain this position successfully, a beneficial owner of a Lender Buydown Loan would be treated as holding two instruments: one representing the Lender's rights with respect to the buydown account, and the other representing the borrower's debt to the extent of the net payment by the borrower. With respect to the instrument represented by the borrower's debt, this treatment would require the beneficial owner to accelerate the recognition of a portion of the interest payable after the buydown period. Moreover, during the buydown period and to the extent of the buydown account, the rulings described above regarding sections 856(c)(3)(B), 856(c)(5)(B) and 7701(a)(19)(C)(v) of the Code would be inapplicable. Because of uncertainties regarding the tax treatment of Lender Buydown Loans, you should consult with your tax advisors concerning the federal income tax treatment of investments in Lender Buydown Loans.

### **Mortgage Loan Servicing**

The IRS issued guidance on the tax treatment of Mortgage Loans in cases in which the fee retained by the servicer of the Mortgage Loans exceeds what is established under tax law to be reasonable compensation for the services to be performed. This guidance is directed primarily to servicers and, in most cases, should not have a significant effect on beneficial owners of Mortgage Loans.

Under the IRS guidance, if a servicing fee on a Mortgage Loan is determined to exceed reasonable compensation, the payments of the excess servicing fee are treated as a series of "stripped coupons" and the Mortgage Loan is treated as a "stripped bond" within the meaning of section 1286 of the Code. In general, if a Mortgage Loan is treated as a stripped bond, any discount with respect to that Mortgage Loan will be treated as original issue discount. Any premium with respect to such a Mortgage Loan may be treated as amortizable bond premium regardless of the date the Mortgage Loan was originated, because a stripped bond is treated as originally issued on the date a beneficial owner acquires the stripped bond. See "—Taxation of the Ginnie Mae Certificates—Premium." In addition, the excess portion of servicing compensation will be excluded from the income of beneficial owners and thus will not be subject to the limitations on the deductibility of miscellaneous itemized deductions. See "—Taxation of the Ginnie Mae Certificates—Servicing Compensation and Guaranty Fees."

A Mortgage Loan is effectively not treated as a stripped bond, however, if the Mortgage Loan meets either the "100 basis point" test or the "*de minimis*" test. A Mortgage Loan meets the 100 basis point test if the total amount of servicing compensation on the Mortgage Loan does not exceed reasonable compensation for servicing by more than 100 basis points. A Mortgage Loan meets the *de minimis* test if (i) the discount at which the Mortgage Loan is acquired is less than 0.25 percent of the remaining principal balance of the Mortgage Loan multiplied by its weighted average remaining life; or (ii) in the case of wholly self-amortizing Mortgage Loans, the acquisition discount is less than  $\frac{1}{6}$  of one percent times the number of whole years to final stated maturity. In addition, servicers are given the opportunity to elect to treat mortgage servicing fees up to a specified number of basis points (which depends on the type of Mortgage Loans) as "reasonable" servicing. No guidance has been provided as to the

effect, if any, of such safe harbors and any elections thereunder on beneficial owners of Mortgage Loans.

The IRS guidance contains a number of ambiguities. For example, it is not clear whether the rules described above are to be applied on an individual loan or an aggregate basis. You should consult your tax advisors about the IRS guidance and its application to investments in the Mega Certificates.

### **Information Reporting and Backup Withholding**

With each distribution, we will furnish to each Mega Certificateholder a statement setting forth the portions of such distribution allocable to principal and to interest. In addition, we will furnish or make available, within a reasonable time after the end of each calendar year, to each Mega Certificateholder who at any time during such year received a distribution from us, a statement setting forth that holder's pro rata share of income, servicing compensation and guaranty fees for that calendar year.

Payments of interest and principal, as well as payments of proceeds from the sale of Mega Certificates, may be subject to the "backup withholding" tax under section 3406 of the Code at a rate of 31 percent if the recipient of the payment is not an "exempt recipient" and fails to furnish certain information, including its taxpayer identification number, to us or our agent, or otherwise fails to establish an exemption from such tax. Any amounts deducted and withheld from such a payment would be allowed as a credit against the beneficial owner's federal income tax. Furthermore, certain penalties may be imposed by the IRS on a holder or beneficial owner who is required to supply information but who does not do so in the proper manner.

