



## Stripped Mortgage-Backed Securities (“SMBS Certificates”)

### The SMBS Certificates

We, the Federal National Mortgage Association or Fannie Mae, will issue the SMBS Certificates. Each issue of SMBS Certificates will relate to a particular SMBS trust with its own identification number and will represent the ownership of principal payments, interest payments or principal and interest payments on one or more of the following:

- Fannie Mae MBS Certificates,
- Fannie Mae Mega Certificates,
- Fannie Mae REMIC Certificates,
- Fannie Mae SMBS Certificates issued from other trusts, and
- other mortgage-related assets.

The underlying MBS Certificates, Mega Certificates and REMIC Certificates will be guaranteed by Fannie Mae and will represent, directly or indirectly, the ownership of pools of residential mortgage loans or participation interests in residential mortgage loans. The mortgage loans may be secured by first or subordinate liens covering either all single-family properties or all multifamily properties. Other mortgage-related assets that may back an issue of SMBS Certificates and any related Fannie Mae guaranty will be described in the related preliminary data statement, as further discussed below.

**Neither the SMBS Certificates nor interest on the SMBS Certificates are guaranteed by the United States, and they do not constitute a debt or obligation of the United States or any of its agencies or instrumentalities other than Fannie Mae.**

We generally will prepare a preliminary data statement for each issue of SMBS Certificates that will contain specific information about that issue. In deciding whether to purchase SMBS Certificates, you should read this prospectus, the disclosure documents related to the underlying certificates or other mortgage-related assets, and the applicable preliminary data statement.

**Consider carefully the risk factors beginning on page 13. Unless you understand and are able to tolerate these risks, you should not invest in the SMBS Certificates.**

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

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\* We use certain capitalized terms that are defined in this prospectus. The Index of Defined Terms tells you where the capitalized terms are defined.

## INFORMATION ABOUT DATA STATEMENTS

### Preliminary Data Statements

Except as noted below, we will prepare a “preliminary data statement” for each issue of SMBS Certificates at the time of issuance. The disclosure documents for any particular issue of SMBS Certificates consist of this prospectus and the related preliminary data statement, together with any information incorporated by reference as discussed below under the heading “Additional Information About Fannie Mae.” Each preliminary data statement that we prepare for a particular issue of SMBS Certificates will contain information specific to that issue. If information in the preliminary data statement is different from the information in this prospectus, you should rely on the preliminary data statement.

We generally will issue SMBS Certificates on the book-entry system of the U.S. Federal Reserve Banks. If we choose a different book-entry form for an issue of SMBS Certificates, we will describe this form in the preliminary data statement for that issue.

In the preliminary data statement for each issue of SMBS Certificates, we will provide preliminary information about the assets in the related SMBS trust. MBS Certificates typically will underlie each issue of SMBS Certificates, either directly or indirectly through Mega Certificates, REMIC Certificates or SMBS Certificates issued from other trusts. If the assets of an SMBS trust include

- MBS Certificates or Mega Certificates that directly underlie the SMBS Certificates, or
- MBS Certificates or Mega Certificates that directly underlie a new issue of Mega Certificates in the SMBS trust formed in connection with the issue of SMBS Certificates,

the preliminary data statement will typically provide the following information about these “primary tier certificates”:

- the approximate outstanding principal balance of the primary tier certificates;
- the permitted range of the weighted average terms to maturity (“WAMs”) of the assets that directly back the primary tier certificates or, if not available, their WAMs as of the most recently published date less the number of months since publication;
- if fixed-rate mortgage loans directly or indirectly back the primary tier certificates, the pass-through rate of the primary tier certificates and the permitted range of the weighted average coupons (“WACs”) of the assets that directly back the primary tier certificates or, if not available, their WACs as of the most recently published date;

- if adjustable rate mortgage loans directly or indirectly back the primary tier certificates, the information generally provided in the related prospectus supplement;
- if multifamily mortgage loans directly or indirectly back the primary tier certificates, the information generally provided in the related prospectus supplement; and
- whether the primary tier certificates have any characteristics that do not conform to the general criteria discussed above or in the related prospectus or prospectus supplement.

The preliminary data statement will also provide the Mega Certificate trust number for any new issue of Mega Certificates in the SMBS trust that is formed in connection with the issue of SMBS Certificates.

If the SMBS trust for a particular issue of SMBS Certificates contains SMBS Certificates issued from other trusts, Fannie Mae REMIC Certificates or other mortgage-related assets, factors in addition to the prepayment experience of the underlying mortgage loans may influence payments on that particular issue of SMBS Certificates. The related preliminary data statement will describe those additional factors and set forth statistical information that may be different from that included in the preliminary data statements for other SMBS trusts.

Generally, the preliminary data statement for each issue of SMBS Certificates also will include a table that illustrates certain relationships between the assumed purchase price, assumed prepayment rate and yield to maturity of each class of the SMBS Certificates. We will calculate the yield to maturity for the settlement date applicable to that issue on a corporate bond equivalent basis. Typically, the table also will contain an assumed approximate weighted average of the weighted average calculated loan ages (“CAGEs”) of the mortgage loans that directly or indirectly back each class of the SMBS Certificates.

In connection with each issue of SMBS Certificates, you should obtain a copy of this prospectus and the related preliminary data statement from the securities dealer offering that issue. We also make copies of these documents available for informational purposes. Write us at Fannie Mae, Area 2H-3S, 3900 Wisconsin Avenue, N.W., Washington, D.C. 20016 or call the Fannie Mae Helpline at 1-800-237-8627 or (202) 752-6547. You also can obtain those documents from our World Wide Web site at <http://www.fanniemae.com>. The preliminary data statement is generally available three to five business days before settlement of an issue of SMBS Certificates.

### **Final Data Statements**

Once the trust for a particular issue of SMBS Certificates has been formed and the related SMBS Certificates have been issued, we will prepare a “final data statement” for that

issue. A final data statement that is prepared after we issue the related SMBS Certificates should **not** be considered to be a disclosure document for that issue of SMBS Certificates.

If we prepare a final data statement instead of a preliminary data statement at the time of issuance, it will include the information typically found in a preliminary data statement as well as other information. When this occurs, you should consider references in this prospectus to the preliminary data statement as references to the final data statement and the final data statement will be a disclosure document for that issue of SMBS Certificates.

In general, each final data statement will include the following information:

- the final information for each category that appeared in the prior preliminary data statement;
- for primary tier certificates, the pool number of each MBS Certificate or trust number of each Mega Certificate included in the related SMBS trust; and
- the weighted average of all WACs and the weighted average of all WAMs based on the unpaid principal balances of the MBS Certificates or Mega Certificates as of the date of issuance for that issue of SMBS Certificates.

The final data statement also will indicate whether any Mega Certificate included in an SMBS trust is backed directly by MBS Certificates or by other Mega Certificates.

A final data statement generally will not accompany this prospectus. We will provide final data statements to investors upon request. To request one, call the Fannie Mae Helpline at 1-800-237-8627 or (202) 752-6547. You can also access our World Wide Web site at <http://www.fanniemae.com>.

Although the preliminary data statement or final data statement for any issue of SMBS Certificates generally will not include information about the geographic dispersion of the mortgage loans backing any related underlying MBS Certificates, you generally can obtain a Fannie Mae Geographical Distribution Report by calling us at (202) 752-6547.

## **FANNIE MAE**

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

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

We also issue mortgage-backed certificates, receiving guaranty fees for our guaranty of timely payment of principal and interest on the certificates. We issue certificates primarily in exchange for pools of mortgage loans from lenders. By issuing certificates, we further fulfill our statutory mandate to increase the liquidity of residential mortgage loans.

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

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

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

You also should read:

- our current Information Statement dated March 31, 2000 and any supplements; and
- any more current Information Statement and its supplements.

These documents contain important financial and other information about Fannie Mae which we are incorporating by reference in this prospectus. This means that we are disclosing important information to you by referring to these documents, so you should read them together with this prospectus.

We publish our Information Statement annually and update it from time to time generally to reflect quarterly and annual financial results. When we use the term “Information Statement” in this prospectus, we mean our most recent Information Statement as of the issue date for a particular issue of certificates, together with any Supplements to that Information Statement. You should always rely on the most current information.

You can read our Information Statement and other information about us at the offices of the New York Stock Exchange, the Chicago Stock Exchange and the Pacific Exchange. We are not subject to the periodic reporting requirements of the Securities Exchange Act of

1934, so we do not file reports or other information with the Securities and Exchange Commission.

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

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

### **INFORMATION REGARDING UNDERLYING CERTIFICATES**

If the SMBS trust for a particular issue of SMBS Certificates contains underlying certificates, you also should review

- the related MBS Prospectus, the Mega Prospectus, the Single-Family REMIC Prospectus or the Multifamily REMIC Prospectus, as applicable,
- the prospectus or prospectus supplement for the related series of underlying certificates included in that SMBS trust, and
- the preliminary data statement for any SMBS Certificates included in that trust.

A copy of the Prospectus for Fannie Mae Guaranteed MBS Pass-Through Securities, dated October 1, 1999 (the “Mega Prospectus”) is attached to this prospectus.

Additionally, you can obtain copies of the documents listed below, without charge, by writing us at the Office of Investor Relations, Fannie Mae, 3900 Wisconsin Avenue, N.W., Washington, D.C. 20016, or by calling us at the Fannie Mae Helpline at 1-800-237-8627 or (202) 752-6547. You also can obtain certain of these documents from our World Wide Web site at <http://www.fanniemae.com>.

