

Prospectus Dated December 1, 1992

# Federal National Mortgage Association



## Stripped Mortgage-Backed Securities Principal and Interest payable on the 25th day of each month

### SMBS Trust consisting of Fannie Mae Guaranteed MBS Pass-Through Securities backed by GNMA Certificates (Residential Mortgage Loans)

The Stripped Mortgage-Backed Securities ("SMBS Certificates") offered hereby and by the related Preliminary SMBS Trust Data Statement (the "Preliminary Data Statement") are issued and guaranteed as to timely distribution of principal and interest by the Federal National Mortgage Association, a corporation organized and existing under the laws of the United States (the "Corporation" or "Fannie Mae"). The SMBS Certificates represent beneficial ownership interests in the principal distributions and/or the interest distributions on certain "fully modified pass-through" mortgage-backed securities ("GNMA Certificates"), guaranteed as to timely distribution of principal and interest by the Government National Mortgage Association ("GNMA"). The GNMA Certificates will be held either in the form of one or more Guaranteed MBS Pass-Through Securities ("Mega Certificates") or one or more stripped mortgage-backed securities ("Pooled SMBS Certificates") and/or one or more Fannie Mae Guaranteed REMIC Pass-Through Certificates that constitute regular interests in a real estate mortgage investment conduit ("REMIC Certificates") for the Holders (as hereinafter defined) of SMBS Certificates by Fannie Mae in its capacity as Trustee of the related SMBS Trust (the "SMBS Trust"). The Mega, Pooled SMBS, or REMIC Certificates included in an SMBS Trust are hereinafter sometimes collectively referred to as "Pooled Certificates." All SMBS Certificates relating to a particular SMBS Trust are hereinafter referred to as an "Issue."

The GNMA Certificates represent all or part of the beneficial interests in pools ("Pools") of first lien, single family, fixed-rate residential mortgage loans (the "Mortgage Loans"). Unless otherwise specified in an accompanying Preliminary Data Statement, the general characteristics of the GNMA Certificates are as described herein. This Prospectus is also accompanied by a Prospectus dated December 1, 1992 (the "Mega Prospectus"), describing the general characteristics of the Mega Certificates. Preliminary approximate information with respect to the GNMA Certificates underlying the SMBS Certificates offered hereby is set forth in the Preliminary Data Statement. Final information will be made available by Fannie Mae in a Final SMBS Trust Data Statement (the "Final Data Statement") separate from this Prospectus following the formation of the SMBS Trust and the issuance of the SMBS Certificates. See "The GNMA Certificates" herein for a description of the information, and the limitations thereon, which will be set forth in any such Preliminary Data Statement or Final Data Statement relating to SMBS Trusts that do not contain Pooled SMBS or REMIC Certificates. See also "SMBS Trusts Containing Pooled SMBS and/or REMIC Certificates" under "Statement of Terms" herein.

The SMBS Certificates will be offered from time to time in one or more Issues. Each Issue will include one or more classes ("Classes") identified as Class 1, Class 2, Class 3, etc. The percentages of interest on and principal of the underlying Pooled Certificates to which the Holder of a particular class of SMBS Certificate is entitled will vary in accordance with the terms of the related Issue. Class 1 SMBS Certificates could entitle their Holders to receive some or all of the principal of and none of the interest on the underlying Pooled Certificates (a "principal-only" SMBS Certificate), or to receive different percentages of the distributions of principal and interest. Class 2 SMBS Certificates could entitle their Holders to receive some or all of the interest on and none of the principal of the underlying Pooled Certificates (an "interest-only" SMBS Certificate), or to receive different percentages of the distributions of principal and interest. In addition, any Class of Certificates could entitle their Holders to receive specified portions of principal and/or interest on the underlying Pooled Certificates during a specified period of time (e.g. the first 60 Distribution Dates as defined herein). The specific terms of each Issue will be set forth in the Preliminary Data Statement. *This Prospectus may not be used to consummate sales of any Issue of SMBS Certificates unless accompanied by the related Preliminary Data Statement.*

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

The yields on the SMBS Certificates will be extremely sensitive to prepayment experience on the Mortgage Loans, and prospective investors should fully consider the associated risks, including, for interest-only SMBS Certificates and SMBS Certificates that were purchased at prices exceeding their principal amounts, the risk that such investors may not fully recover their initial investment. See "The GNMA Certificates — Prepayment Considerations and Risks."

