



# FannieMae

## Stripped Mortgage-Backed Securities (Backed by Fannie Mae Issued Pooled Certificates)

**THE SMBS CERTIFICATES, TOGETHER WITH ANY INTEREST THEREON, ARE NOT GUARANTEED BY THE UNITED STATES. THE OBLIGATIONS OF FANNIE MAE UNDER ITS GUARANTY OF THE SMBS CERTIFICATES ARE OBLIGATIONS SOLELY OF THE CORPORATION AND DO NOT CONSTITUTE AN OBLIGATION OF THE UNITED STATES OR ANY AGENCY OR INSTRUMENTALITY THEREOF OTHER THAN THE CORPORATION. THE SMBS 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 Stripped Mortgage-Backed Securities ("SMBS Certificates") offered hereby and by the related SMBS Trust Preliminary Data Statement (the "Preliminary Data Statement"), as further described herein, are issued and guaranteed as to timely distribution of principal and interest by the Federal National Mortgage Association, a corporation organized and existing under the laws of the United States (the "Corporation" or "Fannie Mae"). The SMBS Certificates represent beneficial ownership interests in the principal distributions and/or the interest distributions on certain Fannie Mae Guaranteed Mortgage Pass-Through Certificates (the "MBS Certificates") held, either directly or through one or more Guaranteed MBS Pass-Through Securities (the "Mega Certificates") or one or more stripped mortgage-backed securities ("Pooled SMBS Certificates") and/or one or more Fannie Mae Guaranteed REMIC Pass-Through Certificates that constitute regular interests in a real estate mortgage investment conduit (the "REMIC Certificates"), for the Holders (as hereinafter defined) of SMBS Certificates by Fannie Mae in its capacity as Trustee of the related SMBS Trust (the "SMBS Trust"). MBS Certificates, Mega Certificates, Pooled SMBS Certificates and REMIC Certificates included in an SMBS Trust are hereinafter sometimes collectively referred to as "Pooled Certificates." All SMBS Certificates relating to a particular SMBS Trust are hereinafter referred to as an "Issue."

The MBS Certificates represent all or part of the beneficial interests in pools ("Pools") of first lien or subordinate lien, residential (either all single-family or all multifamily) mortgage loans or participation interests therein (the "Mortgage Loans"). Unless otherwise specified in the Preliminary Data Statement, the general characteristics of the MBS Certificates are described in the MBS Prospectus (defined herein), which is incorporated herein by reference and may be obtained as described herein. This Prospectus is also accompanied by a Prospectus dated October 1, 1996 (the "Mega Prospectus"), describing the general characteristics of the Mega Certificates. Preliminary approximate information with respect to the MBS Certificates underlying the SMBS Certificates offered hereby is set forth in an accompanying Preliminary Data Statement. Final information will be made available by Fannie Mae in an SMBS Trust Final Data Statement (the "Final Data Statement") separate from this Prospectus following the formation of the SMBS Trust and the issuance of the SMBS Certificates. The Preliminary Data Statement will specify if one or more Mega Certificates are included in the SMBS Trust. See "The MBS Certificates" herein for a description of the information, and the limitations thereon, which will be set forth in any such Preliminary Data Statement or Final Data Statement relating to SMBS Trusts that do not contain Pooled SMBS or REMIC Certificates. See also "SMBS Trusts Containing Pooled SMBS and/or REMIC Certificates" under "Statement of Terms" herein.

The SMBS Certificates will be offered from time to time in one or more Issues. Each Issue will include one or more classes ("Classes") identified as Class 1, Class 2, Class 3, etc. The proportions of interest on and principal of the underlying Pooled Certificates to which the Holder of a particular Class of SMBS Certificate is entitled will vary in accordance with the terms of the related Issue. The specific terms of each Issue will be set forth in the Preliminary Data Statement.

The original principal amount, if any, of each SMBS Certificate represents the amount payable to the Holder thereof over the life of such SMBS Certificate from principal distributions of the underlying Pooled Certificates as specified in the Preliminary Data Statement. Interest distributions allocable to an SMBS Certificate, if any, consist of interest at the rate specified in the Preliminary Data Statement on its principal amount, if any, or its notional principal balance in the case of interest-only SMBS Certificates. A notional principal balance is used solely for purposes of the determination of interest distributions and certain other rights of Holders of interest-only SMBS Certificates and does not represent an interest in principal distributions of the Pooled Certificates or of the underlying Mortgage Loans. SMBS Certificates will be issuable in book-entry form only in minimum denominations of \$1,000 and integral multiples of \$1 in excess thereof.

The SMBS Certificates may not be suitable investments for all investors. No investor should purchase SMBS Certificates unless such investor understands and is able to bear the prepayment, yield, market, liquidity, redemption, structure and other risks associated with such SMBS Certificates. **See "Certain Risk Factors" beginning on Page 10 herein for a discussion of certain risks that should be considered in connection with an investment in the SMBS Certificates.** SMBS Certificates are complex financial instruments. An investor in SMBS Certificates should possess the expertise necessary to evaluate the information contained or incorporated by reference in this Prospectus, the applicable Preliminary Data Statement and any other applicable supplement or amendment hereto in the context of such investor's financial situation.

**The date of this Prospectus is December 22, 1997.**

*This Prospectus may not be used to consummate sales of any Issue of SMBS Certificates unless accompanied by the related Preliminary Data Statement or the Final Data Statement if no Preliminary Data Statement is applicable.*

INVESTORS SHOULD HAVE SUFFICIENT KNOWLEDGE AND EXPERIENCE IN FINANCIAL AND BUSINESS MATTERS TO EVALUATE THE MERITS AND RISKS OF INVESTING IN SMBS CERTIFICATES, AS WELL AS ACCESS TO, AND KNOWLEDGE OF, APPROPRIATE ANALYTICAL TOOLS TO EVALUATE SUCH MERITS AND RISKS IN THE CONTEXT OF THEIR FINANCIAL SITUATION. SMBS CERTIFICATES ARE NOT APPROPRIATE INVESTMENTS FOR INVESTORS WHO ARE UNSOPHISTICATED WITH RESPECT TO THE PAYMENT CHARACTERISTICS APPLICABLE TO SUCH SMBS CERTIFICATES. INVESTORS ALSO SHOULD HAVE SUFFICIENT FINANCIAL RESOURCES TO BEAR THE RISKS OF AN INVESTMENT IN SMBS CERTIFICATES.

THIS PROSPECTUS DOES NOT DESCRIBE ALL OF THE RISKS AND INVESTMENT CONSIDERATIONS (INCLUDING THOSE RELATING TO EACH INVESTOR'S PARTICULAR CIRCUMSTANCES) OF AN INVESTMENT IN SMBS CERTIFICATES, FANNIE MAE AND THE DEALERS DISCLAIM ANY RESPONSIBILITY TO ADVISE INVESTORS OF SUCH RISKS AND INVESTMENT CONSIDERATIONS AS THEY EXIST AT THE DATE OF THIS PROSPECTUS OR AS THEY MAY CHANGE FROM TIME TO TIME. INVESTORS SHOULD CONSULT THEIR OWN FINANCIAL AND LEGAL ADVISORS AS TO THE RISKS AND INVESTMENT CONSIDERATIONS ARISING FROM AN INVESTMENT IN SMBS CERTIFICATES, THE APPROPRIATE TOOLS TO ANALYZE SUCH INVESTMENT, AND THE SUITABILITY OF SUCH INVESTMENT IN EACH INVESTOR'S PARTICULAR CIRCUMSTANCES. SEE "CERTAIN RISK FACTORS."

#### **PRELIMINARY DATA STATEMENT**

With respect to any particular Issue of SMBS Certificates, the description in the Prospectus will be supplemented, superseded or replaced, in whole or in part, by the Preliminary Data Statement for such Issue of SMBS Certificates. Investors should read such Preliminary Data Statement in conjunction with the Prospectus. In addition, investors should be aware that in some instances, in lieu of a Preliminary Data Statement, a Final Data Statement will be provided. This Final Data Statement will incorporate the information typically stated in a Preliminary Data Statement and, in such instances, references to "Preliminary Data Statement" herein shall be deemed to refer to the Final Data Statement.

Certain characteristics of the MBS Certificates underlying an Issue of SMBS Certificates will be set forth in the Preliminary Data Statement which accompanies this Prospectus. Each such Preliminary Data Statement will set forth (i) the approximate aggregate outstanding principal balance of the MBS Certificates, (ii) the permissible range of the WAMs of the Mortgage Loans in the various Pools as of the SMBS Issue Date or, if not available, the WAMs as of the most recently published date, less the number of months that have elapsed since such date, (iii) the approximate weighted average of the CAGEs, in months, of the Pools as of the SMBS Issue Date, (iv) whether a single MBS Certificate is included in the SMBS Trust or, if multiple MBS Certificates underlie the SMBS Certificates, whether such multiple MBS Certificates are included in the SMBS Trust in the form of a single Mega Certificate, and the trust number of any such Mega Certificate (as described herein, SMBS Certificates may be exchangeable for the underlying MBS Certificates or Mega Certificates if a single MBS Certificate or Mega Certificate is included in the underlying SMBS Trust), (v) if fixed-rate Mortgage Loans back the MBS Certificates, the Pass-Through Rate of the MBS Certificates and the permissible range of the WACs of the Mortgage Loans in the various Pools as of the SMBS Issue Date or, if not available, as of the most recently published date, (vi) if adjustable-rate Mortgage Loans underlie the MBS Certificates, the information which would otherwise be specified in a Prospectus Supplement relating to an ARM Pool as described under "ARM Pools" in the MBS Prospectus, (vii) if multifamily Mortgage Loans underlie the MBS Certificates, the information which would otherwise be specified in a Prospectus Supplement relating to a multifamily Pool and (viii) whether the MBS Certificates have characteristics which do not conform to the general criteria described above or in the MBS Prospectus. If there are Mega Certificates backing, in whole or in part, a Mega Certificate that is directly underlying an SMBS Trust, certain characteristics set forth in the Preliminary Data Statement, such as the WACs and WAMs, will be characteristics of the Mega Certificates and not of the MBS Certificates underlying those Mega Certificates.

## **DOCUMENTS INCORPORATED BY REFERENCE**

This Prospectus should be read in conjunction with Fannie Mae's most recent Information Statement and any supplement thereto (collectively, the "Information Statement"), each of which is incorporated herein by this reference. The Information Statement contains financial and other information about Fannie Mae and is updated from time to time to reflect quarterly and annual financial results of Fannie Mae and as Fannie Mae otherwise determines.