- Prospectus for Fannie Mae Guaranteed Mortgage Pass-Through Certificates, dated October 1, 1999 (the “MBS Prospectus”),
- Prospectus for Fannie Mae Guaranteed REMIC Pass-Through Certificates, dated September 18, 1998 (the “Single-Family REMIC Prospectus”),
- Prospectus for Fannie Mae Guaranteed Multifamily REMIC Pass-Through Certificates, dated January 1, 1999 (the “Multifamily REMIC Prospectus”), and
- each prospectus, prospectus supplement or preliminary data statement for the certificates underlying the related issue of SMBS Certificates.

## SUMMARY

This summary highlights information contained elsewhere in this prospectus. As a summary, it provides general terms without giving details or discussing exceptions. Before buying the SMBS Certificates of any issue, you should have complete information. For that, you should read this prospectus and the related preliminary data statement in full, as well as any prospectus and prospectus supplement for the underlying certificates and other mortgage-related assets.

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

Issuer . . . . . Fannie Mae, a federally chartered and stockholder-owned corporation. **Neither the SMBS Certificates nor any interest on the SMBS Certificates are guaranteed by the United States, and they do not constitute a debt or obligation of the United States or any of its agencies or instrumentalities other than Fannie Mae.** We alone are responsible for making payments on the SMBS Certificates.

### The SMBS

Certificates . . . . . Each issue of SMBS Certificates will include one or more classes that represent ownership interests in the related SMBS trust.

As trustee, we will maintain each trust under a trust agreement. We have executed the trust agreement and will execute a series supplement for each issue of SMBS Certificates, both in our corporate capacity and as trustee.

The holder of an SMBS Certificate of a particular class will be entitled to the portions of principal and interest as described in the preliminary data statement for that issue. Some classes may be principal only or interest only classes. In addition, some classes may entitle their holders to receive specified portions of the principal, interest or principal and interest paid on the related underlying certificates during a specified period of time (*e.g.*, for the first 60 distribution dates).

SMBS Trust Assets . . . . . Each SMBS trust may consist of

- underlying certificates which may be Fannie Mae MBS Certificates, Fannie Mae Mega Certificates, Fannie Mae REMIC Certificates or Fannie Mae SMBS Certificates issued from other trusts;
- other mortgage-related assets; or



- a combination of underlying certificates and other mortgage-related assets.

The preliminary data statement for each issue of SMBS Certificates will contain additional information about the assets of the related SMBS trust.

Denominations . . . . . We will issue the SMBS Certificates only in whole dollar amounts with a minimum denomination of \$1,000.

Book-Entry Form . . . . . We will issue the SMBS Certificates in book-entry form on the book-entry system of the U.S. Federal Reserve Banks, unless we specify a different system in the related preliminary data statement. The book-entry certificates will not be convertible into physical certificates.

Classes of SMBS

Certificates . . . . . Each issue of SMBS will include one or more classes identified as Class 1, Class 2, Class 3, etc. Certain of the classes may be interest only classes or principal only classes.

Principal Payments . . . . . On each distribution date, we will pay to the holder of each SMBS Certificate of a particular class the portion of the principal payment allocable to that class multiplied by the ownership percentage represented by that SMBS Certificate. The related preliminary data statement will provide more information about the principal payment allocable to each class of SMBS Certificates.

Interest Payments . . . . . On each distribution date, we will pay to the holder of each SMBS Certificate of a particular class the portion of the interest payment allocable to that class multiplied by the ownership percentage represented by that SMBS Certificate. The related preliminary data statement will provide more information about the interest payment allocable to each class of SMBS Certificates.

Distribution Date . . . . . Unless otherwise specified in the related preliminary data statement, the 25th day of each month or, if the 25th is not a business day, on the next business day.

Record Date . . . . . We will make each monthly payment on the SMBS Certificates to holders of record on the last day of the month prior to the related distribution date.

Fannie Mae Guaranty . . . . . We fully guarantee each Fannie Mae MBS Certificate, Mega Certificate and REMIC Certificate that underlies an issue of

SMBS Certificates. The Fannie Mae guaranty applicable to an issue of SMBS Certificates backed by other mortgage-related assets will be described in the preliminary data statement for that issue. However, if we were unable to fulfill our guaranty obligations, Certificateholders would receive only payments and other recoveries made on the mortgage loans in the underlying pools. In that event, delinquencies and defaults on the mortgage loans could directly affect the amounts that SMBS Certificateholders would receive each month.

Class Factors . . . . . Unless we specify otherwise in the related preliminary data statement, we will publish the “class factor” for each class of SMBS Certificates on or shortly after the 11th calendar day of each month. If you multiply the applicable class factor by the original principal balance (or notional principal balance) of that class of SMBS Certificates, you will obtain the outstanding principal balance (or notional principal balance) of that class, after giving effect to the current month’s principal payment.

Exchange of SMBS  
Certificates . . . . . In certain circumstances, holders may exchange their SMBS Certificates for the underlying MBS Certificates or Mega Certificates contained in the related SMBS Trust, or other classes of SMBS Certificates of the same issue. See “Description of the SMBS Certificates—Exchange of SMBS Certificates for MBS Certificates or Mega Certificates” and “—Exchange of SMBS Certificates for Other SMBS Certificates” in this prospectus.

Certain Federal Income  
Tax Consequences . . . . . A beneficial owner of an SMBS Certificate generally will be treated for federal income tax purposes as owning “stripped bonds” to the extent of its share of principal payments and “stripped coupons” to the extent of its share of interest payments on the assets included in the related SMBS trust. A beneficial owner of an SMBS Certificate generally must include original issue discount with respect to its SMBS Certificate in its ordinary income for federal income tax purposes as the original issue discount accrues, generally in advance of receipt of the cash attributable to that income.

Some sections of the Internal Revenue Code of 1986 (the “Code”) provide beneficial treatment to certain taxpayers

that invest in mortgage loans of the type that back the assets included in an SMBS trust. Although no specific legal authority exists in this regard, the SMBS Certificates 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 and qualified stated interest with respect to SMBS Certificates 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 underlying mortgage loans qualify for such treatment. For a discussion of the special tax characteristics of certain types of mortgage loans, see “Certain Federal Income Tax Consequences—Special Tax Attributes” in the MBS Prospectus.

If only a single class of SMBS Certificates is issued with respect to a particular SMBS trust, a beneficial owner of an SMBS Certificate of that class will be treated for federal income tax purposes as a beneficial owner of a pro rata portion of the assets included in the related SMBS trust. In such a case, you should also consult the disclosure documents related to each of the assets included in the related SMBS trust for a discussion of certain federal income tax consequences to beneficial owners of those assets.

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. The margin rules treat transactions in SMBS Certificates, including repurchase agreements, in the same manner as transactions in Fannie Mae MBS Certificates. However, they do not specify the collateral value of the SMBS Certificates of any class.

Legal Investment

Considerations ..... Under the Secondary Mortgage Market Enhancement Act of 1984 or SMMEA, the SMBS Certificates will be considered “securities issued or guaranteed by the Federal National Mortgage Association.” Nevertheless, you should consult your own legal advisors to determine whether and to what extent the SMBS Certificates of a particular issue constitute legal investments for you.

## RISK FACTORS

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

**The SMBS Certificates may not be a suitable investment for you.** The SMBS Certificates are complex financial instruments. They are not a suitable investment for every investor.

- Before investing, you should have sufficient knowledge and experience to evaluate the merits and risks of the SMBS Certificates as well as the information contained in this prospectus, the applicable preliminary data statement and documents incorporated by reference.
- You should understand thoroughly the terms of the SMBS Certificates.
- You should understand thoroughly the terms of the underlying Fannie Mae MBS Certificates, Mega Certificates, REMIC Certificates, SMBS Certificates issued by other trusts or the other mortgage-related assets.
- You should be able to use appropriate analytical tools to evaluate (either alone or with the help of a financial advisor) the economic, interest rate and other factors that may affect your investment.
- You should have sufficient financial resources and liquidity to bear all risks associated with the SMBS Certificates.
- You should investigate any legal investment restrictions that may apply to you.

**Your yield will be subject to a number of factors, especially the rate of prepayment on the underlying mortgage loans.** Yields on the SMBS Certificates will be sensitive to the prepayment experience of the mortgage loans which back the underlying certificates or are otherwise associated with the other mortgage-related assets. In particular, if you invest in interest only SMBS Certificates or SMBS Certificates purchased at a premium, a sufficiently rapid prepayment rate could result in your not recovering your original investment in full.

In general the effective yield on your SMBS Certificates will depend upon:

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

Generally, if you purchase a principal only SMBS Certificate and principal on the related mortgage loans is paid at a slower rate than you anticipate, your yield on that principal only SMBS Certificate will be lower than you expect. However, if principal on the related mortgage loans is paid at a faster rate than you anticipate, your yield on that principal only SMBS Certificate will be higher than you expect.

By contrast, if you purchase an interest only SMBS Certificate and principal on the related mortgage loans is paid at a slower rate than you anticipate, your yield on that interest only SMBS Certificate will be higher than you expect. However, if principal on the related mortgage loans is paid at a faster rate than you anticipate, your yield on that interest only SMBS Certificate will be lower than you expect.