**THE SMBS CERTIFICATES, TOGETHER WITH ANY INTEREST THEREON, ARE NOT GUARANTEED BY THE UNITED STATES. THE OBLIGATIONS OF FANNIE MAE UNDER ITS GUARANTY OF THE SMBS CERTIFICATES ARE OBLIGATIONS SOLELY OF THE CORPORATION AND DO NOT CONSTITUTE AN OBLIGATION OF THE UNITED STATES OR ANY AGENCY OR INSTRUMENTALITY THEREOF OTHER THAN THE CORPORATION. THE SMBS CERTIFICATES ARE EXEMPT FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT OF 1933 AND ARE "EXEMPTED SECURITIES" WITHIN THE MEANING OF THE SECURITIES EXCHANGE ACT OF 1934.**

**STATEMENT OF TERMS**

*The following is qualified in its entirety by reference to the information appearing elsewhere in this Prospectus, in the Preliminary Data Statement accompanying this Prospectus, and in the accompanying Mega Prospectus. Capitalized terms used and not otherwise defined in this Prospectus or the Preliminary Data Statement have the respective meanings assigned to such terms in the Mega Prospectus.*

Issuer and Guarantor . . . . . The Federal National Mortgage Association, a corporation organized and existing under the laws of the United States (the "Corporation" or "Fannie Mae"). A description of Fannie Mae and its business, together with certain financial statements and other financial information, are contained in the most recently published Information Statement. The Information Statement is incorporated herein by this reference. Copies of the Corporation's current Information Statement can be obtained without charge from Paul Paquin, Senior Vice President—Investor Relations, Fannie Mae, 3900 Wisconsin Avenue, NW, Washington, D.C. 20016 (telephone: (202) 752-7115).

The GNMA Certificates . . . . . The "fully modified pass-through" mortgage-backed securities ("GNMA Certificates"), guaranteed as to timely distribution of principal and interest by the Government National Mortgage Association ("GNMA"). The GNMA Certificates will have the general characteristics described in this Prospectus under the caption "The GNMA Certificates." Preliminary approximate information with respect to the GNMA Certificates is set forth in the accompanying Preliminary Data Statement. Final information will be made available by Fannie Mae in a Final Data Statement separate from this Prospectus following the formation of the SMBS Trust and the issuance of the SMBS Certificates.

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

This Prospectus does not contain complete information about SMBS Certificates issued by an SMBS Trust that contains one or more REMIC Certificates evidencing beneficial interests in one or more Fannie Mae REMIC Trusts. Prospectuses relating to particular REMIC Trusts backing an SMBS Trust may be obtained from Fannie Mae by writing or calling its MBS Capital Markets Department at 4000 Wisconsin Avenue, N.W., Washington, D.C. 20016 (telephone (202) 752-7585).

SMBS Certificates . . . . .

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

The proportion of principal and interest to which the Holder of an SMBS Certificate of a particular Class is entitled will vary in accordance with the terms of the related Issue and will be stated in the Preliminary Data Statement for the Issue. Except with respect to interest-only SMBS Certificates, the undivided percentage interest (the "Percentage Interest") of any SMBS Certificate in each Principal Distribution or Interest Distribution on the underlying Pooled Certificates will be equal to the portion of each such Principal Distribution or Interest Distribution which is allocable to the related Class of SMBS Certificates multiplied by a percentage obtained by dividing the original principal amount or "denomination" of such SMBS Certificate by the aggregate original principal amount of all SMBS Certificates in the related Class. With respect to interest-only SMBS Certificates, the Percentage Interest in the portion of each Interest Distribution on the underlying Pooled Certificates which is allocable to the related Class of SMBS Certificates will be equal to the percentage obtained by dividing the original notional principal amount, or "denomination," of such SMBS Certificate by the aggregate original notional principal amount of all interest-only SMBS Certificates in the related Class.