Any Information Statement, supplement thereto, or proxy statement published by Fannie Mae subsequent to the date of this Prospectus and prior to the termination of the offering of the SMBS Certificates offered hereby shall be deemed to be incorporated herein by this reference. Any statement contained herein or in a document incorporated or deemed to be incorporated by reference herein shall be deemed to be modified or superseded for purposes of this Prospectus to the extent that a statement contained herein or in any other subsequent document that also is or is deemed to be incorporated by reference herein modifies or supersedes such statement. Any such statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Prospectus.

## **AVAILABLE INFORMATION**

The Information Statement, proxy statements and other information concerning Fannie Mae may be inspected at the office of the New York Stock Exchange, the Chicago Stock Exchange and the Pacific Stock Exchange. Fannie Mae is not subject to the periodic reporting requirements of the Securities Exchange Act of 1934 and does not file reports or other information with the U.S. Securities and Exchange Commission.

Copies of this Prospectus may be obtained from the related Dealers (as defined herein) where lawful. Copies of the applicable Preliminary Data Statement for an Issue of SMBS Certificates may be obtained from the applicable Dealers for such Issue. In connection with the initial distribution of each Issue of SMBS Certificates, investors should obtain from Dealers the applicable Preliminary Data Statement and, if not previously delivered, this Prospectus.

The following information is available from Fannie Mae by writing or calling its MBS Helpline at 3900 Wisconsin Avenue, N.W., Area 2H-3S, Washington, D.C. 20016 (telephone 1-800-BEST-MBS or 202-752-6547). Such information is supplied for information purposes only. Investors should contact a Dealer or other appropriate securities dealer or bank to obtain the appropriate Prospectus, Preliminary Data Statement and other information.

- This Prospectus
- Fannie Mae's Prospectus for Guaranteed Mortgage Pass-Through Certificates (the "MBS Prospectus")
- The Information Statement
- Preliminary Data Statements

Investors should note that certain Stripped Mortgage Backed Securities are offered by means of prospectuses and, if applicable, data statements relating thereto other than this Prospectus. Sales of any such securities should be consummated only when accompanied by the related offering documents.

## STATEMENT OF TERMS

*The following summary of certain pertinent information is qualified in its entirety by reference to the detailed information appearing elsewhere in this Prospectus, in the Preliminary Data Statement accompanying this Prospectus, in the MBS Prospectus and, if applicable, in the Mega Prospectus. Capitalized terms used and not otherwise defined in this Prospectus or the Preliminary Data Statement have the respective meanings assigned to such terms in the MBS Prospectus and, if applicable, in the Mega Prospectus, unless otherwise indicated.*

Title of Security . . . . . Stripped Mortgage-Backed Securities (the “SMBS Certificates”).

Issuer and Guarantor . . . . . The Federal National Mortgage Association, a corporation organized and existing under the laws of the United States (the “Corporation” or “Fannie Mae”).

The MBS Certificates . . . . . The Fannie Mae Guaranteed Mortgage Pass-Through Certificates backed by Residential Mortgage Loans and/or Cooperative Share Loans having the characteristics (unless otherwise specified in the accompanying Preliminary Data Statement) described in the MBS Prospectus under the caption “Description of Certificates” and in this Prospectus under the caption “The MBS Certificates.” Preliminary approximate information with respect to the MBS Certificates is set forth in the accompanying Preliminary Data Statement. The Preliminary Data Statement will specify if one or more Mega Certificates are included in the SMBS Trust. Final information will be made available by Fannie Mae in a Final Data Statement separate from this Prospectus following the formation of the SMBS Trust and the issuance of the SMBS Certificates.

SMBS Trusts Containing  
Pooled SMBS and/or REMIC  
Certificates . . . . .

Certain SMBS Trusts may contain either (i) one or more Pooled SMBS Certificates and/or (ii) one or more REMIC Certificates evidencing beneficial interests in one or more Fannie Mae REMIC Trusts. Distributions on SMBS Certificates evidencing beneficial interests in any such SMBS Trust may be influenced by a number of factors which are additional to the prepayment experience on the underlying Mortgage Loans. The Preliminary or Final Data Statement for any such SMBS Trust (in some instances, there may be no Preliminary Data Statement) will describe these additional factors and set forth certain statistical information which may not necessarily conform to the information generally included in Preliminary and Final Data Statements for other SMBS Trusts. Accordingly, all descriptions herein of the content of Preliminary or Final Data Statements are qualified to the extent that the related SMBS Certificates evidence interests in an SMBS Trust which contains one or more Pooled SMBS Certificates and/or one or more REMIC Certificates.

This Prospectus does not contain complete information about SMBS Certificates issued by an SMBS Trust that contains one or more REMIC Certificates evidencing beneficial interests in one or more Fannie Mae REMIC Trusts. Prospectuses relating to

particular REMIC Trusts backing an SMBS Trust may be obtained from Fannie Mae by writing or calling its MBS Capital Markets Department at 4000 Wisconsin Avenue, N.W., Washington, D.C. 20016 (telephone (202) 752-7585).

SMBS Certificates . . . . . The SMBS Certificates will be issued pursuant to a Trust Agreement dated as of February 1, 1987, as modified and amended by a First Supplemental Trust Agreement dated as of June 1, 1988, a Second Supplemental Trust Agreement dated as of January 1, 1990, a Third Supplemental Trust Agreement dated as of July 1, 1991, and a Fourth Supplemental Trust Agreement dated as of August 1, 1992, each executed by Fannie Mae in its corporate capacity and its capacity as Trustee, as supplemented by a Series Supplement to the Trust Agreement, dated as of the SMBS Issue Date specified in the Preliminary Data Statement (collectively, the “Trust Agreement”). The aggregate distributions of principal and interest (a “Principal Distribution” and an “Interest Distribution,” respectively) required to be made by Fannie Mae on each Distribution Date to Holders of an Issue of SMBS Certificates will be equal to the distributions of principal and interest required to be made by Fannie Mae on the underlying Pooled Certificates.

The proportion of principal and interest to which the Holder of an SMBS Certificate of a particular Class is entitled will vary in accordance with the terms of the related Issue and will be stated in the Preliminary Data Statement for the Issue. Class 1 SMBS Certificates could entitle their Holders to receive some or all of the principal of and none of the interest on the underlying Pooled Certificates (a “principal-only” SMBS Certificate), or to receive different proportions of the distributions of principal and interest. Class 2 SMBS Certificates could entitle their Holders to receive some or all of the interest on and none of the principal of the underlying Pooled Certificates (an “interest-only” SMBS Certificate), or to receive different proportions of the distributions of principal and interest. In addition, any Class of SMBS Certificates could entitle their Holders to receive specified portions of principal and/or interest on the underlying Pooled Certificates during a specified period of time (e.g. the first 60 Distribution Dates as defined herein).

Except with respect to interest-only SMBS Certificates, the undivided percentage interest (the “Percentage Interest”) of any SMBS Certificate in each Principal Distribution or Interest Distribution on the underlying Pooled Certificates will be equal to the portion of each such Principal Distribution or Interest Distribution which is allocable to the related Class of SMBS Certificates multiplied by a percentage obtained by dividing the original principal amount or “denomination” of such SMBS Certificate by the aggregate original principal amount of all SMBS Certificates in the related Class. With respect to interest-only SMBS Certificates, the Percentage Interest in the portion of each Interest Distribution on the underlying Pooled Certificates which is allocable to the related Class of SMBS Certificates will

be equal to the percentage obtained by dividing the original notional principal balance, or “denomination,” of such SMBS Certificate by the aggregate original notional principal balance of all interest-only SMBS Certificates in the related Class.

Notwithstanding the foregoing paragraph, in the case of certain Issues, as set forth in the related Preliminary Data Statement, the “Percentage Interest” provisions of this Prospectus will be inapplicable. In such cases, Interest and Principal Distributions and other characteristics of the SMBS Certificates will be determined as set forth in the related Preliminary Data Statement.

Book-Entry Form . . . . . Unless otherwise specified in the related Preliminary Data Statement, the SMBS Certificates will be issued and maintained, and may be transferred by Holders (as defined below), only on the book-entry system of the Federal Reserve Banks. The SMBS Certificates may be held of record only by entities eligible to maintain book-entry accounts with the Federal Reserve Banks. Such entities, whose names appear on the book-entry records of the Federal Reserve Banks as the entities for whose accounts SMBS Certificates have been deposited, are herein referred to as “Holders.” A Holder is not necessarily the beneficial owner of an SMBS Certificate. Beneficial owners will ordinarily hold SMBS Certificates through one or more financial intermediaries, such as banks, brokerage firms and securities clearing organizations. See “The SMBS Certificates — Book-Entry Form.”

Authorized Denominations . . . SMBS Certificates of each Class will be issuable and transferable in minimum denominations of \$1,000 and integral multiples of \$1 in excess thereof.

Exchange of SMBS  
Certificates for MBS  
Certificates or Mega  
Certificates . . . . . For Issues evidencing interests in SMBS Trusts comprised of either a single MBS Certificate or a single Mega Certificate, Classes of outstanding SMBS Certificates evidencing, in each case, identical Percentage Interests in each Interest Distribution and each Principal Distribution may be exchanged on the book-entry system of the Federal Reserve Banks for one or more of such related MBS Certificates or Mega Certificates of authorized denominations (\$1,000 and integral multiples of \$1 in excess thereof). An administrative fee may be imposed for the exchange of SMBS Certificates for MBS Certificates. Unless otherwise specified in the Preliminary Data Statement, any SMBS Certificates so exchanged will be cancelled and neither MBS Certificates nor Mega Certificates are exchangeable for SMBS Certificates. The MBS Certificates or Mega Certificates so issued will have aggregate outstanding principal balances equal to the aggregate outstanding principal balances of the Classes of SMBS Certificates so exchanged. The ability to effect any such exchange will be dependent on the availability of all requisite Classes of SMBS Certificates in the secondary market. Any such availability may be eliminated or restricted through the transfer of all or a substantial portion of the Certificates of a particular Class to a REMIC

trust fund or similar entity. For information concerning the transfer of SMBS Certificates to a REMIC trust fund, call (202) 752-7585.

Exchange of Certain Classes of  
SMBS Certificates for Other  
SMBS Certificates . . . . .

For certain Issues evidencing interests in SMBS Trusts having more than two Classes, like Percentage Interests of certain Classes specified in the Preliminary Data Statement may be exchanged on the book-entry system of the Federal Reserve Banks for one or more SMBS Certificates of authorized denominations (\$1,000 and integral multiples of \$1 in excess thereof) of a different Class evidencing the combined interests of the Classes of SMBS Certificates so exchanged. An administrative fee may be imposed for the exchange of certain Classes of SMBS Certificates for other SMBS Certificates. Unless otherwise specified in the Preliminary Data Statement, any SMBS Certificates of such Classes so exchanged will be cancelled and the resulting SMBS Certificates will not be subsequently exchangeable back into the Classes of SMBS Certificates so exchanged. The ability to effect any such exchange will be dependent on the availability of all requisite Classes of SMBS Certificates in the secondary market. Any such availability may be eliminated or restricted through the transfer of all or a substantial portion of the Certificates of a particular Class to a REMIC trust fund or similar entity. For information concerning the transfer of SMBS Certificates to a REMIC trust fund, call (202) 752-7585.