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

In addition, because interest accrues on interest-bearing SMBS Certificates during each calendar month but typically is not paid to you until the 25th day of the following month, your effective yield will be less than it would be if we paid interest earlier. As a result, the market value of the SMBS Certificates will be reduced.

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

**We cannot predict the prepayment rate.** The rate of principal payments on the underlying certificates or other mortgage-related assets that back the SMBS Certificates will depend on the rate of principal payments on the related mortgage loans. Principal payments occur as a result of scheduled amortization, voluntary borrower prepayments or prepayments due to borrower default, casualty or condemnation payments on the mortgaged properties or Fannie Mae guaranty or loan purchase payments.

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

- the level of current interest rates relative to the rates borne by the mortgage loans in a particular underlying pool;
- homeowner mobility;
- the existence of any prepayment penalties or prepayment restrictions;
- borrower sophistication regarding the benefits of refinancing;

- solicitation by competing lenders; and
- general economic conditions.

In addition, the related mortgage loans may contain a “due-on-sale” clause that requires the borrower to repay the loan when the mortgaged property is transferred or sold. Fannie Mae generally is required to enforce due-on-sale clauses that apply to fixed-rate mortgage loans. However, in the case of adjustable-rate mortgage loans, we generally permit a creditworthy transferee of a mortgaged property to assume the related mortgage loan.

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

**Repurchases of the underlying mortgage loans may affect the yield on your certificates.**

Anyone that sold us mortgage loans for inclusion in an MBS pool made certain representations and warranties covering the loans. If there is a material breach of these representations and warranties, we may choose to repurchase the affected loans from the pool. If we do, we will purchase those loans at a price equal to their principal balance plus accrued interest at the pass-through rate in the case of fixed-rate mortgage loans or the accrual rate in the case of adjustable rate mortgage loans. Any repurchase of this type may affect your yield on the related SMBS Certificates.

Generally, we have the right to repurchase any underlying mortgage loans that are delinquent by at least four consecutive monthly payments (or at least eight consecutive biweekly payments). If we do, we typically will purchase the mortgage loans at a price equal to their principal balance plus accrued interest at the pass-through rate in the case of fixed-rate mortgage loans or the accrual rate in the case of adjustable rate mortgage loans. Any repurchase of this type may affect your yield on the related SMBS Certificates.

In general, a number of factors may affect the rate of delinquency for the underlying mortgage loans. Some of these factors include:

- general economic conditions;
- local or regional employment conditions;
- borrower creditworthiness, which may be indicated by credit scores, debt-to-income ratios, loan-to-value ratios, or other factors;
- significant changes in borrowers’ required mortgage loan payments;
- uninsured natural disasters; and
- borrower bankruptcy or other insolvency.

Because we are unable to predict whether or to what extent the above factors will occur or change, we cannot estimate the delinquency experience of the underlying mortgage loans.

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

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

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

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

Interest only and principal only SMBS Certificates are especially sensitive to interest rate and market risks, so any difficulty in reselling your SMBS Certificates may be magnified. Similarly, SMBS Certificates that are designed to meet specific investment objectives or to meet the investment requirements of a limited category of investors may be more difficult to resell at prices that will allow you to obtain your anticipated yield.

In some cases, SMBS Certificates may have a limited secondary market, have little or no liquidity and experience significant price fluctuation. Generally, the longer the remaining term of SMBS Certificates, the greater their price volatility compared to conventional mortgage-backed securities with comparable maturities. A lack of liquidity may significantly reduce the market value of SMBS Certificates.



You should not purchase SMBS Certificates unless you understand and are able to tolerate the risk that they may not be resold easily, that their value will fluctuate over time and that these fluctuations may be significant and could result in losses to you. This risk is greatest if your circumstances do not permit you to hold the SMBS Certificates until maturity.

**Only certain information is provided.** You should be aware that the information in the preliminary data statement or final data statement for a particular issue of SMBS Certificates will not contain information about certain characteristics of the underlying mortgage loans, even though under certain circumstances these characteristics could affect the prepayment experience of the mortgage loans and, therefore, the yield on your SMBS Certificates. In addition, weighted average information will not disclose the range of coupons or remaining terms to maturity of individual underlying mortgage loans. For example, while extremely wide ranges of coupons are unusual in pools of mortgage loans backing MBS Certificates, a pool with a WAC that is 1.50% above the pass-through rate of the MBS Certificates could consist of mortgage loans half of which have a coupon that is 0.50% above the pass-through rate and the other half of which have a coupon that is 2.50% above it. Under certain interest rate scenarios, a pool of this type could have a prepayment experience that is significantly different from that of a pool made up exclusively of mortgage loans with coupons that are 1.50% above the pass-through rate of the MBS Certificates. In a similar way, the remaining terms to maturity of mortgage loans in a pool may vary widely. This difference would affect the scheduled amortization and could affect the prepayment rate of the related MBS Certificates and, therefore, the yield on your SMBS Certificates.

**Multifamily loans are considered riskier than single family loans.** If multifamily loans underlie a particular issue of SMBS Certificates, you should consider that multifamily loans are generally thought to be riskier than single-family loans for reasons that include those listed below.

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

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

**If we could not perform our guaranty obligations, you could experience a loss.** If we were unable to perform our guaranty obligations under the Fannie Mae MBS Certificates, Mega Certificates or REMIC Certificates that directly or indirectly underlie an issue of SMBS Certificates or, in the case of an issue of SMBS Certificates backed by other mortgage-related assets, our guaranty obligations described in the related preliminary data statement, holders of the SMBS Certificates would receive only payments and other recoveries on the underlying mortgage loans. If that happened, delinquencies and defaults on the mortgage loans could have a direct effect on the amounts that you would receive each month as the holder of an SMBS Certificate.

## DESCRIPTION OF THE SMBS CERTIFICATES

For each issue of Fannie Mae Stripped Mortgage-Backed Securities (the “SMBS Certificates”), we will maintain the related trust under a trust agreement and any related supplement to the trust agreement (together, the “Trust Agreement”). We will execute the Trust Agreement both in our corporate capacity and as trustee.

Each issue of SMBS will consist of one or more classes that represent ownership interests in the trust created by the related Trust Agreement. This prospectus contains a general description of the rights of the SMBS Certificates. The preliminary data statement for each issue of SMBS Certificates will provide a more detailed description and disclose the particular terms that apply to that issue. The assets of the trust for each issue of SMBS Certificates will consist of one or more of the following:

- Fannie Mae Guaranteed Mortgage Pass-Through Certificates (“MBS Certificates”),
- Fannie Mae Guaranteed MBS Pass-Through Securities (“Mega Certificates”),
- Fannie Mae Guaranteed REMIC Pass-Through Certificates (“REMIC Certificates”),
- SMBS Certificates issued from other trusts (together with the MBS Certificates, Mega Certificates and REMIC Certificates, the “Underlying Certificates”), and
- other mortgage-related assets (together with the Underlying Certificates, the “SMBS Trust Assets”).

We summarize below certain features that are common to each issue of SMBS Certificates, unless the related preliminary data statement provides otherwise.

### **Book-Entry Form**

Unless the related preliminary data statement provides otherwise, we will issue the SMBS Certificates in book-entry form on the book-entry system of the U.S. Federal Reserve

Banks (the “Fed Book-Entry System”), in a manner that permits separate trading and ownership. Each class of SMBS Certificates will be assigned a CUSIP number and will trade separately under that number, subject to the limited rights of SMBS Certificateholders to exchange SMBS Certificates of a particular class for the related MBS Certificates or Mega Certificates, as applicable, 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.”

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

Acting on our behalf, the Federal Reserve Bank of New York will make payments on the SMBS Certificates on each monthly payment date (each, a “Distribution Date”) by crediting accounts of holders listed on the records of the Federal Reserve Banks. Only entities that are eligible to maintain book-entry accounts with a Federal Reserve Bank may hold SMBS Certificates “of record,” although these entities may not be the beneficial owners of the SMBS Certificates. We refer to these holders of record as “SMBS Certificateholders.” Ordinarily, beneficial owners will “hold” SMBS Certificates through one or more financial intermediaries, such as banks, brokerage firms and securities clearing organizations. An SMBS Certificateholder that is not the beneficial owner of an SMBS Certificate will be responsible for establishing and maintaining accounts for its customer. In the same way, all the other financial intermediaries in the chain to the beneficial owner of an SMBS Certificate will be responsible for establishing and maintaining accounts for their 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 an SMBS Certificateholder. Neither Fannie Mae nor the Federal Reserve Banks will have any direct obligation to the beneficial owner of an SMBS Certificate who is not also an SMBS Certificateholder. In recording transfers of an SMBS Certificate, the Federal Reserve Banks will act only upon the instructions of an SMBS Certificateholder.

The SMBS Certificates maintained on the Fed Book-Entry System are freely transferable on the records of any Federal Reserve Bank but are not convertible to physical certificates.

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<sup>1</sup>Found at 24 C.F.R. Part 81, Subpart H, as amended.

## **Denomination**

SMBS Certificates will have a minimum denomination of \$1,000 with additional increments of one dollar.

## **Payments on the SMBS Certificates**

For issues of SMBS Certificates backed by Underlying Certificates, we as trustee will pay on each Distribution Date to the holders of each class of SMBS Certificates the percentage interest of that class in the related principal and/or interest payments. Each SMBS Certificate of a particular class generally will have a percentage interest in underlying principal payments (and in underlying interest payments in the case of a class of SMBS Certificates that entitles its holder to both principal and interest) equal to the fraction (expressed as a percentage) having a numerator equal to the original principal balance of that SMBS Certificate and a denominator equal to the total original principal balance of all of the SMBS Certificates of that class. In the case of an interest only class of SMBS Certificates, each SMBS Certificate generally will have a percentage interest in the underlying interest payments equal to the fraction (expressed as a percentage) having a numerator equal to the original notional principal balance of that SMBS Certificate and a denominator equal to the total original notional principal balance of all the SMBS Certificates of that class.