Book-Entry Form . . . . .

The SMBS Certificates will be issued and maintained, and may be transferred by Holders (as defined below), only on the book-entry system of the Federal Reserve Banks. The SMBS Certificates may be held of record only by entities eligible to maintain book-entry accounts with a Federal Reserve Bank. Such entities whose names appear on the book-entry records of a Federal Reserve Bank as the entities for whose accounts SMBS Certificates have

been deposited are herein referred to as "Holders." A Holder is not necessarily the beneficial owner of an SMBS Certificate. Beneficial owners will ordinarily hold SMBS Certificates through one or more financial intermediaries, such as banks, brokerage firms and securities clearing organizations. See "The SMBS Certificates — Book-Entry Form."

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

Exchange of SMBS Certificates for Mega Certificates . . . . . For Issues evidencing interests in SMBS Trusts comprised of a single Mega Certificate, like Percentage Interests of the Classes of outstanding SMBS Certificates evidencing, in each case, identical Percentage Interests in each Interest Distribution and each Principal Distribution may be exchanged on the book-entry system of the Federal Reserve Banks for one or more of such related Mega Certificates of authorized denominations (\$1,000 and integral multiples of \$1 in excess thereof). An administrative fee may be imposed for the exchange of SMBS Certificates for Mega Certificates. Any SMBS Certificates so exchanged will be cancelled and the Mega Certificates are not exchangeable back into SMBS Certificates. The Mega Certificates so issued will have aggregate outstanding principal balances equal to the aggregate outstanding principal balances of the Classes of SMBS Certificates so exchanged. The ability to effect any such exchange will be dependent on the availability of all requisite Classes of SMBS Certificates in the secondary market. Any such availability may be eliminated or restricted through the transfer of all or a substantial portion of the Certificates of a particular Class to a REMIC trust fund or similar entity. For information concerning the transfer of SMBS Certificates that have been previously transferred to a REMIC trust fund, call (202) 752-7585.

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

through the transfer of all or a substantial portion of the Certificates of a particular Class to a REMIC trust fund or similar entity. For information concerning the transfer of SMBS Certificates that have been previously transferred to a REMIC trust fund, call (202) 752-7585.

Principal Distributions . . . . . Principal will be distributed monthly on the 25th day of each month (or, if such 25th day is not a business day, on the first business day next succeeding such 25th day), commencing in the month following the SMBS Issue Date specified in the Preliminary Data Statement (each a "Distribution Date"). Each monthly distribution of principal, if any, of an SMBS Certificate will be equal to the product of the Percentage Interest evidenced by such SMBS Certificate and the portion of the Principal Distribution which is allocable to the related Class of SMBS Certificates.

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

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

SMBS Trust Factors . . . . . As soon as practicable following the eleventh calendar day of each month, Fannie Mae will publish or otherwise make available the percentage (carried to eight decimal places) that, when applied to the aggregate original principal amount of the SMBS Certificates, will equal the then current aggregate outstanding principal balance of the underlying Pooled Certificates, after giving effect to the distribution of principal to be made on the underlying Pooled Certificates in such month. Except as provided below, the product of such percentage, or "SMBS Trust Factor," and the denomination of an SMBS Certificate, if such SMBS Certificate has a principal component, is the remaining amount of principal required to be distributed with respect to such SMBS Certificate and, if such SMBS Certificate has an interest component which is currently distributable, the principal amount upon which interest is accruing on such SMBS Certificate.