Principal Distributions . . . . .

Unless otherwise specified in the Preliminary Data Statement, principal will be distributed monthly on the 25th day of each month (or, if such 25th day is not a business day, on the first business day next succeeding such 25th day), commencing in the month following the SMBS Issue Date (each, a “Distribution Date”); provided, however, that, as to certain Mortgage Loans in the underlying Pools, distributions of principal may not commence until the second month after the related MBS Issue Date. See “Description of Certificates — Payments on Mortgage Loans; Distributions on Certificates” in the MBS Prospectus. Each monthly distribution of principal, if any, of an SMBS Certificate will be equal to the product of the Percentage Interest evidenced by such SMBS Certificate and the portion of the Principal Distribution which is allocable to the related Class of SMBS Certificates.

Interest Distributions . . . . .

Interest will be distributed on each Distribution Date. Each monthly distribution of interest, if any, on an SMBS Certificate will be equal to the product of the Percentage Interest evidenced by such SMBS Certificate and the portion of the Interest Distribution that is allocable to the related Class of SMBS Certificates.

Record Date . . . . .

Each monthly distribution on the SMBS Certificates will be made to Holders of record on the last day of the preceding month.

SMBS Trust Factors . . . . .

As soon as practicable following the eleventh calendar day of each month, Fannie Mae will publish or otherwise make available the

percentage (carried to eight decimal places) that, when applied to the aggregate original principal amount of the SMBS Certificates, will equal the then current aggregate outstanding principal balance of the underlying Pooled Certificates, after giving effect to the distribution of principal to be made on the underlying Pooled Certificates in such month. Except as provided below, the product of such percentage, or “SMBS Trust Factor,” and the denomination of an SMBS Certificate, if such SMBS Certificate has a principal component, is the remaining amount of principal required to be distributed with respect to such SMBS Certificate and, if such SMBS Certificate has an interest component which is currently distributable, the principal amount upon which interest is accruing on such SMBS Certificate.

In certain instances involving SMBS Trusts containing REMIC Certificates, the SMBS Trust Factor applicable to principal will not, when multiplied by the initial notional principal balance of interest only SMBS Certificates, produce the current notional principal balance upon which interest is then accruing. In any such case, Fannie Mae will also publish monthly a notional principal balance factor at the same time that it publishes the SMBS Trust Factor for the related SMBS Trust.

Certain Federal Income Tax

Consequences . . . . .

Each owner of an SMBS Certificate, other than an SMBS Certificate from an Issue with respect to which each Class is entitled to all the payments on certain REMIC Certificates, will be treated for federal income tax purposes as the owner of the right to receive principal and/or interest on the underlying Mortgage Loans or REMIC Certificates, as the case may be. Such SMBS Certificates will be treated under applicable provisions of the Internal Revenue Code of 1986, as amended (the “Code”), as stripped bonds or stripped coupons. Owners generally will be required to include original issue discount with respect to such stripped bonds or stripped coupons in gross income as it accrues, which may be prior to the receipt of cash attributable to such income.

Although there is no authoritative precedent and the characterization of such SMBS Certificates is not clear, policy considerations indicate that such SMBS Certificates should be considered to represent “real estate assets” and “loans secured by an interest in real property” to the extent that the Mortgage Loans or REMIC Certificates, as the case may be, and interest thereon qualify for such treatment. See the discussion under the heading “Certain Federal Income Tax Consequences” in this Prospectus and, in the case of an SMBS Trust holding REMIC Certificates, the discussions under the heading “Certain Federal Income Tax Consequences” in the prospectus with respect to the particular REMIC Certificates underlying the relevant SMBS Trust (the “REMIC Prospectus”), and “Certain Additional Federal Income Tax Consequences” in a prospectus supplement with respect to the particular REMIC Certificates underlying the relevant SMBS Trust (a “REMIC Prospectus Supplement”).



Each owner of an SMBS Certificate from an Issue with respect to which each Class is entitled to all the payments on certain REMIC Certificates will be treated for federal income tax purposes as the owner of such REMIC Certificates. Such SMBS Certificates will be treated under applicable provisions of the Code as ownership interests in a regular interest of a real estate mortgage investment conduit (“REMIC”). See the discussions under the headings “Summary of Prospectus — Tax Status of the Certificates” and “Certain Federal Income Tax Consequences” in the REMIC Prospectus, and “Certain Additional Federal Income Tax Consequences” in the relevant REMIC Prospectus Supplement.

Legal Investment Considerations . . . . .

Institutions whose investment activities are subject to legal investment laws and regulations or to review by certain regulatory authorities may be subject to restrictions on investment in the SMBS Certificates. Investors should consult their own legal advisors in determining whether and to what extent the SMBS Certificates constitute legal investments or are subject to restrictions on investment. The SMBS Certificates will be “securities issued or guaranteed by . . . the Federal National Mortgage Association” within the meaning of the Secondary Mortgage Market Enhancement Act of 1984. Accordingly, subject to general considerations governing investment practices and as noted above, many investors whose investments are governed by state law may purchase, hold or invest in the SMBS Certificates to the same extent that they are authorized to invest in obligations issued or guaranteed as to principal and interest by the United States or any agency or instrumentality thereof. In addition, many entities whose investments are governed by federal law (including national banks, federal savings and loan associations, federal savings banks and federal credit unions) are specifically authorized to purchase, hold and invest in Fannie Mae’s Guaranteed Mortgage Pass-Through Certificates. Subject to general considerations governing investment practices and to the matters noted above, the SMBS Certificates will be treated identically for such purposes for such entities.

Marginability; Repurchase Agreements . . . . .

The SMBS 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 SMBS Certificates, including repurchase agreements, are treated under such rules in the same manner as transactions in Fannie Mae’s Guaranteed Mortgage Pass-Through Certificates. Such rules do not, however, specify the collateral value which participants in particular transactions will accord SMBS Certificates of any Class.

Securities Law Exemption . . .

The SMBS Certificates are exempt from the registration requirements of the Securities Act of 1933, as amended, and are “exempted securities” within the meaning of the Securities Exchange Act of 1934, as amended.

## CERTAIN RISK FACTORS

*The following section does not describe all of the risks and other ramifications of an investment in the SMBS Certificates. Investors should consult their own financial and legal advisors about the risks associated with an investment in the SMBS Certificates and the suitability of investing in such SMBS Certificates in light of their particular circumstances, and possible scenarios for economic, interest rate and other factors that may affect their investment.*

### **Market and Liquidity Considerations**

SMBS Certificates may not have an established trading market when issued. There can be no assurance of a secondary market for any SMBS Certificates or the liquidity of such market if one develops. Consequently, investors may not be able to sell their SMBS Certificates readily or at prices that will enable them to realize an anticipated yield. This is particularly the case for interest-only and principal-only SMBS Certificates, which are especially sensitive to interest rate or market risks, and may also be the case for SMBS Certificates that are designed for specific investment objectives or strategies or that have been structured to meet the investment requirements of limited categories of investors. In some cases, SMBS Certificates may have a more limited secondary market, have little or no liquidity, and experience more price volatility. Generally, the longer the remaining term of such securities, the greater their price volatility as compared with that for conventional mortgage-backed securities with comparable maturities. Illiquidity may have a severely adverse effect on the market value of SMBS Certificates.

No investor should purchase SMBS Certificates unless such investor understands and is able to bear the risk that certain SMBS Certificates may not be readily saleable, that the value of SMBS Certificates will fluctuate over time, and that such fluctuations may be significant and could result in losses to such investor. This is particularly the case for investors whose circumstances may not permit them to hold the SMBS Certificates until maturity.

Further, depending upon the type of SMBS Certificates, market conditions, and other factors, investors seeking to sell relatively small or relatively large amounts of SMBS Certificates may not be able to do so at prices comparable to those that may be available to other investors.

### **Suitability and Reinvestment Considerations**

Investors in the SMBS Certificates should have sufficient knowledge and experience in financial and business matters to evaluate such SMBS Certificates, the merits and risks of investing in such SMBS Certificates and the information contained and incorporated by reference in this Prospectus or the related Preliminary Data Statement. In addition, such investors should have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of such investors' financial situations such SMBS Certificates, the merits and risks of investing in such SMBS Certificates and the impact such SMBS Certificates will have on their overall investment portfolios. No investor should purchase an SMBS Certificate unless such investor understands and has sufficient financial resources to bear the prepayment, yield, market, liquidity, redemption, structure and other risks associated with such SMBS Certificate. Investors also should not purchase any SMBS Certificate without sufficient experience, financial resources and liquidity, relative to the potential risks, to manage their investments, including their investment in such SMBS Certificate. Before purchasing any SMBS Certificate, investors should understand thoroughly the terms of such SMBS Certificate, be familiar with the behavior of the mortgage-backed securities markets, and consider (if necessary, with the assistance of a financial advisor) possible scenarios for economic, interest rate and other factors that may affect their investment, and their ability to bear the associated risks under a variety of such scenarios. Investors also should consider any legal restrictions that may apply to their investments in SMBS Certificates. See "Legal Investment Considerations" herein.

The underlying Mortgage Loans generally may be prepaid at any time. (See "Maturity and Prepayment Assumptions" in the MBS Prospectus.) Accordingly, it is not possible to predict the rate at which distributions of principal will be received on the Pooled Certificates and therefore on the SMBS Certificates with a principal component. Accordingly, such SMBS Certificates generally would

not be an appropriate investment for an investor requiring a particular distribution of principal on a specified date or an otherwise predictable stream of principal distributions. In addition, since prevailing interest rates are subject to fluctuation, there can be no assurance that investors in the SMBS Certificates will be able to reinvest the distributions thereon at yields equaling or exceeding the yields on the SMBS Certificates. It is possible that yields on such reinvestments will be lower, and may be significantly lower, than the yields on the SMBS Certificates. Prospective investors in the SMBS Certificates should carefully consider the foregoing risks in light of other investments that may be available to such investors.