The preliminary data statement for an issue of SMBS Certificates will provide more information about the amount and source of principal or interest to which each class of SMBS Certificates is entitled.

The record date for determining which SMBS Certificateholders are entitled to receive payments on any Distribution Date is the close of business on the last day of the month immediately preceding the Distribution Date.

## **Reports to SMBS Certificateholders**

Unless we specify otherwise in the related preliminary data statement, we will publish a class factor for each class of an issue of SMBS Certificates on or shortly after the 11th calendar day of each month. If you multiply the applicable class factor for an SMBS Certificate by its original principal balance (or original notional principal balance in the case of an interest only class), you will obtain the current principal balance (or notional principal balance) of that SMBS Certificate after giving effect to that month's principal payment (or corresponding reduction in notional principal balance).

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

## **Fannie Mae Obligations**

In the Trust Agreement, we acknowledge that our obligation to make payments on any SMBS Certificates referred to in “—Payments on the SMBS Certificates” above is a primary obligation of Fannie Mae. This obligation ranks in parity with our obligations under the Fannie Mae guaranty of any Fannie Mae MBS Certificates, Mega Certificates or REMIC Certificates that directly or indirectly underlie the SMBS Certificates to the same extent as if the SMBS Certificateholders held those Underlying Certificates directly. The Fannie Mae guaranty applicable to an issue of SMBS Certificates backed by other mortgage-related assets is a primary obligation of Fannie Mae. We will describe this guaranty in the preliminary data statement for that issue of SMBS Certificates.

**Neither the SMBS Certificates nor interest on the SMBS Certificates are guaranteed by the United States, and they do not constitute a debt or obligation of the United States or any of its agencies or instrumentalities other than Fannie Mae. Fannie Mae alone is responsible for making payments on the SMBS Certificates.**

## **Termination**

The trust for an issue of SMBS Certificates will terminate when we have paid the related SMBS Certificateholders all interest and principal amounts required to be paid in accordance with “—Payments on the SMBS Certificates” above or as otherwise provided in the related preliminary data statement. In any event, no trust for any issue of SMBS Certificates will continue after the 21st anniversary of the death of the last survivor of the persons named in the related Trust Agreement.

We have no option to repurchase the Underlying Certificates for any issue. However, we typically have the option to purchase all remaining mortgage loans backing an Underlying Certificate although we generally have agreed not to exercise this option until the pool principal balance is less than 1% of its original pool balance. See “Description of Certificates—Termination” in the MBS Prospectus. If after those mortgage loans are repurchased, no Underlying Certificate remains in the trust for the related issue of SMBS Certificates, the trust will terminate and the proceeds from the repurchase will be paid to the related SMBS Certificateholders in retirement of that issue of SMBS Certificates.

## **Exchange of SMBS Certificates for MBS Certificates or Mega Certificates**

If the trust for a particular issue of SMBS Certificates contains only a single MBS Certificate or a single Mega Certificate, you may exchange classes of outstanding SMBS Certificates representing identical percentage interests in the underlying principal payments and underlying interest payments for a comparable portion of the related MBS Certificate or Mega Certificate. The total outstanding principal balance of the MBS Certificates or Mega Certificates of authorized denominations (\$1,000 and increments of \$1) that we will deliver in this type of exchange will equal the total outstanding principal balance of the SMBS

Certificates surrendered for exchange. We may impose an administrative fee for the exchange of SMBS Certificates for MBS Certificates or Mega Certificates. Unless the preliminary data statement for the related issue provides otherwise, the MBS Certificates or Mega Certificates delivered in the exchange may be exchanged back into SMBS Certificates.

Your ability to effect this type of exchange will depend on whether you can acquire in the secondary market sufficient portions of the SMBS Certificates of the related issue. If all or a substantial part of the SMBS Certificates of a class are transferred to a real estate mortgage investment conduit (REMIC) trust or a similar entity, your ability to effect an exchange will be restricted or eliminated. For information concerning the transfer of SMBS Certificates to a REMIC trust, call us at (202) 752-7585.

### **Exchange of Certain Classes of SMBS Certificates for Other SMBS Certificates**

If a particular issue contains two or more classes of SMBS Certificates, you generally may exchange identical percentage interests of certain classes for one or more SMBS Certificates of a different class that represent the combined percentage interests of the classes surrendered for exchange. We may impose an administrative fee for the exchange.

The related preliminary data statement will specify the classes of SMBS Certificates that you may surrender for exchange and the class or classes that may be available for you to receive in return. Unless the preliminary data statement for the related issue provides otherwise, the SMBS Certificates issued in the exchange may be exchanged back into the classes of SMBS Certificates that were surrendered.

Your ability to effect this type of exchange will depend on whether you can acquire in the secondary market sufficient portions of the necessary classes of the SMBS Certificates of the related issue. If all or a substantial part of the SMBS Certificates of a class are transferred to a REMIC trust or a similar entity, your ability to effect an exchange will be restricted or eliminated. For information concerning the transfer of SMBS Certificates to a REMIC trust, call us at (202) 752-7585.

## **THE MBS CERTIFICATES**

The description that follows generally will apply to the MBS Certificates that may directly or indirectly underlie an issue of SMBS Certificates. The preliminary data statement for a particular issue of SMBS Certificates, however, may supplement, modify or supersede this description in the case of MBS Certificates that are primary tier certificates.

The MBS Certificates underlying the SMBS Certificates, directly or indirectly through Mega Certificates, REMIC Certificates or other SMBS Certificates, are Fannie Mae Guaranteed Mortgage Pass-Through Certificates that conform to the general characteristics described in the MBS Prospectus. Each mortgage loan backing an MBS Certificate will be a Conventional Loan (as defined in the MBS Prospectus) secured by a first or subordinate

mortgage or deed of trust on a one- to four-family or multifamily residential property. However, each mortgage loan that is a Cooperative Share Loan (as defined in the MBS Prospectus) will be secured by a first lien on the stock, shares, membership agreement or other contractual agreements that evidence the borrower's ownership in the related cooperative corporation as well as the assignment of the occupancy rights to the borrower's dwelling unit in the cooperative (subject to the cooperative corporation's standard assessment lien). Substantially all of the mortgage loans backing the MBS Certificates will have original maturities of up to 30 years. See "The Mortgage Pools" and "Yield Considerations" in the MBS Prospectus.

## **PREPAYMENT MODELS**

It is common to measure how mortgage loans prepay relative to a standard prepayment model. The preliminary data statement for each issue of SMBS Certificates will indicate which model we used.

"PSA" is a prepayment model that was developed by The Bond Market Association. It represents an assumed rate at which a pool of new mortgage loans will repay. When we refer to "100% PSA," we mean an annual prepayment rate of 0.2% of the then unpaid principal balance of the pool in the first month after the origination of those mortgage loans and an additional 0.2% each month until the 30th month. (For example, the assumed annual prepayment rate would be 0.4% in month 2, 0.6% in month 3, and so on, and would level out at 6% at month 30 for the remaining term.) Beginning in month 30 and for all later months, "100% PSA" means a constant annual prepayment rate of 6%.

Multiples of PSA are calculated in the same way. Thus, "150% PSA" means an annual prepayment rate of 0.3% in month 1, 0.6% in month 2, 0.9% in month 3 and 9% in month 30 and afterwards. Similarly, "200% PSA" means an annual prepayment rate of 0.4% in month 1, 0.8% in month 2, 1.2% in month 3 and 12% in month 30 and afterwards.

Another model that is commonly used is the constant prepayment rate model ("CPR"). It represents the annual rate of prepayments relative to the then outstanding principal balance of a pool of new mortgage loans. For example, "0% CPR" means no prepayments and "15% CPR" means an annual prepayment rate of 15%.

*These models do not predict the prepayment experience of the related mortgage loans or describe the historical performance of any particular pool of mortgage loans.*

## **THE TRUST AGREEMENT**

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

## **Transfer of Assets to a Trust**

The Trust Agreement for each trust will contain a Schedule of SMBS Trust Assets that will identify the Underlying Certificates or the other mortgage-related assets that are being transferred to the trust established for that issue of SMBS Certificates. As trustee, we will hold the SMBS Trust Assets for the related SMBS Certificateholders.

## **Certain Matters Regarding Fannie Mae**

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

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

The Trust Agreement also provides that we are free to refuse involvement in any legal action that we think will expose us to expense or liability unless the action is incidental to our duties under the Trust Agreement. On the other hand, we may decide to participate in legal actions if we think our participation would be in the interests of the SMBS Certificateholders. In this case, we will pay our legal expenses and costs without reimbursement from the related trust.

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

## **Events of Default**

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

- our failure to pay the SMBS Certificateholders of any class any required amount and our failure continues uncorrected for 15 days after SMBS Certificateholders having percentage interests in that class totaling at least 5% have given us written notice; or
- our insolvency, the inability to pay our debts or the occurrence of other insolvency events.