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

Certain Federal Income Tax Consequences . . . . . Each owner of an SMBS Certificate, other than an SMBS Certificate from an Issue with respect to which each Class is entitled to all the payments on certain REMIC Certificates, will be treated for federal income tax purposes as the owner of the right to receive principal and/or interest on the underlying Mortgage

Loans or REMIC Certificates, as the case may be. Such SMBS Certificates will be treated under applicable provisions of the Internal Revenue Code of 1986, as amended (the "Code"), as stripped bonds or stripped coupons. Owners generally will be required to include original issue discount with respect to such stripped bonds or stripped coupons in gross income as it accrues, which may be prior to the receipt of cash attributable to such income. Although there is no authoritative precedent and the characterization of such SMBS Certificates is not clear, policy considerations indicate that such SMBS Certificates should be considered to represent "loans secured by an interest in real property" to the extent that the Mortgage Loans or REMIC Certificates, as the case may be, and interest thereon qualify for such treatment. See the discussion under the heading "Certain Federal Income Tax Consequences" in this Prospectus and, in the case of an SMBS Trust holding REMIC Certificates, the discussion under the heading "Certain Federal Income Tax Consequences" in the prospectus with respect to the particular REMIC Certificates underlying the relevant SMBS Trust (the "REMIC Prospectus").

Each owner of an SMBS Certificate from an Issue with respect to which each Class is entitled to all the payments on certain REMIC Certificates will be treated for federal income tax purposes as the owner of such REMIC Certificates. Such SMBS Certificates will be treated under applicable provisions of the Code as ownership interests in a regular interest of a real estate mortgage investment conduit ("REMIC"). See the discussion under the heading "Certain Federal Income Tax Consequences" in the REMIC Prospectus.

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

Mortgage Pass-Through Certificates. Subject to general considerations governing investment practices and to the matters noted above, the SMBS Certificates will be treated identically for such purposes for such entities.

**Marginability; Repurchase**

**Agreements . . . . .**

The SMBS Certificates are "exempted securities" for purposes of the margin rules of the Board of Governors of the Federal Reserve System and the New York Stock Exchange and transactions in SMBS Certificates, including repurchase agreements, are treated under such rules in the same manner as transactions in Fannie Mae's Guaranteed Mortgage Pass-Through Certificates. Such rules do not, however, specify the collateral value which participants in particular transactions will accord SMBS Certificates of any Class.

**Securities Law Exemption . . .**

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

## THE GNMA CERTIFICATES

### GNMA

The Government National Mortgage Association ("GNMA") is a wholly owned corporate instrumentality of the United States within the Department of Housing and Urban Development. Section 306(g) of Title III of the National Housing Act of 1934, as amended (the "Housing Act"), authorizes GNMA to guarantee the timely payment of the principal of, and interest on, certificates that are based on and backed by a pool of mortgage loans insured by the Federal Housing Administration (the "FHA") under the Housing Act or Title V of the Housing Act of 1949, or partially guaranteed by the Department of Veterans Affairs ("VA") under the Servicemen's Readjustment Act of 1944, as amended, or Chapter 37 of Title 38, United States Code.

Section 306(g) of the Housing Act provides that "the full faith and credit of the United States is pledged to the payment of all amounts which may be required to be paid under any guaranty under this subsection." To meet its obligations under such guaranties, GNMA is authorized, under Section 306(d) of the Housing Act, to borrow from the United States Treasury with no limitations as to amount.

### GNMA Certificates

Each GNMA Certificate underlying an Issue of SMBS Certificates will be a "fully modified pass-through" mortgage-backed security issued and serviced by a mortgage banking company or other financial concern approved by GNMA as a seller-servicer of loans insured by the FHA and/or loans partially guaranteed by the VA. GNMA Certificates may be issued under either or both of the GNMA I program ("GNMA I Certificates") and the GNMA II program ("GNMA II Certificates"). The holder of a GNMA Certificate has essentially the same rights with respect to a GNMA Certificate issued under either program. However, there are certain differences between the two programs.