### **Yield Considerations**

The yields on the SMBS Certificates will be extremely sensitive to prepayment experience on the Mortgage Loans. Investors should fully consider the associated risks, including, for interest-only SMBS Certificates and SMBS Certificates that were purchased at prices exceeding their principal amounts, the risk that such investors may not fully recover their initial investment. See “— Prepayment Considerations” herein. The effective yield to Holders of the SMBS Certificates will depend upon the purchase price of the related SMBS Certificates, the rate of principal payments (including prepayments resulting from liquidations of the Mortgage Loans underlying the MBS Certificates due to defaults, casualties or condemnations affecting the Mortgaged Properties or purchases out of the Pool) on the Mortgage Loans, and the actual characteristics of the Mortgage Loans. Generally, if the actual rate of payments on the Mortgage Loans underlying the MBS Certificates is slower than the rate anticipated by an investor who purchased an SMBS Certificate at a discount (including a principal-only SMBS Certificate), the actual yield to such investor will be lower than such investor’s anticipated yield. If the actual rate of payment on the underlying Mortgage Loans is faster than the rate anticipated by an investor who purchased an SMBS Certificate at a premium (including an interest-only SMBS Certificate), the actual yield to such investor will also be lower than such investor’s anticipated yield. An investor should purchase SMBS Certificates only after performing an analysis of such Certificates based upon the investor’s own assumptions as to future rates of prepayment.

The timing of changes in the rate of principal payments (including prepayments) may significantly affect the yield to an investor, even if the average rate of principal prepayments is consistent with such investor’s expectations. In general, the earlier the payment of principal, the greater the effect on an investor’s yield to maturity. As a result, the effect on an investor’s yield of principal payments (including prepayments) occurring at a rate higher (or lower) than the rate anticipated by the investor during the period immediately following the Issue Date may not be offset by any subsequent equivalent reduction (or increase) in the rate of principal payments (including prepayments). Investors must make their own decisions as to the appropriate assumptions, including prepayment assumptions, to be used in deciding whether to purchase the SMBS Certificates.

The effective yield on the SMBS Certificates will be reduced below the yield otherwise produced because the distribution of interest that accrues from the first day of each month will not be made until the Distribution Date in the month following the month of accrual. No interest at all will be paid on any SMBS Certificate after its principal balance has been reduced to zero. As a result of the foregoing, the market value of the SMBS Certificates will be lower than would have been the case if there were no such delay.

### **Prepayment Considerations**

The rate of principal distributions on the Pooled Certificates, and therefore on SMBS Certificates with a principal component, is, except in the case of certain REMIC Certificates, directly related to the rate of payments of principal of the underlying Mortgage Loans, which may be in the form of scheduled amortization or prepayments (for this purpose, the term “prepayment” includes prepayments and liquidations due to default, casualty or condemnation and payments made pursuant to any guaranty of payment by, or option to repurchase of, Fannie Mae). In general, when the level of prevailing interest rates declines sufficiently relative to the interest rates on fixed-rate mortgage loans, the rate of prepayment is likely to increase, although the prepayment rate is influenced by a

number of other factors, including prevailing interest rates, general economic conditions and home-owner mobility. In addition, certain Mortgage Loans may have provisions restricting the borrower's ability to prepay or prepayment penalties in varying amounts, which may or may not influence prepayment rates. Moreover, it is increasingly difficult to generalize as to the degree to which interest rates must decline before significant prepayments are likely to be experienced.

In an environment of declining interest rates, lenders servicing mortgage loans often are asked by borrowers to refinance mortgage loans by issuing new loans secured by mortgages on the same properties. Increased borrower sophistication regarding the benefits of refinancing and extensive solicitation by lenders may result in an increase in the rate at which the Mortgage Loans are prepaid due to refinancing. Additionally, various lenders (in some cases in conjunction with the Corporation) have instituted streamlined procedures and liberalized fee structures and underwriting guidelines that can be expected both to increase the number of Mortgage Loans eligible for refinancing and to narrow the interest rate differential that must exist before a refinancing is both economic and practical. In addition, increased borrower sophistication regarding the benefits of refinancing and extensive solicitation of borrowers by lenders (including the Corporation's mortgage loan servicers) may result in an increase in the rate by which Mortgage Loans in Pools are prepaid due to refinancing. On the other hand, lenders may have originated Mortgage Loans at above-market interest rates to provide a means for the payment of certain closing costs or interest rate buydown deposits. It is possible that such Mortgage Loans may have been made to borrowers who, for a variety of reasons, may not seek or readily be able to obtain refinance mortgage loans and, as a result, a Pool comprised of any such Mortgage Loans may not experience a level of prepayments comparable to a Pool comprised of other Mortgage Loans with comparable above-market interest rates. In addition, certain rights of the Corporation described under "Description of Certificates" in the MBS Prospectus, such as its option to repurchase Mortgage Loans as to which breaches of representations or warranties have occurred or to repurchase delinquent Mortgage Loans (*see* "— Payments on Mortgage Loans; Distributions on Certificates") and to repurchase the remaining Mortgage Loans in a Pool in order to terminate an Issue (*see* "— Termination"), may affect the rate of prepayment of a Pool of Mortgage Loans. Based upon published information and Fannie Mae's own experience, the rate of prepayments on single-family loans has fluctuated significantly in recent years. Accordingly, the Corporation cannot estimate what the prepayment experience of the Mortgage Loans in Pools will be. See the Information Statement for the Corporation's most recent Mortgage Loan prepayment experience of its portfolio.

Acceleration of mortgage payments as a result of transfers of the mortgaged property is another factor affecting prepayment rates. Conventional Mortgage Loans underlying the MBS Certificates may provide by their terms that in the event of the transfer or prospective transfer of title to the underlying mortgaged property the full unpaid principal balance of the Mortgage Loan is due and payable at the option of the holder of the related Mortgage Loans. Government Mortgage Loans contain no such "due-on-sale" provisions. As set forth under "Description of Certificates — Collection and Other Servicing Procedures" in the MBS Prospectus, Fannie Mae is generally required to exercise its right to accelerate the maturity of fixed-rate Conventional Mortgage Loans containing enforceable "due-on-sale" provisions upon certain transfers of the mortgaged property. However, certain state and federal laws limiting the enforcement of "due-on-sale" provisions remain in effect. In the case of adjustable-rate Mortgage Loans, Fannie Mae will not enforce the "due-on-sale" clause, but will permit creditworthy transferees of the mortgaged property securing the adjustable-rate Mortgage Loan to assume the adjustable-rate Mortgage Loan. Consequently, transfers of the underlying Mortgaged Property may not affect prepayments on Government Mortgage Loans and adjustable-rate Mortgage Loans to the same extent as on fixed-rate Conventional Mortgage Loans with comparable interest rates.

Investors should be aware that the information set forth in the Preliminary Data Statement or any Final Data Statement will not contain information as to certain characteristics of the underlying Mortgage Loans that may, under certain circumstances, affect their prepayment experience with resultant effects on the yields realized by investors in the related SMBS Certificates. See "The MBS

Certificates.” Each Preliminary Data Statement will include a table indicating certain relationships between assumed purchase prices of the SMBS Certificates to which it relates, assumed prepayment rates, and yields to maturity of the SMBS Certificates. The yields to maturity will be calculated for the settlement date indicated, and will be stated on a corporate bond equivalent basis.

### **Repurchases Due to Breach of Representations and Warranties**

The seller of the underlying Mortgage Loans to Fannie Mae has made certain customary representations and warranties with respect to the Mortgage Loans. In the event of a material breach of any such representations and warranties, Fannie Mae may repurchase each affected Mortgage Loan from the related Pool at a price equal to the Stated Principal Balance thereof plus accrued interest thereon at the Pass-Through Rate (or the Accrual Rate, as applicable). The effect of any such repurchase will be the same as that of a prepayment in full of the related Mortgage Loan. See “Description of Certificates — Collection and Other Servicing Procedures” in the MBS Prospectus and “— Prepayment Considerations” above.

### **Repurchases Due to Delinquency**

Fannie Mae has the option under the trust indenture relating to each Pool of underlying Mortgage Loans to repurchase from Pools those Mortgage Loans that are delinquent in whole or in part with respect to four (eight in the case of Biweekly Mortgage Loans) consecutive monthly payments at a price equal to the Stated Principal Balance thereof plus accrued interest thereon at the Pass-Through Rate (or the Accrual Rate, as applicable). The effect of any such repurchase will be the same as that of a prepayment in full of the related Mortgage Loan. See “Description of Certificates — Payment on Mortgage Loans; Distributions on Certificates” in the MBS Prospectus and “— Prepayment Considerations” above.

### **Special Considerations for Multifamily Mortgage Loans**

*Certain Risks of Multifamily Lender.* Multifamily lending is generally viewed as exposing the lender to a greater risk of loss than one- to four-family residential lending. Multifamily lending typically involves larger loans to single Mortgagors or groups of related Mortgagors than residential one- to four-family mortgage loans. Furthermore, the repayment of Multifamily Mortgage Loans secured by income producing properties is typically dependent upon the successful operation of the related real estate project. If the cash flow from the project is reduced (for example, if leases are not obtained or renewed), the Mortgagor’s ability to repay the Mortgage Loan may be impaired. Multifamily real estate can be affected significantly by supply and demand in the market for the type of property securing the Mortgage Loan and, therefore, may be affected by adverse economic conditions. Market values may vary as a result of economic events or governmental regulations outside the control of the Mortgagor or lender such as rent control laws, which impact the future cash flow of the property. Due to Fannie Mae’s guaranty, Holders of SMBS Certificates will continue to receive the required installment of principal and interest on each Distribution Date regardless of whether sufficient funds have been collected from Mortgagors. See “Description of the Certificates — The Corporation’s Guaranty” in the MBS Prospectus. In addition, principal prepayments resulting from liquidations of such Mortgage Loans due to defaults, casualties or condemnations affecting the Mortgaged Properties may significantly affect the yield to investors. See “— Yield Considerations” above.

### **The Corporation’s Guaranty Considerations**

If the Corporation were unable to perform its guaranty obligations described in the MBS Prospectus under “Description of Certificates — The Corporation’s Guaranty,” distributions to Holders of SMBS Certificates would consist solely of payments and other recoveries on underlying Mortgage Loans and, accordingly, delinquencies and defaults would affect monthly distributions to Holders of SMBS Certificates.