## **Rights upon Event of Default**

If an Event of Default under the Trust Agreement for a particular issue of SMBS Certificates has occurred and continues uncorrected, SMBS Certificateholders of each



related class having percentage interests totaling at least 25% of that class have the right to terminate, in writing, all of our obligations under the Trust Agreement for that trust. These obligations include our duties as trustee as well as in our corporate capacity. However, Fannie Mae's guaranty obligations will continue in effect. The same proportion of SMBS Certificateholders also may appoint, in writing, a successor to assume all of our terminated obligations. This successor will take legal title to the underlying securities and other assets of the related trust.

### **Amendment**

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

- to add to our duties;
- to evidence that another party has become our successor and has assumed our duties under the Trust Agreement as trustee or in our corporate capacity or both;
- to eliminate any of our rights in our corporate capacity under the Trust Agreement; and
- to cure any ambiguity or to correct or add to any provision in the Trust Agreement, so long as the addition does not adversely affect the interests of any SMBS Certificateholder.

To amend the Trust Agreement in any other manner, unless the related preliminary data statement provides otherwise, the related SMBS Certificateholders of each class having percentage interests in that class totaling at least 66% must give their consent. Nevertheless, we may not terminate or change our guaranty obligations relating to the Underlying Certificates or reduce the percentage of SMBS Certificateholders that must consent to the types of amendments listed in the previous sentence. In addition, unless each affected SMBS Certificateholder consents, no amendment may reduce or delay the funds that we must pay on any SMBS Certificate.

### **CERTAIN FEDERAL INCOME TAX CONSEQUENCES**

The SMBS Certificates and payments on the SMBS Certificates generally are subject to taxation. Therefore, you should consider the tax consequences of holding an SMBS Certificate before you acquire one. The following discussion describes certain U.S. federal income tax consequences to beneficial owners of SMBS Certificates. The discussion is general and does not purport to deal with all aspects of federal taxation that may be relevant

to particular investors. This discussion may not apply to your particular circumstances for various reasons including the following:

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

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

For purposes of this discussion, the term “mortgage loan” in the case of a participation interest means the interest in the underlying mortgage loan represented by that participation interest; and in applying a federal income tax rule that depends on the origination date of a mortgage loan or the characteristics of a mortgage loan at its origination in such a case, the term “mortgage loan” means the underlying mortgage loan and not the participation interest.

### **Characterization of SMBS Trusts and SMBS Certificates**

The trust created for each issue of SMBS Certificates will be classified as a grantor trust under subpart E of part I of subchapter J of the Internal Revenue Code of 1986, as amended (the “Code”). Beneficial owners of SMBS Certificates will be treated for federal income tax purposes as beneficial owners of the right to receive payments attributable to principal, interest, or principal and interest on the SMBS Trust Assets.

A beneficial owner of an SMBS Certificate will be required to include in income the amounts described under “—*Stripped Bonds and Stripped Coupons*” below. In addition, a beneficial owner of an SMBS Certificate must include in income a portion of the expenses of the related SMBS trust. For an SMBS trust other than one that holds only REMIC

Certificates, these expenses include the compensation paid to service the underlying mortgage loans. The expenses of an SMBS trust will be allocated among the related SMBS Certificates in each monthly period in proportion to the respective amounts of distributions projected to be remaining on the SMBS Certificates. A beneficial owner of an SMBS Certificate can deduct its portion of these expenses as provided in section 162 or section 212 of the Code, consistent with its method of accounting and subject to the discussion under “—*Administrative Expenses*” below.

### *Stripped Bonds and Stripped Coupons*

Pursuant to section 1286 of the Code, the separation of ownership of the right to receive some or all of the interest payments on a debt 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. A beneficial owner of an SMBS Certificate will be treated as owning “stripped bonds” to the extent of its share of principal payments and “stripped coupons” to the extent of its share of interest payments on the SMBS Trust Assets, except as discussed below.

If an SMBS Certificate entitles the holder to payments of principal and interest on an SMBS Trust Asset, the Internal Revenue Service (“IRS”) could contend that the SMBS Certificate should be treated as

- an interest in the SMBS Trust Asset to the extent that the SMBS Certificate represents an equal pro rata portion of principal and interest on the SMBS Trust Asset, and
- with respect to the remainder, an installment obligation consisting of “stripped bonds” to the extent of its share of principal payments or “stripped coupons” to the extent of its share of interest payments.

For purposes of information reporting, however, Fannie Mae intends to treat each SMBS Certificate as a single debt instrument, regardless of whether it entitles the holder to payments of principal and interest. You should consult your own tax advisors as to the proper treatment of an SMBS Certificate in this regard.

Under section 1286 of the Code, a beneficial owner of an SMBS Certificate must treat the SMBS Certificate as a debt instrument originally issued on the date the owner acquires it and as having original issue discount (“OID”) equal to the excess, if any, of its “stated redemption price at maturity” over the price paid by the owner to acquire it. The stated redemption price at maturity of an SMBS Certificate generally is equal to the sum of all distributions to be made on that Certificate. For information reporting purposes, we intend to treat all amounts to be distributed on an SMBS Certificate as included in the stated redemption price at maturity of that SMBS Certificate and, as a result, each SMBS Certificate will be treated as if issued with OID.

The beneficial owner of an SMBS Certificate must include in its ordinary income for federal income tax purposes, generally in advance of receipt of the cash attributable to that income, the sum of the “daily portions” of OID on its SMBS Certificate for each day during its taxable year on which it held the SMBS Certificate. The daily portions of OID are determined as follows:

- first, the portion of OID that accrued during each “accrual period” is calculated;
- then, the OID accruing during an accrual period is allocated ratably to each day during the period to determine the daily portion of OID.

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

#### *Accrual of OID*

Although the matter is not entirely clear, a beneficial owner of an SMBS Certificate should determine the amount of OID accruing during any accrual period with respect to that SMBS Certificate using the method described in section 1272(a)(6) of the Code, except as discussed below. Under section 1272(a)(6), the portion of OID treated as accruing for any accrual period equals the *excess*, if any, of

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

*over*

- the sum of the present values of all the distributions remaining to be made on the SMBS Certificate as of the beginning of the accrual period.

The present values of the remaining distributions are calculated based on the following:

- an assumption that the mortgage loans backing or comprising the related SMBS Trust Assets prepay at a specified rate (the “Prepayment Assumption”),
- the yield to maturity of the SMBS Certificate, giving effect to the Prepayment Assumption,

- events (including actual prepayments) that have occurred prior to the end of the accrual period, and
- in the case of an underlying mortgage loan calling for a variable rate of interest, an assumption that the value of the index upon which the variable rate is based remains the same as its value on the settlement date over the entire life of the mortgage loan.

A beneficial owner determines its yield to maturity based on its purchase price. For a particular beneficial owner, it is not clear whether the Prepayment Assumption used for calculating OID would be one determined at the time the SMBS Certificate is acquired or would be the original Prepayment Assumption for the SMBS Certificate. For information reporting purposes, we will use the original yield to maturity of the SMBS Certificate, calculated based on the original Prepayment Assumption. You should consult your own tax advisors regarding the proper method for accruing OID on an SMBS Certificate.

The Code requires that the Prepayment Assumption be determined in the manner prescribed in Treasury regulations. To date, no such regulations have been promulgated. For information reporting purposes, we will assume a Prepayment Assumption for each series of SMBS Certificates. We make no representation, however, that the mortgage loans backing or comprising the SMBS Trust Assets for a given series will prepay at the rate reflected by the Prepayment Assumption for that series or at any other rate. You must make your own decision as to the appropriate prepayment assumption to be used in deciding whether or not to purchase any SMBS Certificates.

#### *Qualified Stated Interest*

If an SMBS Certificate entitles the holder to payments of principal and interest, the IRS could contend that the interest payments on the SMBS Certificate should be treated as payments of “qualified stated interest” within the meaning of the OID Regulations. In that case, a beneficial owner would be required to include such payments in income, in accordance with its method of accounting, rather than to accrue OID with respect to such payments. Further, if the beneficial owner in that case had purchased the SMBS Certificate for an amount (net of accrued interest) greater than the outstanding principal amount of the SMBS Certificate, the beneficial owner generally would have premium with respect to the SMBS Certificate in the amount of the excess. Such a purchaser may elect, under section 171(c)(2) of the Code, to treat the premium as “amortizable bond premium.”

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

The election will also apply to all bonds the interest on which is not excludible from gross income (“fully taxable bonds”) held by the beneficial owner at the beginning of the first taxable year to which the election applies and to all fully taxable bonds that it acquires after the beginning of that taxable year. A beneficial owner may revoke the election only with the consent of the IRS.

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

Because we will treat all SMBS Certificates as being issued with OID (and as not paying qualified stated interest) for information reporting purposes, you should consult your own tax advisors as to the proper treatment of an SMBS Certificate in this regard.

#### *Administrative Expenses*

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

Generally, such a beneficial owner can deduct its share of these costs only to the extent that these costs, when aggregated with certain of the beneficial owner’s other miscellaneous itemized deductions, exceed 2% of the beneficial owner’s adjusted gross income. For this purpose, an estate or nongrantor trust computes adjusted gross income in the same manner as an individual, except that deductions for administrative expenses of the estate or trust that would not have been incurred if the property were not held in such trust or estate are treated as allowable in calculating adjusted gross income. In addition, such a beneficial owner may not be able to deduct any portion of these costs in computing its alternative minimum tax liability. Further, section 68 of the Code provides that certain itemized deductions otherwise allowable for a beneficial owner who is an individual are reduced by an amount equal to 3% of the beneficial owner’s adjusted gross income in excess of a statutorily defined threshold, but not more than 80% of itemized deductions otherwise allowable.