### **Foreign Investors**

Additional rules apply to a beneficial owner that is not a U.S. Person (a "Non-U.S. Person"). "U.S. Person" means a citizen or resident of the United States, a corporation, partnership or other entity created or organized in or under the laws of the United States or any political subdivision thereof, an estate the income of which is subject to U.S. federal income tax regardless of the source of its income, or a trust if a court within the United States can exercise primary supervision over its administration and at least one United States person has the authority to control all substantial decisions of the trust.

Payments on a Mega Certificate made to, or on behalf of, a beneficial owner that is a Non-U.S. Person generally will be exempt from U.S. federal income and withholding taxes, provided the following conditions are satisfied:

- the beneficial owner does not hold the Mega Certificate in connection with its conduct of a trade or business in the United States,
- the beneficial owner is not, with respect to the United States, a personal holding company or a corporation that accumulates earnings in order to avoid U.S. federal income tax,

- the beneficial owner is not a U.S. expatriate or former U.S. resident who is taxable in the manner provided in section 877(b) of the Code,
- the beneficial owner is not an “excluded person” (*i.e.*, a 10-percent shareholder of Fannie Mae within the meaning of section 871(h)(3)(B) of the Code or a “controlled foreign corporation” related to Fannie Mae within the meaning of section 881(c)(3)(C) of the Code),
- the beneficial owner signs a statement under penalties of perjury certifying that it is a Non-U.S. Person or, in the case of an individual, that the beneficial owner is neither a citizen nor resident of the United States, and provides the name, address and taxpayer identification number, if any, of the beneficial owner,
- the last U.S. Person in the chain of payment to the beneficial owner (the “Withholding Agent”) receives such non-U.S. beneficial ownership statement from the beneficial owner or a financial institution holding on behalf of the beneficial owner and does not have actual knowledge that such statement is false, and
- the Mega Certificate represents an undivided interest in a pool of Mortgage Loans all of which were originated after July 18, 1984.

That portion of interest income of a beneficial owner who is a Non-U.S. Person on a Mega Certificate that represents an interest in one or more Mortgage Loans originated before July 19, 1984 will be subject to a U.S. withholding tax at the rate of 30 percent or lower treaty rate, if applicable. Regardless of the date of origination of the Mortgage Loans, backup withholding will not apply to payments made to a beneficial owner that is a Non-U.S. Person if the beneficial owner or a financial institution holding on behalf of the beneficial owner provides a non-U.S. beneficial ownership statement to the Withholding Agent.

A non-U.S. beneficial ownership statement may be made on an IRS Form W-8 or substantially similar substitute form. The beneficial owner or financial institution holding on behalf of the beneficial owner must inform the Withholding Agent of any change in the information on the statement within 30 days of such change. In all cases, the Withholding Agent must file the Form W-8 or substitute form with the IRS.

### **LEGAL OPINION**

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

## ERISA CONSIDERATIONS

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

On November 13, 1986, the U.S. Department of Labor issued a final regulation covering the acquisition by a Plan of a “guaranteed governmental mortgage pool certificate,” defined to include certificates which are “backed by, or evidencing an interest in specified mortgages or participation interests therein” and are guaranteed by Fannie Mae as to the payment of interest and principal. Under the regulation, investment by a Plan in a “guaranteed governmental mortgage pool certificate” does not cause the assets of the Plan to include the mortgages underlying the certificate or the sponsor, trustee and other services of the pool to be subject to the fiduciary responsibility provisions of ERISA or the prohibited transaction provisions of ERISA or section 4975 of the Code in providing services with respect to the mortgages in the pool. Our counsel, Brown & Wood LLP, has advised us that the Mega Certificates qualify under the definition of “guaranteed governmental mortgage pool certificates” and, as a result, the purchase and holding of Mega Certificates by Plans will not cause the underlying mortgage loans or the assets of Fannie Mae to be subject to the fiduciary requirements of ERISA or to the prohibited transaction provisions of ERISA and the Code.

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No one is authorized to give any information or to make any representation in connection with this offering other than those contained in this prospectus, any prospectus supplement or any other disclosure document referred to in this prospectus or a prospectus supplement. You must not rely on any unauthorized information or representation. This prospectus, any prospectus supplement and any other disclosure document referred to in this prospectus or a prospectus supplement do not constitute an offer or solicitation with regard to any securities other than the certificates or an offer or solicitation with regard to the certificates if it is illegal to make such an offer or solicitation to you under state law.

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

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# Guaranteed MBS Pass-Through Securities ("Mega Certificates")

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## PROSPECTUS

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**FannieMae**

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