### **Exchange Rate Risks**

Any principal of and any interest on the SMBS Certificates will be payable in U.S. dollars. For investors whose financial activities are denominated principally in a currency or currency unit other

than U.S. dollars (the “Investor’s Currency”), an investment in SMBS Certificates entails significant risks that are not associated with a similar investment in a security denominated and payable in such Investor’s Currency. In connection with any conversion of payments made in U.S. dollars into the Investor’s Currency, such risks include, without limitation, the possibility of significant changes in the rate of exchange between the U.S. dollar and such Investor’s Currency (including changes as a result of devaluation of the U.S. dollar or revaluation of the Investor’s Currency) and the possibility of the imposition or modification of exchange controls by authorities with jurisdiction over such Investor’s Currency. Such risks generally depend on a number of factors, including financial, economic and political events over which Fannie Mae has no control. In recent years, the rates of exchange between the U.S. dollar and certain currencies have been highly volatile, and such volatility may continue in the future. Fluctuations in any particular exchange rate that have occurred in the past are not necessarily indicative, however, of fluctuations that may occur in the future. An appreciation in the value of the Investor’s Currency relative to the value of the U.S. dollar would result in a decrease in the Investor’s Currency-equivalent yield on the applicable SMBS Certificate and in the Investor’s Currency-equivalent value of the principal and/or interest payable on such SMBS Certificate, and generally in a decrease in the Investor’s Currency-equivalent market value of such SMBS Certificate. A depreciation in the value of the Investor’s Currency relative to the value of the U.S. dollar would have the opposite effect.

**For a discussion of certain additional risks, see “Certain Federal Income Tax Consequences”, “Legal Investment Considerations” and “ERISA Considerations” herein.**

### **PREPAYMENT MODELS**

Prepayments of mortgage loans commonly are measured relative to a prepayment standard or model. One such model used to measure payments is The Bond Market Association’s standard model for prepayment speed assumptions (“PSA”), which represents an assumed rate of prepayment each month of the then outstanding principal balance of a pool of new mortgage loans. 100% PSA assumes prepayment rates of 0.2% per annum of the then unpaid principal balance of such pool of mortgage loans in the first month of the life of such mortgage loans and an additional 0.2% per annum in each month thereafter (for example, 0.4% per annum in the second month) until the 30th month. Beginning in the 30th month and in each month thereafter during the life of such mortgage loans, 100% PSA assumes a constant prepayment rate of 6% per annum. Multiples may be calculated from this prepayment rate sequence. For example, 150% PSA assumes prepayment rates will be 0.3% per annum in month one, 0.6% per annum in month two, and increasing by 0.3% in each succeeding month until reaching a rate of 9% per annum in month 30 and remaining constant at 9% per annum thereafter. Similarly, 200% PSA assumes prepayment rates will be 0.4% per annum in month one, 0.8% per annum in month two, and increasing by 0.4% in each succeeding month until reaching a rate of 12% per annum in month 30 and remaining constant at 12% per annum thereafter. 0% PSA assumes no prepayments.

Another model is the “Constant Prepayment Rate” or “CPR” model. The CPR model represents an annualized rate of prepayment relative to the then outstanding principal balance of a pool of new mortgage loans. Accordingly, 0% CPR indicates no prepayments; 15% CPR indicates prepayments at an annual rate of 15% and so on.

*Neither PSA nor the CPR model purport to be an historical description of the prepayment experience of any pool of mortgage loans or a prediction of the anticipated rate of prepayment of any pool of mortgage loans, including the Mortgage Loans relating to the Pooled Certificates backing the SMBS Certificates of any Issue.*

The Preliminary Data Statement for each Issue of SMBS Certificates will indicate the model used to measure prepayments.

### **THE MBS CERTIFICATES**

The following description will apply to the MBS Certificates underlying an Issue of SMBS Certificates unless otherwise specified in the Preliminary Data Statement related to such SMBS

Certificates. With respect to any particular Issue of SMBS Certificates or type or category of SMBS Certificates, the description herein may be supplemented, superseded or replaced, in whole or in part, by such Preliminary Data Statement. Investors should read such Preliminary Data Statement in conjunction with the Prospectus.

The MBS Certificates underlying the SMBS Certificates directly or through Mega, Pooled SMBS or REMIC Certificates are Fannie Mae Guaranteed Mortgage Pass-Through Certificates that (unless otherwise specified in the Preliminary Data Statement) conform to the general characteristics described in the MBS Prospectus. Unless set forth in the Preliminary Data Statement accompanying this Prospectus, all Mortgage Loans underlying the MBS Certificates will be Conventional Mortgage Loans, each secured by a first mortgage or deed of trust on a one- to four-family (“single family”) or multifamily residential property (except Cooperative Share Loans). Each Mortgage Loan that is a Cooperative Share Loan will be secured by a first lien on the stock, shares, membership certificate or other contractual agreement evidencing ownership in a cooperative housing corporation and the assignment of the related proprietary lease or occupancy agreement (subject to the cooperative housing corporation’s lien against such ownership interest for unpaid assessments that represent that ownership interest’s pro rata share of certain payments of the cooperative housing corporation). Substantially all Mortgage Loans underlying the MBS Certificates will have original maturities of up to 30 years. See “The Mortgage Pools” and “Yield Considerations” in the MBS Prospectus. Furthermore, unless otherwise specified in the Preliminary Data Statement, the difference between the shortest and longest weighted average remaining terms to maturity (“WAM”) of the Mortgage Loans in the various Pools underlying an Issue of SMBS Certificates (in each case as of the SMBS Issue Date or, if not available, as of the most recently published date, less the number of months that have elapsed since such date) may not exceed two years. In addition, the weighted average calculated loan age of the Mortgage Loans in each Pool (“CAGE”) is determined by subtracting the original WAM for such Pool from the standard original mortgage term (i.e., 360, 180 or 84 months) and adding thereto the number of months elapsed since the issue date of the related MBS Certificate. Furthermore, if fixed-rate Mortgage Loans back the MBS Certificates, each such underlying MBS Certificate will, unless otherwise specified in the Preliminary Data Statement, have the same Pass-Through Rate and will evidence an interest in a Pool of Mortgage Loans with a weighted average coupon (a “WAC”) which is not more than 1.5% in excess of the Pass-Through Rate (each such WAC being determined as of the SMBS Issue Date or, if the WAC as of the SMBS Issue Date is not available, as of the most recently published date).

Following the formation of an SMBS Trust and the issuance of the related SMBS Certificates, Fannie Mae will prepare a Final Data Statement setting forth exact information for each category of information appearing in the prior Preliminary Data Statement except for the weighted average of the CAGEs. In addition, the Pool number of each MBS Certificate and the trust number of each Mega Certificate in the related SMBS Trust will be identified, along with the weighted average of all the WACs and the weighted average of all the WAMs based on the current unpaid principal balances of the MBS or Mega Certificates as of the SMBS Issue Date. The Final Data Statement will also indicate whether any Mega Certificate in the SMBS Trust is backed directly by MBS Certificates or by other Mega Certificates. Except as provided above, Final Data Statements will not accompany a Prospectus but will be made available by Fannie Mae to investors on request. To request Final Data Statements, call Fannie Mae at 1-800-BEST-MBS.

Investors should be aware that the information set forth in the Preliminary Data Statement or any Final Data Statement will not contain information as to certain characteristics of the underlying Mortgage Loans that may, under certain circumstances, affect their prepayment experience with resultant effects on the yields realized by investors in the related SMBS Certificates. For instance, the information set forth in the Preliminary Data Statement or the Final Data Statement as to the WAC and WAM may be based on information as of the Issue Date of the MBS or Mega Certificates directly backing any Mega Certificate underlying the SMBS Trust and may, because of intervening prepayments, not be reflective of comparable statistics as of the SMBS Issue Date. In addition, weighted average information will not disclose the range of coupons or remaining terms to maturity of individual Mortgage Loans within a Pool. For example, while extremely wide ranges of coupons are unusual in

Pools underlying MBS Certificates, it is possible for a Pool with a WAC that is 1.50% in excess of the Pass-Through Rate to be one-half composed of Mortgage Loans with a coupon that is .50% in excess of the Pass-Through Rate with the remaining half consisting of Mortgage Loans with a coupon that is 2.50% greater. Under certain interest-rate scenarios, such a Pool could experience significantly different prepayments from a Pool consisting of Mortgage Loans with a uniform coupon that was 1.50% in excess of the Pass-Through Rate. Also, the Mortgage Loans in any Pool may have remaining terms to maturity that differ greatly and any such differences may affect the scheduled amortization and the prepayment rate of the related MBS Certificates. Furthermore, no Preliminary Data Statement or Final Data Statement will include information as to the geographic dispersion of the Mortgage Loans underlying the related MBS Certificates. However, investors may obtain information from the Fannie Mae Geographical Distribution Report, which can be obtained by calling (202) 752-6547. The availability of other information that may be meaningful to investors in securities as sensitive to prepayments as SMBS Certificates is limited and such information will not be set forth in the Preliminary Data Statement, any Final Data Statement or in published information respecting the MBS Certificates.

### **THE SMBS CERTIFICATES**

The following summaries include a description of certain provisions of the Trust Agreement not otherwise summarized in this Prospectus. Certain capitalized terms in these summaries are used as defined in the Trust Agreement. 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 Agreement.

The following description will apply to the SMBS Certificates unless otherwise specified in the Preliminary Data Statement related to an Issue of SMBS Certificates. With respect to any particular Issue of SMBS Certificates or type or category of SMBS Certificates, the description herein may be supplemented, superseded or replaced, in whole or in part, by such Preliminary Data Statement. Investors should read such Preliminary Data Statement in conjunction with the Prospectus.

#### **Transfer of Pooled Certificates to SMBS Trust**

The Pooled Certificates transferred to an SMBS Trust will be identified in a Fannie Mae Security Schedule appearing as an exhibit to the Series Supplement for such SMBS Trust. The Pooled Certificates will be registered in Fannie Mae's name on the books of the Federal Reserve Banks and held directly or indirectly for the Holders of SMBS Certificates by Fannie Mae in its capacity as Trustee of the SMBS Trust.

#### **Book-Entry Form**

SMBS Certificates will be maintained on the book-entry system of the Federal Reserve Banks in a manner that permits separate trading and ownership. Each Class will be assigned a CUSIP number and will be tradable separately under such CUSIP number, subject to the rights of certain Holders in some instances to exchange SMBS Certificates of all Classes of an Issue for the related MBS Certificates or Mega Certificates or to exchange certain Classes of SMBS Certificates for other SMBS Certificates. See "Exchange of SMBS Certificates for MBS Certificates or Mega Certificates" and "Exchange of Certain Classes of SMBS Certificates for Other SMBS Certificates" in the "Statement of Terms" in this Prospectus.

The Federal Reserve Banks act as Fannie Mae's fiscal agent for the SMBS Certificates. The SMBS Certificates will be issued in book-entry form, and the Federal Reserve Banks will maintain book-entry accounts with respect to the SMBS Certificates and make distributions on the SMBS Certificates on behalf of Fannie Mae on the applicable Distribution Dates by crediting Holders' accounts at the Federal Reserve Banks.