## **Special Tax Characteristics of SMBS Certificates**

Several sections of the Code provide beneficial treatment to certain taxpayers that invest in mortgage loans of the type that back or comprise the SMBS Trust Assets. With respect to these Code sections, no specific legal authority exists regarding whether the character of the SMBS Certificates will be the same as that of the mortgage loans that back or comprise the SMBS Trust Assets. Although the characterization of the SMBS Certificates for these purposes is not clear, the SMBS Certificates 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 OID and qualified stated interest with respect to SMBS Certificates 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 underlying mortgage loans qualify for such treatment. For a discussion of the special tax characteristics of certain types of mortgage loans, see “Certain Federal Income Tax Consequences—Special Tax Attributes” in the MBS Prospectus.

## **Exchanges of SMBS Certificates**

If a beneficial owner exchanges one or more SMBS Certificates for one or more SMBS Certificates of a different class with respect to the same SMBS trust in the manner described under “Description of the SMBS Certificates—Exchange of Certain Classes of SMBS Certificates for Other SMBS Certificates” above, the exchange will not be taxable. Likewise, if a beneficial owner exchanges one or more SMBS Certificates for the related MBS Certificate or Mega Certificate in the manner described under “Description of the SMBS Certificates—Exchange of SMBS Certificates for MBS Certificates or Mega Certificates” above, the exchange will not be taxable. In each of these cases, the beneficial owner will be treated as continuing to own after the exchange the same SMBS Certificates that it owned immediately prior to the exchange.

If a beneficial owner acquires in one transaction (other than an exchange described under “Description of the SMBS Certificates—Exchange of Certain Classes of SMBS Certificates for Other SMBS Certificates” or “—Exchange of SMBS Certificates for MBS Certificates or Mega Certificates” above) a combination of SMBS Certificates that may be exchanged for the related MBS Certificates or Mega Certificates, the law is unclear as to whether the combination should be aggregated or each SMBS Certificate should be treated as a separate debt instrument. If a beneficial owner acquires such a combination in separate transactions, 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. You should consult your tax advisors regarding the proper treatment of SMBS Certificates in this regard.

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

Upon the sale, exchange or other disposition of an SMBS Certificate (other than an exchange described under “—Exchanges of SMBS Certificates” above), a beneficial owner generally will recognize gain or loss equal to the difference between the amount realized and the beneficial owner’s adjusted basis in the SMBS Certificate. The adjusted basis of an SMBS Certificate generally will equal the cost of the SMBS Certificate to the beneficial owner, increased by any OID included in the beneficial owner’s gross income with respect to the SMBS Certificate, and reduced (but not below zero) by distributions previously received by the beneficial owner of amounts included in SMBS Certificate’s stated redemption price at maturity and by any premium that has reduced the beneficial owner’s interest income with respect to the SMBS Certificate. Any such gain or loss generally will be capital gain or loss, except (i) as provided in section 582(c) of the Code (which generally applies to banks) or (ii) to the extent any gain represents OID not previously included in income (to which extent such gain would be treated as ordinary income). Any capital gain (or loss) will be long-term capital gain (or loss) if at the time of disposition the beneficial owner held the SMBS Certificate for more than one year. The ability to deduct capital losses is subject to limitations.

## **SMBS Trusts with a Single Class**

If only a single class of SMBS Certificates is issued with respect to an SMBS trust, a beneficial owner of an SMBS Certificate of that class will be treated for federal income tax purposes as a beneficial owner of a pro rata portion of the SMBS Trust Assets. In such a case, you should consult the disclosure documents related to each of the SMBS Trust Assets for a discussion of certain federal income tax consequences to beneficial owners of the SMBS Trust Assets.

## **Information Reporting and Backup Withholding**

We will furnish or make available, within a reasonable time after the end of each calendar year, to each Certificateholder at any time during that year, all information required by Treasury regulations together with such other information as we deem necessary or desirable to assist Certificateholders in preparing their federal income tax returns, or to enable Certificateholders to make such information available to beneficial owners or other financial intermediaries for which such Certificateholders hold SMBS Certificates as nominees.

Distributions of interest and principal, as well as distributions of proceeds from the sale of SMBS Certificates, may be subject to the “backup withholding tax” under section 3406 of the Code at a rate of 31% if recipients of such distributions fail to furnish to the payor certain information, including their taxpayer identification numbers, or otherwise fail to establish an exemption from that tax. Any amounts deducted and withheld from a distribution to a recipient would be allowed as a credit against the recipient’s federal income



tax. Furthermore, certain penalties may be imposed by the IRS on a recipient of distributions that is required to supply information but does not do so in the proper manner.

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

Additional rules apply to a beneficial owner of an SMBS Certificate that is not a U.S. Person (a “Non-U.S. Person”). The term “U.S. Person” means:

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

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

- the beneficial owner does not hold the SMBS Certificate in connection with its conduct of a trade or business in the United States;
- the beneficial owner is not, with respect to the United States, a personal holding company or a corporation that accumulates earnings in order to avoid U.S. federal income tax;
- the beneficial owner is not a U.S. expatriate or former U.S. resident who is taxable in the manner provided in section 877(b) of the Code;
- the beneficial owner is not an “excluded person” (that is, a 10% shareholder of Fannie Mae within the meaning of section 871(h)(3)(B) of the Code or a “controlled foreign corporation” related to Fannie Mae within the meaning of section 881(c)(3)(C) of the Code);
- the beneficial owner signs a statement under penalties of perjury certifying that it is a Non-U.S. Person or, in the case of an individual, that the beneficial owner is neither a citizen nor resident of the United States, and provides the name, address and taxpayer identification number, if any, of the beneficial owner;
- the last U.S. Person in the chain of payment to the beneficial owner (the “Withholding Agent”) receives such non-U.S. beneficial ownership statement from the beneficial owner or a financial institution holding on behalf of the

beneficial owner and does not have actual knowledge that such statement is false; and

- with respect to each SMBS Trust Asset that is not a REMIC Certificate, the SMBS Certificate represents an interest in a pool of mortgage loans all of which were originated after July 18, 1984.

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

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

#### **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 transaction in the SMBS Certificates, including repurchase agreements, are treated under those rules in the same manner as transactions in Fannie Mae MBS Certificates. However, they do not specify the collateral value of the SMBS Certificates of any class.

#### **LEGAL OPINION**

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

#### **LEGAL INVESTMENT CONSIDERATIONS**

If you are an institution whose investment activities are subject to legal investment laws and regulations or to review by certain regulatory authorities, you may be subject to restrictions on investment in certain classes of the SMBS Certificates. If you are a financial institution that is subject to the jurisdiction of the Comptroller of the Currency, the Board of Governors of the Federal Reserve System, the Federal Deposit Insurance Corporation, the Office of Thrift Supervision, the National Credit Union Administration, the Department of the Treasury or other federal or state agencies with similar authority, you should review the rules, guidelines and regulations that apply to you prior to purchasing or pledging SMBS

Certificates. In addition, if you are a financial institution, you should consult your regulators concerning the risk-based capital treatment of 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.**

## ERISA CONSIDERATIONS

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

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

## PLAN OF DISTRIBUTION

Pursuant to a Fannie Mae commitment, we will deliver the SMBS Certificates of a particular issue to one or more securities dealers (each, a “Dealer”) in exchange for the assets specified in the related preliminary data statement, unless the preliminary data

statement provides otherwise. Each Dealer will offer the SMBS Certificates as specified in the related preliminary data statement. Each Dealer may in turn, offer the SMBS Certificates to or through other dealers. After the initial offering, the offering price and related terms may change.

The Dealers engage in transactions with us and perform services for us in the ordinary course of their business. We, the Dealers or other parties may receive compensation, trading gain or other benefits in connection with these transactions. We typically receive a fee from the Dealer or Dealers for each offering. We reserve the right to acquire SMBS Certificates for our own account at the time they are issued or subsequently in the secondary market and may retain or dispose of any SMBS Certificates that we acquire.

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## Mega Prospectus



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

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**Principal and interest paid on the 25th day of each month**

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#### **The Mega Certificates**

We, the Federal National Mortgage Association or Fannie Mae, will issue and guarantee the Mega Certificates. Each issue of Mega Certificates will have its own identification number and will represent the ownership of principal and interest distributions on certain Fannie Mae Guaranteed Mortgage Pass-Through Certificates (the “MBS Certificates”). The MBS Certificates represent the ownership of pools of residential mortgage loans secured by single-family or multifamily properties. This Mega Prospectus does not contain complete information and **only** should be read together with the accompanying MBS Prospectus.

#### **Fannie Mae Guaranty**

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

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

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

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

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## INFORMATION ABOUT PROSPECTUS SUPPLEMENTS

In cases where adjustable-rate mortgage loans or multifamily mortgage loans back the MBS Certificates underlying an issue of Mega Certificates, we will prepare a prospectus supplement. The disclosure documents for any particular issue of Mega Certificates are this prospectus, any related prospectus supplement and the prospectus for Fannie Mae Guaranteed Mortgage Pass-Through Certificates (the “MBS Prospectus”) together with any information incorporated in these documents by reference as discussed below under the heading “Additional Information About Fannie Mae.” If a prospectus supplement is prepared for a particular issue of Mega Certificates, it will contain specific information about that issue. Accordingly, you should rely on the information in the prospectus supplement to the extent it is different from the information in this prospectus.