SMBS Certificates may be held of record only by entities eligible to maintain book-entry accounts with the Federal Reserve Banks. Such entities whose names appear on the book-entry records of the Federal Reserve Banks as the entities for whose accounts SMBS Certificates have been deposited are herein referred to as "Holders." A Holder is not necessarily the beneficial owner of an SMBS



Certificate. Beneficial owners will ordinarily hold SMBS Certificates through one or more financial intermediaries, such as banks, brokerage firms and securities clearing organizations. A Holder that is not the beneficial owner of an SMBS Certificate, and each other financial intermediary in the chain to the beneficial owner, will have the responsibility of establishing and maintaining accounts for its respective customers. The rights of the beneficial owner of an SMBS Certificate with respect to Fannie Mae and the Federal Reserve Banks may be exercised only through the Holder thereof. Fannie Mae and the Federal Reserve Banks will have no obligation to a beneficial owner of an SMBS Certificate that is not also the Holder of the SMBS Certificate. The Federal Reserve Banks will act only upon the instructions of the Holder in recording transfers of an SMBS Certificate.

A Fiscal Agency Agreement between Fannie Mae and the Federal Reserve Bank of New York makes generally applicable to the SMBS Certificates (i) regulations governing Fannie Mae's use of the book-entry system, contained in 24 C.F.R. Part 81, Subpart E, and (ii) such procedures, insofar as applicable, as may from time to time be established by regulations of the United States Department of the Treasury governing United States securities, as now set forth in Treasury Department Circular Number 300, 31 C.F.R. Part 306 (other than Subpart O). The accounts of Holders of SMBS Certificates on the book-entry system of the Federal Reserve Banks are also governed by applicable operating circulars and letters of the Federal Reserve Banks.

### **Distributions on SMBS Certificates**

On each Distribution Date, Fannie Mae will, respecting each SMBS Trust, distribute to Holders of SMBS Certificates the portions of the principal distributions and the interest distributions on the underlying Pooled Certificates to which they are entitled pursuant to the terms of the related Issue. See "Principal Distributions" and "Interest Distributions" in the "Statement of Terms" in this Prospectus. Distributions on any Distribution Date will be made to Holders of record on the prior Record Date (the close of business on the last day of the immediately preceding month).

### **Fannie Mae Obligations**

Fannie Mae acknowledges in the Trust Agreement that its obligations to Holders in its capacity as Trustee thereunder, including, without limitation, its obligation to make distributions to Holders of each Class of SMBS Certificates in accordance with their respective Percentage Interests, are primary obligations of Fannie Mae ranking on a parity with its obligations under its guaranty of the Pooled Certificates. Fannie Mae further acknowledges that Fannie Mae is directly obligated to the Holders of SMBS Certificates in respect of such guaranty obligations to the same extent as if such Holders were holders of such Pooled Certificates.

### **Reports to SMBS Holders**

As soon as practicable following the eleventh calendar day of each month, Fannie Mae will publish or otherwise make available the SMBS Trust Factor (carried to eight decimal places) for each Class of SMBS Certificates after giving effect to the distributions of principal to be made on the following Distribution Date. The principal balance or, if applicable, notional balance, of an SMBS Certificate of any Class after giving effect to such principal distributions will be the product of the applicable SMBS Trust Factor and the applicable denomination or initial principal balance or notional balance of such SMBS Certificate. Fannie Mae also will furnish to each Holder who at any time during the calendar year was a Holder such statements and information as shall be required pursuant to the Internal Revenue Code of 1986, as amended.

### **Certain Matters Regarding the Corporation**

The Trust Agreement provides that Fannie Mae may not resign from its obligations and duties thereunder. The Trust Agreement also provides that neither Fannie Mae nor any director, officer, employee, or agent of Fannie Mae will be under any liability to any SMBS Trust or to Holders for any action taken, or for refraining from the taking of any action, in good faith pursuant to such Trust

Agreement or for errors in judgment; provided, however, that neither Fannie Mae nor any such person will be protected against any liability that 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 Agreement provides that Fannie Mae is not under any obligation to appear in, prosecute, or defend any legal action that is not incidental to its responsibilities under the Trust Agreement and that in its opinion may involve it in any expense or liability. Fannie Mae may, however, in its discretion undertake any such legal action that it may deem necessary or desirable in the interests of the Holders. In such event, the legal expenses and costs of such action and any liability resulting therefrom will be expenses, costs, and liabilities of Fannie Mae that will not be reimbursable to Fannie Mae out of any SMBS Trust.

Any corporation into which Fannie Mae may be merged or consolidated, or any corporation resulting from any merger, conversion, or consolidation to which Fannie Mae is a party, or any corporation succeeding to the business of Fannie Mae, will be the successor of Fannie Mae under the terms of the Trust Agreement.

### **Voting**

As set forth under “Description of Certificates — Rights Upon Events of Default” in the MBS Prospectus and “The Certificates — Rights Upon Event of Default” in the Mega Prospectus, the holders of MBS Certificates or Mega Certificates evidencing Fractional Undivided Interests aggregating not less than 25% of the related Trust Fund may terminate certain obligations and duties of Fannie Mae with respect thereto if an Event of Default under the applicable trust indenture has occurred and is continuing. The Trust Agreement provides that Holders of SMBS Certificates may, upon the occurrence of an Event of Default with respect to an MBS Certificate in the related SMBS Trust (whether held directly or through a Mega Certificate), take, or join in, any such action to the extent of the product of the Fractional Undivided Interest represented by such MBS Certificate and the lowest aggregate Percentage Interest evidenced by SMBS Certificates of any Class of SMBS Certificates voting in favor thereof. The Trust Agreement permits similar action by Holders of SMBS Certificates with respect to waivers under, or amendments of, the applicable trust indentures pursuant to which any MBS Certificate in the related SMBS Trust (whether held directly or through a Mega Certificate) was issued and is outstanding, except that, in the case of any such action, the vote of the Holders of SMBS Certificates of each Class, voting as a Class, evidencing Percentage Interests aggregating 66% is required in order for Fannie Mae to vote the entire Fractional Undivided Interest evidenced by such MBS Certificate.

### **Events of Default**

Events of Default under the Trust Agreement will consist of (i) any failure by Fannie Mae to distribute to Holders any required payment that continues unremedied for 15 days after the giving of written notice of such failure to Fannie Mae by the Holders of SMBS Certificates of any Class evidencing Percentage Interests aggregating not less than five percent of each Class of the related SMBS Trust; and (ii) certain events of insolvency, readjustment of debt, marshalling of assets and liabilities, or similar proceedings and certain actions by or against Fannie Mae indicating its insolvency, reorganization, or inability to pay its obligations.

### **Rights Upon Event of Default**

As long as an Event of Default under the Trust Agreement for any SMBS Trust remains unremedied, the Holders of SMBS Certificates evidencing Percentage Interests aggregating not less than 25% of each Class of such SMBS Trust may, in writing, terminate all of the obligations and duties of Fannie Mae as Trustee and in its corporate capacity under the Trust Agreement in respect of such SMBS Trust (other than its guaranty obligations described above which continue notwithstanding any such termination) and name and appoint, in writing, a successor trustee that will succeed to all such responsibilities, duties, and obligations of Fannie Mae thereunder (other than Fannie Mae’s guaranty obligations) and to the legal title to the Pooled Certificates held in such SMBS Trust.

## **Amendment**

The Trust Agreement as it relates to any SMBS Trust may be amended by Fannie Mae and the Trustee without the consent of the Holders, to cure any ambiguity, to correct or supplement any provisions therein or to make any other provisions with respect to matters or questions arising under the Trust Agreement, provided that any such supplemental provision does not adversely affect the interests of any Holder.

The Trust Agreement as it relates to any SMBS Trust may also be amended by Fannie Mae with the consent of the Holders of SMBS Certificates of each Class, voting as a Class, evidencing, as to such Class, Percentage Interests aggregating not less than 66% for the purpose of adding any provisions to the Trust Agreement or of modifying in any manner the rights of the Holders of SMBS Certificates. However, no amendment may, without the consent of all Holders, reduce the percentages of SMBS Certificates of each Class the Holders of which are required to consent to any amendment. In addition, no amendment shall, without the consent of each Holder affected thereby, reduce in any manner the amount of, or delay the timing of, payments received on the Pooled Certificates that are required to be distributed on any SMBS Certificate or modify the guaranty obligations of Fannie Mae.

## **Termination**

The Trust Agreement as it relates to each SMBS Trust terminates upon the distribution to Holders of all amounts required to be distributed as described in “Distributions on SMBS Certificates.” In no event, however, will any SMBS Trust continue beyond the expiration of 21 years from the death of the last survivor of the person named in the Trust Agreement. Fannie Mae will not at any time have an option to repurchase any or all Pooled Certificates in the SMBS Trust and thereby retire the SMBS Certificates. Reference is made to “Description of Certificates — Termination” in the MBS Prospectus for a description of Fannie Mae’s right to purchase all remaining Mortgage Loans in a Pool underlying a Pooled Certificate in the related SMBS Trust so long as the Pool Principal Balance at the time of repurchase is less than one percent of the original Pool Principal Balance. If no Pooled Certificate remains after any such repurchase, the SMBS Trust will be terminated and the proceeds of such repurchase will constitute the final distribution in retirement of the SMBS Certificates.

## **CERTAIN FEDERAL INCOME TAX CONSEQUENCES**

### **General**

The following summary of the anticipated material federal income tax consequences of the purchase, ownership, and disposition of SMBS Certificates, other than SMBS Certificates from an Issue with respect to which each Class is entitled to all the payments on certain REMIC Certificates, is based on the advice of Dewey Ballantine, special tax counsel to Fannie Mae. This summary does not purport to address all federal income tax issues, nor does it address all federal income tax consequences of an investment in such SMBS Certificates that may be applicable to particular categories of investors, some of which may be subject to special rules. Investors are also referred to the discussion of “Certain Federal Income Tax Consequences” in the MBS Prospectus and, in the case of an SMBS Trust holding REMIC Certificates, the discussions under the headings “Summary of Prospectus — Tax Status of the Certificates” and “Certain Federal Income Tax Consequences” in the REMIC Prospectus, and “Certain Additional Federal Income Tax Consequences” in the relevant REMIC Prospectus Supplement.

Except as noted in this paragraph, this discussion does not address the federal income tax consequences applicable to owners of SMBS Certificates from an Issue with respect to which each Class is entitled to all the payments on certain REMIC Certificates. Each owner of an SMBS Certificate from an Issue with respect to which each Class is entitled to all the payments on certain REMIC Certificates will be treated for federal income tax purposes as the owner of such REMIC Certificates. Such SMBS Certificates will be treated under applicable provisions of the Code as ownership interests in a regular interest of a REMIC. See the discussions under the headings “Summary of Prospectus —

Tax Status of the Certificates” and “Certain Federal Income Tax Consequences” in the REMIC Prospectus, and “Certain Additional Federal Income Tax Consequences” in the relevant REMIC Prospectus Supplement.

Because no final regulations, rulings, or judicial decisions have been issued that provide definitive interpretations of the provisions of the Code applicable to this transaction, substantial uncertainty exists in the application of these provisions to this transaction. Further, the authorities on which the following discussion is based are subject to change, and any such changes could apply retroactively. Potential investors should consult their own tax advisors in determining the federal, state, or local tax consequences to them of the purchase, ownership, and disposition of SMBS Certificates.

For purposes of this tax discussion, the terms “Mortgage Loan,” “mortgage loan” and “mortgage” include REMIC Certificates, except in the case of an SMBS Certificate from an Issue with respect to which each Class is entitled to all the payments on certain REMIC Certificates.

## **Characterization**

### *The Custodial Arrangement*

SMBS Certificates, evidencing ownership interests in the SMBS Trust, will be issued under a book-entry system to Holders acting on behalf of beneficial owners (such beneficial owners hereinafter referred to as “Owners”). The arrangement pursuant to which the SMBS Trust will be administered by Fannie Mae and the SMBS Certificates will be issued will not be classified as an association taxable as a corporation. Rather, it will be classified as a grantor trust under subpart E, Part I of subchapter J of the Code. Owners of SMBS Certificates will be treated for federal income tax purposes as owners of the right to receive payments attributable to principal and/or interest on the Mortgage Loans.

### *The SMBS Certificates*

Pursuant to section 1286 of the Code, the separation of ownership of the right to receive some or all of the interest payments on an obligation from ownership of the right to receive some or all of the principal payments results in the creation of “stripped bonds” with respect to principal payments and “stripped coupons” with respect to interest payments. For purposes of sections 1271 through 1288 of the Code, section 1286 of the Code treats a stripped bond or a stripped coupon as an obligation issued on the date that such stripped interest is created. For federal income tax purposes, Fannie Mae intends to treat each SMBS Certificate as an installment obligation representing rights to future cash flows from the stripped Mortgage Loans. Each SMBS Certificate (other than SMBS Certificates issued by an SMBS Trust that holds REMIC Certificates) will also be treated as entitling its Owner to an amount equal to an allocable share of the Servicing Fee, as defined below, but only to the extent such allocable Servicing Fee represents reasonable compensation for services to be rendered. For this purpose, the Trust Agreement provides that the excess of the interest paid on the Mortgage Loans over the Pass-Through Rate payable in the aggregate on such SMBS Certificates with respect to the Mortgage Loans (the “Servicing Fee”) will be allocated for tax purposes to such SMBS Certificates in each monthly period in proportion to the respective accrued amounts of original issue discount for each Class of such SMBS Certificates.

In August 1991, the Internal Revenue Service (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. See the discussion of the IRS guidance under the heading “Certain Federal Income Tax Consequences — Mortgage Loan Servicing” in the MBS Prospectus.

Several Code sections provide beneficial treatment to certain taxpayers that invest in mortgage loans of the type that make up the Pools. With respect to these Code sections, no specific legal authority exists regarding whether the character of the SMBS Certificates for federal income tax purposes will be the same as that of the Mortgage Loans. Although the characterization is not clear,

policy considerations indicate that SMBS Certificates owned by applicable Owners should be considered to represent “real estate assets” within the meaning of section 856(c)(5)(B) of the Code, and “loans secured by an interest in real property” within the meaning of section 7701(a)(19)(C)(v) of the Code, and original issue discount on SMBS Certificates, at least to the extent such discount is attributable to principal payments on the underlying Mortgage Loans, should be considered to represent “interest on obligations secured by mortgages on real property” within the meaning of section 856(c)(3)(B) of the Code, provided that in each case the Mortgage Loans and interest on such Mortgage Loans qualify for such treatment.

For information relating to the tax attributes of certain types of Mortgage Loans, see the discussion under “Certain Federal Income Tax Consequences — Special Tax Attributes” in the MBS Prospectus.

## **U.S. Persons**

The discussion below sets forth certain federal tax aspects of the holding of an SMBS Certificate by a “U.S. Person” (as defined in the MBS Prospectus).

While computations for federal income tax purposes on SMBS Certificates, as described below, arguably should be done on a Mortgage Loan by Mortgage Loan basis, provisions of Treasury regulations issued on January 27, 1994 (the “OID Regulations”) may be construed to suggest that such computations be made by aggregating all principal payments or all interest payments on the Mortgage Loans, as the case may be, that constitute each payment on an SMBS Certificate. In the absence of substantial legal authority to the contrary, Fannie Mae intends to make and report all computations described below using this aggregate approach.

### *Stripped Bonds and Stripped Coupons*

As described above, Fannie Mae intends to treat an SMBS Certificate as a single installment obligation. Original issue discount on an SMBS Certificate must be included in the Owner’s ordinary income for federal income tax purposes as it accrues, in accordance with a constant interest method that takes into account the compounding of interest, generally in advance of receipt of the cash attributable to such income. Based in part on the OID Regulations and the original issue discount sections of the Code, the amount of original issue discount required to be included in an Owner’s income in any taxable year likely will be computed as described below under “Accrual of Original Issue Discount.” Owners should be aware, however, that the OID Regulations and the original issue discount sections of the Code either do not address, or are subject to varying interpretations with regard to, several issues relevant to obligations such as the Mortgage Loans, which are subject to prepayment. In addition, the original issue discount sections of the Code, by their terms, are subject to clarification in future Treasury regulations.

Under the OID Regulations, an SMBS Certificate will be treated as having been issued with an amount of original issue discount equal to the excess of such SMBS Certificate’s stated redemption price at maturity over its issue price. The issue price of an SMBS Certificate generally is equal to the amount paid to acquire such Certificate. The stated redemption price of an SMBS Certificate is the sum of all payments to be made under such Certificate. The accrual of this original issue discount, as described below under “Accrual of Original Issue Discount,” will be based in part on the original issue discount sections of the Code, will utilize the yield to maturity of the SMBS Certificate, calculated to reflect an assumption that the underlying Mortgage Loans will prepay at a certain rate (the “Prepayment Assumption”), and will take into account events that occur during the calculation period.

With respect to an SMBS Certificate that is entitled to a proportionately smaller share of the interest payments on the underlying Mortgage Loans than of the principal payments thereon (or exclusively to principal payments), to the extent that the underlying Mortgage Loans prepay at a rate

faster than that under the Prepayment Assumption, an Owner's recognition of original issue discount will be accelerated. To the extent that such Mortgage Loans prepay at a rate slower than that under the Prepayment Assumption, an Owner's recognition of original issue discount will be delayed.

With respect to an SMBS Certificate that is entitled to a proportionately larger share of the interest payments on the underlying Mortgage Loans than of the principal payments thereon (or exclusively to interest payments), prepayments of principal on such Mortgage Loans will preclude receipt of all or a portion of the excess interest payments that would have been received if such Mortgage Loans had paid in accordance with their scheduled payments. If the actual rate of prepayments on such Mortgage Loans is slower than that under the Prepayment Assumption, the stated redemption price at maturity will increase and the basis of such an SMBS Certificate will be recovered more slowly. Conversely, if actual prepayments on such Mortgage Loans occur faster than under the Prepayment Assumption, the stated redemption price at maturity will decrease and basis will be recovered more quickly. While the matter is not entirely free from doubt, the Owner of such an SMBS Certificate should be entitled in the year that the last Mortgage Loan is repaid to recognize a loss equal to any unrecovered basis remaining in such a Certificate.

An Owner of an SMBS Certificate (other than SMBS Certificates issued by an SMBS Trust that holds REMIC Certificates) will be entitled to a deduction each year with respect to payments attributable to the Servicing Fee allocable to such Certificate to the extent that such allocable Servicing Fee represents reasonable compensation for services rendered. For a discussion of potential limitations on such deduction for individual investors, see "Certain Federal Income Tax Consequences — Taxation of the Certificates" in the MBS Prospectus.

#### *Accrual of Original Issue Discount*

Generally, the Owner of an SMBS Certificate must include in gross income the sum of the "daily portions," as defined below, of the original issue discount on such Certificate for each day on which it owns such Certificate, including the date of purchase but excluding the date of disposition. In the case of an original Owner, the daily portions of original issue discount with respect to each component generally will be determined as follows under the original issue discount sections of the Code. A calculation will be made of the portion of original issue discount that accrues during each successive monthly accrual period (or shorter period from the date of original issue) that ends on the day in the calendar year corresponding to each of the Distribution Dates on the SMBS Certificates. This will be done, in the case of each full monthly accrual period, by adding (i) the present value at the end of the accrual period (determined by using as a discount factor the original yield to maturity under the Prepayment Assumption) of all remaining payments to be received under the Prepayment Assumption on the SMBS Certificate and (ii) any payments received during such accrual period, and subtracting from that total the "adjusted issue price" of the SMBS Certificate at the beginning of such accrual period. The "adjusted issue price" of an SMBS Certificate at the beginning of the first accrual period is its issue price; the "adjusted issue price" of an SMBS Certificate at the beginning of a subsequent accrual period is the "adjusted issue price" at the beginning of the immediately preceding accrual period plus the amount of original issue discount allocable to that preceding accrual period and minus the amount of any payment made at the end of or during that preceding accrual period. The original issue discount accruing during such accrual period will then be divided by the number of days in the period to determine the daily portion of original issue discount for each day in the period. With respect to an initial accrual period shorter than a full monthly accrual period, the daily portions of original issue discount must be determined according to an appropriate allocation under either an exact or approximate method set forth in the OID Regulations, or some other reasonable method, provided that such method is consistent with the method used to determine the yield to maturity of the SMBS Certificate.

### *Sale of an SMBS Certificate*

Sale of an SMBS Certificate prior to its maturity will result in gain or loss equal to the difference, if any, between the amount received and the Owner's adjusted basis in such SMBS Certificate. Such adjusted basis generally will equal the purchase price of the SMBS Certificate to the seller, increased by the original issue discount included in the seller's gross income with respect to such Certificate, and reduced by payments on such Certificate previously received by the seller. Such gain or loss will be capital gain or loss to an Owner for which an SMBS Certificate is a "capital asset" within the meaning of section 1221 of the Code. A subsequent purchaser will acquire an SMBS Certificate at a discount to the extent that such subsequent purchaser's purchase price is exceeded by the sum of the original purchase price of the SMBS Certificate, increased by all original issue discount that has accrued and reduced by all distributions that have been made to the date of such subsequent purchase on the SMBS Certificate. The subsequent purchaser will be required for federal income tax purposes to accrue and report such discount as if it were original issue discount in the manner described above.