You can obtain copies of this prospectus, any related prospectus supplement and the MBS Prospectus by writing us at Fannie Mae, 3900 Wisconsin Avenue, N.W., Area 2H-3S, Washington, D.C. 20016 or by calling the Fannie Mae Hotline at 1-800-237-8627 or (202) 752-6547. The prospectus supplement is generally available three business days before settlement of the related issue of Mega Certificates.

## FANNIE MAE

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

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

We also issue MBS Certificates, receiving guaranty fees for our guaranty of timely payment of principal and interest on the certificates. We issue MBS Certificates primarily in exchange for pools of mortgage loans from lenders. By issuing Mega Certificates, we further fulfill our statutory mandate to increase the liquidity of residential mortgage loans.

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

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



## **ADDITIONAL INFORMATION ABOUT FANNIE MAE**

You also should read:

- our current Information Statement dated March 31, 1999;
- the Supplements to the Information Statement dated May 14, 1999 and August 13, 1999; and
- any additional Supplements and any more current Information Statement.

These documents contain important financial and other information about Fannie Mae which we are incorporating by reference in this prospectus. This means that we are disclosing important information to you by referring to these documents, so you should read them together with this prospectus.

We publish our Information Statement annually and update it from time to time generally to reflect quarterly and annual financial results. When we use the term “Information Statement” in this prospectus, we mean our most recent Information Statement as of the issue date for a particular issue of Mega Certificates, together with any Supplements to that Information Statement. You should always rely on the most current information. You can read our Information Statement and other information about us at the offices of the New York Stock Exchange, the Chicago Stock Exchange and the Pacific Exchange. We are not subject to the periodic reporting requirements of the Securities Exchange Act of 1934, so we do not file reports or other information with the Securities and Exchange Commission.

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

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

## RISK FACTORS

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

### Suitability

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

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

### Yield Considerations

Your effective yield on the Mega Certificates will depend upon:

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

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

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

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

For a more detailed discussion, see “Yield Considerations” in the MBS Prospectus.

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

### **Prepayment Considerations**

The rate of principal payments on the underlying MBS Certificates will depend on the rate of principal payments on the underlying mortgage loans. Principal payments will occur as a result of scheduled amortization or prepayments.

Many mortgage loans provide that the lender can require repayment in full if the borrower sells the property that secures the loan. In this way, property sales by borrowers can affect the rate of prepayment. In addition, certain multifamily loans permit the lender to require repayment in full if additional liens are placed on the mortgaged properties. Furthermore, borrowers often seek to refinance their loans by obtaining new loans secured by the same properties. Refinancing of loans also affects the rate of prepayment. In general, the rates of prepayment may be influenced by:

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

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

See “Maturity and Prepayment Assumptions” in the MBS Prospectus.

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

The financial institution that sells us the mortgage loans in an underlying pool makes certain representations and warranties with respect to them. If there is a material breach of these representations and warranties, we may choose to repurchase the affected loans. If we do, we will purchase those loans at their stated principal balance plus accrued interest at the pass-through rate in the case of fixed-rate mortgage loans or the accrual rate in the case of adjustable-rate mortgage loans. See “Description of Certificates—Collection and Other Servicing Procedures” in the MBS Prospectus.

## **Repurchases Due to Delinquency**

We may repurchase from any underlying pool mortgage loans that are delinquent by at least four consecutive monthly payments (or at least eight consecutive bi-weekly payments). If we do, we will purchase the mortgage loans at a price equal to their principal balance plus accrued interest at the pass-through rate in the case of fixed-rate mortgage loans or the accrual rate in the case of adjustable-rate mortgage loans. See “Description of Certificates—Payments on Mortgage Loans; Distributions on Certificates” in the MBS Prospectus.

## **Reinvestment Risk**

Generally, a borrower may prepay a mortgage loan at any time. See “Maturity and Prepayment Assumptions” in the MBS Prospectus. As a result, we cannot predict the amount of principal payments on the

Mega Certificates. The Mega Certificates may not be an appropriate investment for you if you need to receive a specific amount of principal payments on a regular basis or on a specific date. Because interest rates fluctuate, you may not be able to reinvest the principal payments on the Mega Certificates at an interest rate that is as high as the interest rate borne by the Mega Certificates. You may have to reinvest those funds at a much lower interest rate. You should consider this reinvestment risk in light of other investments that may be available to you.

## **Market and Liquidity Considerations**

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

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

- the method, frequency and complexity of calculating principal or interest;
- the average age of the mortgage loans in the underlying pools;
- the outstanding principal amount of Mega Certificates;

- the amount of Mega Certificates offered for resale from time to time;
  - any legal restrictions or tax treatment limiting demand for the Mega Certificates;
  - the availability of comparable securities; and
  - the level, direction and volatility of interest rates generally.
- Changing economic conditions will affect the supply and demand of rental units and the rents that the market will bear.
  - Government regulations (such as rent control laws) may adversely affect future income from the property.

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

### **Underlying Pools of Multifamily Loans**

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

- They typically are much larger in amount, thus increasing the risk represented by the default of a single borrower.
- Repayment of the loan usually depends upon successful operation of the multifamily property that secures the loan.

### **Fannie Mae Guaranty Considerations**

If we were not able to perform our guaranty obligations, Certificateholders would receive only borrower payments and other recoveries on the mortgage loans in the underlying pools. If that happened, delinquencies and defaults on the mortgage loans would directly affect the amounts that the Certificateholders would receive each month.

## THE MEGA CERTIFICATES

### General

The Fannie Mae Guaranteed MBS Pass-Through Securities (the “Mega Certificates”) offered by this prospectus represent fractional undivided interests in a trust. Each trust will be comprised of beneficial ownership interests in the principal and interest distributions on certain Fannie Mae Guaranteed Mortgage Pass-Through Certificates (the “MBS Certificates”). In our capacity as trustee, we will hold the MBS Certificates in each trust either directly or through one or more pooled Mega Certificates. Unless the prospectus supplement for a pool provides otherwise, the MBS Certificates represent beneficial ownership interests in pools of first lien residential mortgage loans (the “Mortgage Loans”) secured by either single-family or multifamily properties. The MBS Prospectus describes the general characteristics of the MBS Certificates.

We will create a trust for each issue of Mega Certificates under the Trust Agreement dated as of April 1, 1988, executed by Fannie Mae both in its corporate capacity and as trustee. In addition, each issue of Mega Certificates will be governed by an issue supplement to the Trust Agreement. We summarize below certain features of the Trust Agreement. This summary is not complete and the actual provisions of the Trust Agreement will govern a particular issue of Mega Certificates. You may obtain a copy of the Trust Agreement, the applicable issue supplement and any applicable trust indenture by writing or calling our Washington, D.C. office as described on page 3.

### The MBS Certificates

The MBS Certificates satisfy the general characteristics described in the MBS Prospectus. All of the Mortgage Loans for a particular issue of MBS Certificates will be either Government Mortgage Loans (*i.e.*, insured or guaranteed by a United States government agency) or Conventional Mortgage Loans (*i.e.*, not so insured or guaranteed). Substantially all of the Mortgage Loans will have original maturities of up to 15 years or between 16 and 30 years. Each of the Mortgage Loans (other than cooperative share loans) will be secured by a mortgage or deed of trust on a one- to four-family (“single-family”) residential property or on a multifamily residential property. Each cooperative share loan will be secured by a lien on the borrower’s shares or other ownership interest in a cooperative corporation and the assignment of the borrower’s right to occupy a particular dwelling unit in the cooperative housing project. If single-family fixed-rate Mortgage Loans underlie the MBS Certificates, all of the MBS Certificates will have the same pass-through interest rate as described in the MBS Prospectus. If adjustable-rate Mortgage Loans or multifamily Mortgage Loans underlie the MBS Certificates, we will describe the characteristics of the MBS Certificates in the prospectus supplement for that issue of Mega Certificates.

### Transfer of MBS Certificates to the Trust

We will identify in a Fannie Mae Security Schedule the MBS Certificates or pooled Mega Certificates transferred to a trust for the related issue of Mega Certificates. The Fannie

Mae Security Schedule will appear as an exhibit to the issue supplement for the trust. We will register the MBS Certificates or pooled Mega Certificates in our name, as trustee, on the books of a U.S. Federal Reserve Bank and will hold them for the benefit of the holders of the Mega Certificates.

### **Book-Entry Form**

Unless otherwise specified in any related prospectus supplement, we will issue the Mega Certificates in book-entry form on the book-entry system of the U.S. Federal Reserve Banks. There is a fiscal agency agreement in effect between us and the Federal Reserve Bank of New York. Under this agreement, the regulations<sup>1</sup> that govern our use of the book-entry system and the pledging and transfer of interests apply to the book-entry Mega Certificates. These regulations may be modified, amended, supplemented, superseded, eliminated or otherwise altered without the consent of any Certificateholder. The Federal Reserve Banks' operating circulars and letters also apply. Book-entry Mega Certificates can have a minimum denomination of \$1,000 with additional increments of one dollar. They are freely transferable on the records of any Federal Reserve Bank but are not convertible to physical certificates.

Mega Certificates will be maintained on the book-entry system of a Federal Reserve Bank and can be separately traded and owned. Acting on our behalf, the Federal Reserve Bank of New York will make payments on the Mega Certificates on each Distribution Date by crediting accounts on its records (or on the records of other Federal Reserve Banks). Only entities that are eligible to maintain book-entry accounts with a Federal Reserve Bank may hold Mega Certificates "of record," although these entities will not necessarily be the beneficial owners of the Mega Certificates. We refer to these holders of record as "Certificateholders." Ordinarily, beneficial owners will "hold" Mega Certificates through one or more financial intermediaries, such as banks, brokerage firms and securities clearing organizations. A Certificateholder that is not the beneficial owner of a Mega Certificate will be responsible for establishing and maintaining accounts for its customer. In the same way, all the other financial intermediaries in the chain to the beneficial owner of that Mega Certificate will be responsible for establishing and maintaining accounts for their customers. The rights of the beneficial owner of a Mega Certificate with respect to Fannie Mae and the Federal Reserve Banks may be exercised only through a Certificateholder. Neither we nor the Federal Reserve Banks will have any direct obligation to the beneficial owner of a Mega Certificate who is not also a Certificateholder according to the book-entry records maintained by the Federal Reserve Banks. In recording transfers of a Mega Certificate, the Federal Reserve Banks will act only upon the instructions of a Certificateholder.

### **Distributions on Mega Certificates**

We will pay Certificateholders their respective Percentage Interests of principal and interest on the 25th day of each month (or, if the 25th day is not a business day, on the first business day following the 25th day). We refer to each such date as a "Distribution Date."

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<sup>1</sup> Found at 24 C.F.R. Part 81, Subpart H, as amended.

Certificateholders of record are the persons in whose names the Mega Certificates are entered on the books of a Federal Reserve Bank as of the close of business on the last day of the preceding month (the “Record Date”). We will make the first payments for each issue of Mega Certificates the month after issuance. Payments will be made by wire not later than the Distribution Date.

The “Percentage Interest” evidenced by a Mega Certificate in principal and interest distributions on the underlying MBS Certificates is equal to:

- the principal denomination of the Mega Certificate divided by
- the principal denominations of all Mega Certificates of the issue.

### **The Fannie Mae Guaranty**

Our guaranty consists of our obligation to pay Certificateholders the following amounts:

- **Interest**—one month’s interest on the unpaid principal balance of the Mega Certificates as follows:

*if the underlying MBS Certificates are backed by single-family fixed-rate Mortgage Loans—interest paid at the pass-through rate borne by the underlying MBS Certificates;*

*if the underlying MBS Certificates are backed by pools of multifamily fixed-rate Mortgage Loans—interest paid at the weighted average pass-through rate borne by the underlying MBS Certificates; and*

*if the underlying MBS Certificates are backed by pools of adjustable-rate Mortgage Loans—interest paid at the weighted average of the then current pool accrual rates of the underlying MBS Certificates*

- **Principal**—the aggregate concurrent distributions of principal of the underlying MBS Certificates, with the aggregate of the principal distributions over the life of the Mega Certificates being equal to the original principal amount of the Mega Certificates.

**Neither the Mega Certificates nor interest on the Mega Certificates are guaranteed by the United States, and they do not constitute a debt or obligation of the United States or any of its agencies or instrumentalities other than Fannie Mae. We alone are responsible for making payments on our guaranty.**

### **Reports to Certificateholders**

With each payment, we will forward to the Certificateholders a statement of the total amount paid on the related Certificates on that date and how the payment is allocated between principal and interest.



Within a reasonable time after the end of each calendar year, we will furnish to each person who was a Certificateholder at any time during that year a statement containing any information required by the federal income tax laws.

### **Certain Matters Regarding Fannie Mae**

The Trust Agreement provides that we may not resign from our obligations and duties unless they are no longer permissible under applicable law. A resignation will be effective only after a successor has assumed our obligations and duties. However, no successor may succeed to our guaranty obligations, and we will continue to be responsible under our guaranty even if we are terminated from our other duties and responsibilities under the Trust Agreement. See “Rights upon Event of Default” below.

The Trust Agreement also provides that neither we nor any of our directors, officers, employees or agents will be under any liability to any trust or to the Certificateholders for errors in judgment or for any action we take, or refrain from taking, in good faith pursuant to the Trust Agreement. However, neither we nor any such person will be protected against any liability due to willful misfeasance, bad faith or gross negligence or willful disregard of obligations and duties.

In addition, the Trust Agreement provides that we are not under any obligation to appear in, prosecute or defend any legal action that is not incidental to our responsibilities under the Trust Agreement and that in our opinion may involve us in any expense or liability. However, in our discretion, we may undertake any legal action that we deem necessary or desirable in the interests of the Certificateholders. In that event, we will pay the legal expenses and costs of the action, which will not be reimbursable out of any trust.

Any corporation into which we are merged or consolidated, any corporation that results from a merger, conversion or consolidation to which we are a party or any corporation that succeeds to our business will be our successor under the Trust Agreement.

### **Voting**

As set forth in the MBS Prospectus under the heading “Description of Certificates-Rights upon Event of Default,” holders of MBS Certificates who represent ownership interests totaling at least 25% of the related trust fund have the right to terminate certain of our obligations under the related trust indenture if an event of default under the trust indenture has occurred and continues uncorrected. In that event, the Trust Agreement for the Mega Certificates provides that the Certificateholders have the right to vote their aggregate Percentage Interests in the underlying MBS Certificates. Certificateholders are given similar voting rights in the case of proposed waivers or amendments under the related trust indenture; however, in such cases we cannot vote the entire ownership interest represented by an MBS Certificate unless Certificateholders who represent Percentage Interests of at least 66% agree.

## **Events of Default**

Any of the following will be considered an Event of Default under the Trust Agreement for an issue of Mega Certificates:

- if we fail to make a required payment to the related Certificateholders, and our failure continues uncorrected for 15 days after we receive written notice from Certificateholders (who represent Percentage Interests totaling at least 5% of the related trust) that they have not been paid; or
- if we fail in a material way to fulfill any of our obligations under the Trust Agreement, and our failure continues uncorrected for 60 days after we receive written notice of our failure from Certificateholders (who represent Percentage Interests totaling at least 25% of the related trust); or
- if we become insolvent or unable to pay our debts or if other events of insolvency occur.

## **Rights upon Event of Default**

If one of the Events of Default listed above has occurred and continues uncorrected, Certificateholders who represent Percentage Interests totaling at least 25% of the related trust have the right to terminate, in writing, our obligations under the Trust Agreement for that issue both as trustee and in our corporate capacity. However, our guarantee obligations will continue in effect. The same proportion of Certificateholders that has the right to terminate us also may appoint, in writing, a successor to all of our terminated obligations. In addition, the successor that they appoint will take legal title to the MBS Certificates included in the related trust.

## **Amendment**

We may amend the Trust Agreement for an issue, without notifying or obtaining the consent of the related Certificateholders, to do any of the following:

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

If Certificateholders that represent Percentage Interests totaling at least 66% of the related trust give their consent, we may amend the Trust Agreement for that issue to eliminate, change or add to the terms of the Trust Agreement or its issue supplement or to waive our compliance with any of those terms. Nevertheless, we may not terminate or change

our guaranty obligations or reduce the percentage of Certificateholders who must give their consent to the types of amendments listed in the previous sentence. In addition, unless each affected Certificateholder consents, no amendment may reduce or delay the funds that are required to be distributed on any Mega Certificate.

### **Termination**

The Trust Agreement for any issue of Mega Certificates will terminate when we have distributed all required amounts to the related Certificateholders. In any event, the trust relating to any issue of Mega Certificates cannot continue after the 21st anniversary of the death of the last survivor of the persons named in the Trust Agreement. The Trust Agreement does not give us the right to repurchase any of the underlying MBS Certificates. Although the trust indenture for each issue of MBS Certificates gives us the right to repurchase all the Mortgage Loans in the related pool at par (plus one month's interest) when the pool principal balance is less than 10% of the original pool principal balance, we have agreed not to exercise this option until the pool principal balance is less than 1% of the original pool principal balance. See "Description of Certificates—Termination" in the MBS Prospectus.

Because the Trust Agreement does not impose any restriction on our repurchase right in the MBS Prospectus, payment on the Mega Certificates on any Distribution Date may include the proceeds of our repurchase of the Mortgage Loans underlying one or more of the MBS Certificates in the related trust. Once no MBS Certificate remains in a trust as a result of our repurchases, we will terminate that trust and pay the related Certificateholders the repurchase proceeds as a final distribution in retirement of the Mega Certificates.

### **MARGINABILITY; REPURCHASE AGREEMENTS**

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

### **CERTAIN FEDERAL INCOME TAX CONSEQUENCES**

Our special tax counsel, Arnold & Porter, has delivered an opinion to us that each trust will not be classified as an association taxable as a corporation for federal income tax purposes but instead will be classified as a trust under subpart E of part I of subchapter J of the Internal Revenue Code of 1986, as amended (the "Code"), and that a beneficial owner of a Mega Certificate will be considered to be the beneficial owner of a pro rata undivided interest in each of the MBS Certificates that directly or indirectly underlie that Mega Certificate. For a general discussion of the federal income tax consequences of the ownership of MBS Certificates, see the MBS Prospectus under the heading "Certain Federal Income Tax Consequences."

## LEGAL OPINION

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

### ERISA CONSIDERATIONS

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

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

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

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

**Stripped  
Mortgage-Backed  
Securities  
("SMBS Certificates")**

**PROSPECTUS**

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