### *Possible Alternative Characterizations*

Rather than treating an SMBS Certificate as a single installment obligation, as described above, the IRS could assert that an Owner owns as many stripped bonds or stripped coupons as there are scheduled payments of principal or interest on each underlying Mortgage Loan. Alternatively, the IRS could assert that an SMBS Certificate that is entitled to both interest and principal payments on the underlying Mortgage Loans should be characterized either as (i) two installment obligations, one consisting of the right to all of the principal payments on the underlying Mortgage Loans and the other consisting of the right to the interest payments thereon, or (ii) two installment obligations, one constituting in effect an MBS Certificate entitled to a proportionate share of the principal and interest on the underlying Mortgage Loans (equal to the lower of such SMBS Certificate's shares of principal or interest) and the other consisting of the excess share of principal or interest payments, as the case may be. In general, such alternative characterizations would not significantly affect the timing of inclusion of original issue discount on an SMBS Certificate. It is also possible that original issue discount on SMBS Certificates that is attributable to interest payments on the underlying Mortgage Loans could be treated as wholly contingent because of the possibility of prepayments on the Mortgage Loans. Under the Contingent Payment Regulations, such original issue discount on a stripped coupon would be treated as includible in income to the extent of the applicable federal rate under section 1274 of the Code, as applied to the basis of the SMBS Certificates (adjusted as described in the next sentence). In such case, amounts received at a rate in excess of the applicable federal rate would be characterized first as a return of basis and then as ordinary income.

### *Ownership of Two or More Classes of SMBS Certificates and Exchanges of Certificates*

If an investor purchases SMBS Certificates of two or more Classes, while the matter is not free from doubt, it appears that the federal income tax treatment of the SMBS Certificates should be determined by treating each such SMBS Certificate separately, rather than as a combined Certificate evidencing ownership of the aggregate payments represented by the Owner's SMBS Certificates. On the other hand, if an Owner of such SMBS Certificates of two or more Classes surrenders such SMBS Certificates to Fannie Mae for an SMBS Certificate of a different Class, an MBS Certificate, or a Mega Certificate evidencing the aggregate payments represented by the surrendered SMBS Certificates, and the newly issued Certificate is sold to another person, while the matter again is not free from doubt, it appears that the Certificate so issued and sold should be treated as a single SMBS Certificate representing an ownership interest in the applicable payments on the underlying Mortgage Loans and taxed in accordance with this tax discussion or, in the case where the new Certificate is an MBS or Mega Certificate, in accordance with the discussion under the heading "Certain Federal Income Tax Consequences" in the MBS Prospectus. For federal income tax purposes, Fannie Mae intends to report to Holders of SMBS Certificates of two or more Classes and Holders of Certificates issued in exchange for SMBS Certificates of two or more other Classes in accordance with these positions. The IRS could

assert, however, that combined treatment should apply to an investor owning two or more SMBS Certificates even if no exchange occurs, or conversely, that separate treatment should continue to apply even if an exchange does occur.

#### *Information Reporting and Backup Withholding*

Fannie Mae will furnish or make available, within a reasonable time after the end of each calendar year, to each Holder of an SMBS Certificate at any time during such year, such information as Fannie Mae deems necessary or desirable to assist Holders in preparing their federal income tax returns, or to enable Holders to make such information available to Owners or other financial intermediaries for which such Holders hold such SMBS Certificates as nominees. If a Holder, Owner, or other recipient of payment on behalf of an Owner fails to supply an accurate taxpayer identification number or if the IRS determines that such person has not reported all interest and dividend income required to be shown on its federal income tax return, 31% backup withholding may be required with respect to any payments.

#### **Non-U.S. Persons**

Payments made to, or on behalf of, an Owner who is a “Non—U.S. Person” on an SMBS Certificate that represents an interest in a pool of mortgages all of which were issued after July 18, 1984 generally will be exempt from U.S. federal income and withholding taxes, provided the conditions set forth in the first paragraph of the discussion under “Certain Federal Income Tax Consequences— Foreign Investors” in the MBS Prospectus or, in the case of an SMBS Trust holding REMIC Certificates, the conditions set forth in the discussion under the heading “Certain Federal Income Tax Consequences — Foreign Investors — Regular Certificates” in the REMIC Prospectus are satisfied. See, generally, the discussion under “Certain Federal Income Tax Consequences — Foreign Investors” in the MBS Prospectus or, in the case of an SMBS Trust holding REMIC Certificates, the discussion under “Certain Federal Income Tax Consequences — Foreign Investors — Regular Certificates” in the REMIC Prospectus.

### **LEGAL INVESTMENT CONSIDERATIONS**

Institutions whose investment activities are subject to legal investment laws and regulations or to review by certain regulatory authorities may be subject to restrictions on investment in SMBS Certificates. Any financial institution that is subject to the jurisdiction of the Comptroller of the Currency, the Board of Governors of the Federal Reserve System, the Federal Deposit Insurance Corporation, the Office of Thrift Supervision, the National Credit Union Administration, the Department of the Treasury or other federal or state agencies with similar authority should review any applicable rules, guidelines and regulations prior to purchasing or pledging the SMBS Certificates. Financial institutions should review and consider the applicability of the Federal Financial Institutions Examination Council Supervisory Policy Statement on Securities Activities (to the extent adopted by their respective federal regulators), which, among other things, sets forth guidelines for investing in certain types of mortgage related securities, including securities such as the SMBS Certificates. In addition, financial institutions should consult their regulators concerning the risk-based capital treatment of any SMBS Certificate. Investors should consult their own legal advisors in determining whether and to what extent the SMBS Certificates constitute legal investments or are subject to restrictions on investment and whether and to what extent the SMBS Certificates can be used as collateral for various types of borrowings.

### **LEGAL OPINION**

Any purchaser of SMBS Certificates will be furnished upon request an opinion by the General Counsel or Deputy General Counsel of the Corporation as to the validity of the SMBS Certificates and the Trust Agreement.



## **ERISA CONSIDERATIONS**

The Employee Retirement Income Security Act of 1974, as amended (“ERISA”) and the Code impose certain requirements on employee benefit plans and certain other retirement plans and arrangements (including, but not limited to, individual retirement accounts and annuities), as well as on collective investment funds and separate and general accounts in which such plans or arrangements are invested (all of which are hereinafter referred to as a “Plan”) and on persons who are fiduciaries with respect to such Plans. Any Plan fiduciary which proposes to cause a Plan to acquire SMBS Certificates is required to determine whether such investment is permitted under the governing Plan instruments and is prudent and appropriate for the Plan in view of its overall investment policy and the composition and diversification of its portfolio. In addition, ERISA and the Code prohibit certain transactions involving the assets of a Plan and “disqualified persons” (within the meaning of the Code) and “parties in interest” (within the meaning of ERISA) who have certain specified relationships to the Plan. Therefore, a Plan fiduciary considering an investment in SMBS Certificates should also consider whether such an investment might constitute or give rise to a prohibited transaction under ERISA or the Code.

The United States Department of Labor issued a final regulation on November 13, 1986, which provides that in the case where a Plan 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 certificate “backed by, or evidencing an interest in, specified mortgages or participation interests therein and with respect to which interest and principal payable pursuant to the certificate” are guaranteed by Fannie Mae. The effect of such regulation is to make clear that the sponsor (that is, the entity that organizes and services the pool, in this case Fannie Mae), 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. At the time the regulation was originally issued, certificates similar to SMBS Certificates were not in existence. However, Fannie Mae has been advised by its counsel, Brown & Wood LLP, that the SMBS Certificates qualify as “guaranteed governmental mortgage pool certificates,” and thus the acquisition and holding of the SMBS Certificates by Plans should not be prohibited either by ERISA or related provisions of the Code.

## **PLAN OF DISTRIBUTION**

Except as otherwise specified in the Preliminary Data Statement relating to a particular SMBS Trust, Fannie Mae will deliver to one or more securities dealers (each, a “Dealer”) the related SMBS Certificates in exchange for the assets specified in the related Preliminary Data Statement pursuant to a Fannie Mae commitment. Each Dealer will offer the SMBS Certificates as specified in the related Preliminary Data Statement. After the initial offering, the offering price and related terms may change. Each Dealer may effect such transactions to or through dealers. Such Dealers and their affiliates engage in transactions with and perform services for Fannie Mae in the ordinary course of business. Fannie Mae, such Dealers, affiliates of such Dealers or other parties may receive compensation, trading gain or other benefits in connection with such transactions. Fannie Mae typically receives a fee from the Dealer or Dealers for each issuance. Fannie Mae may acquire for its own account SMBS Certificates either upon their original issuance or in the secondary market and may retain or dispose of any securities so acquired.

No salesman, dealer, bank or other person has been authorized to give any information or to make any representations other than those contained or incorporated by reference in this Prospectus and the related Preliminary Data Statement, the MBS Prospectus or the Mega Prospectus and, if given or made, such information or representations must not be relied upon as having been authorized by the Corporation. This Prospectus, the Preliminary Data Statement, the MBS Prospectus and the Mega Prospectus do not constitute an offer to sell or the solicitation of an offer to buy any securities other than the SMBS Certificates offered hereby nor an offer of the SMBS Certificates to any person in any state or other jurisdiction in which such offer would be unlawful. The SMBS Certificates have not been approved or disapproved by the Securities and Exchange Commission or any state securities commission nor has the Commission or any state securities commission passed upon the accuracy or adequacy of this Prospectus, the related Preliminary Data Statement, the MBS Prospectus and the Mega Prospectus. Any representation to the contrary is a criminal offense.

## Stripped Mortgage-Backed Securities

### PROSPECTUS

#### Table of Contents

|  | <u>Page</u> |
|--|-------------|
| SMBS Prospectus                                |             |
| Preliminary Data Statement . . . . .           | 2           |
| Documents Incorporated by Reference . . . . .  | 3           |
| Available Information . . . . .                | 3           |
| Statement of Terms . . . . .                   | 4           |
| Certain Risk Factors . . . . .                 | 10          |
| Prepayment Models . . . . .                    | 14          |
| The MBS Certificates . . . . .                 | 14          |
| The SMBS Certificates . . . . .                | 16          |
| Certain Federal Income Tax                     |             |
| Consequences . . . . .                         | 19          |
| Legal Investment Considerations . . . . .      | 24          |
| Legal Opinion . . . . .                        | 24          |
| ERISA Considerations . . . . .                 | 24          |
| Plan of Distribution . . . . .                 | 25          |
| Mega Prospectus                                |             |
| The MBS Certificates . . . . .                 | 4           |
| The Certificates . . . . .                     | 4           |
| Marginability; Repurchase Agreements . . . . . | 7           |
| Certain Federal Income Tax                     |             |
| Consequences . . . . .                         | 7           |
| Legal Opinion . . . . .                        | 7           |
| ERISA Considerations . . . . .                 | 8           |



# FannieMae