Under the GNMA I program, monthly payments will be made directly by the GNMA issuer to the registered holder of the GNMA I Certificate by the 15th calendar day of each month. Under the GNMA I program an individual GNMA issuer assembles a pool of mortgage loans against which it issues and markets GNMA I Certificates. All mortgage loans underlying a particular GNMA I Certificate must have the same annual interest rate, and the pass-through rate on each GNMA I Certificate will be 0.5% per annum less than the annual interest rate on the mortgage loans included in the pool of mortgage loans backing such GNMA I Certificate.

Under the GNMA II program, monthly payments will be made to the registered holder of the GNMA II Certificate through Chemical Bank, as paying agent, no later than the 20th calendar day of each month. Under the GNMA II program multiple issuer pools may be formed through the aggregation of loan packages of more than one GNMA issuer. Under this option, packages submitted by various GNMA issuers for a particular issue date and pass-through rate are aggregated into a single pool which backs a single issue of GNMA II Certificates. Each GNMA II Certificate issued under a multiple issuer pool is backed by a proportionate interest in the entire pool rather than solely by the loan package contributed by any one GNMA issuer. Single issuer pools also may be formed under the GNMA II program. Mortgages underlying a particular GNMA II Certificate may have annual interest rates that vary from each other by up to 1%, and the pass-through rate on each GNMA II Certificate will be between 0.5% and 1.5% per annum less than the highest annual interest rate on any mortgage loan included in the pool of mortgage loans backing such GNMA II Certificate.

The Mortgage Loans will be insured by the FHA or partially guaranteed by the VA. The Mortgage Loans will be fixed-rate, fully-amortizing Mortgage Loans, each secured by a first mortgage or deed of trust on a one- to four-family ("single family") residential property, substantially all of which will have original maturities of up to 30 years.

### Data Statements

The approximate characteristics of the GNMA Certificates underlying an Issue of SMBS Certificates through Mega, Pooled SMBS or REMIC Certificates will be set forth in a Preliminary Data



Statement, which must accompany any Prospectus that is used to consummate sales of SMBS Certificates. Each Preliminary Data Statement will set forth (i) the pass-through rate of the GNMA Certificates, (ii) the approximate aggregate outstanding principal balance of the GNMA Certificates, (iii) the maximum percentage of the GNMA Certificates which will be GNMA II Certificates as of the SMBS Issue Date, (iv) the range of the remaining terms to maturity of the latest maturing Mortgage Loan in the various Pools at the respective issue dates of the related GNMA Certificates (adjusted by subtracting the number of months elapsed since each such issue date through the SMBS Issue Date), (v) the trust number of each Mega Certificate in the related SMBS Trust, (vi) if the SMBS Trust contains a single Mega Certificate, whether the SMBS Certificates are exchangeable for underlying Mega Certificates, (vii) whether the GNMA Certificates are held in the form of Mega Certificates, Pooled SMBS Certificates or in the form of REMIC Certificates, and (viii) whether the GNMA Certificates, the Mega Certificates, the Pooled SMBS Certificates or the REMIC Certificates have characteristics which do not conform to the general criteria described in this Prospectus.

Following the formation of an SMBS Trust and the issuance of the related SMBS Certificates, Fannie Mae will prepare a Final Data Statement setting forth exact information for each category of information described above and the pool number of each GNMA Certificate. Final Data Statements will not accompany a Prospectus but will be made available by Fannie Mae to investors on request. To request Final Data Statements, call Fannie Mae at (202) 752-7585.

Investors should be aware that the information set forth in the Preliminary Data Statement or any Final Data Statement will not contain information as to certain characteristics of the underlying Mortgage Loans that may, under certain circumstances, affect their prepayment experience with resultant effects on the yields realized by investors in the related SMBS Certificates. For instance, the information set forth in the Preliminary Data Statement or the Final Data Statement as to the remaining terms to maturity of the latest maturing Mortgage Loan will be based on information as of the issue date of the GNMA Certificates and may, because of intervening prepayments, not be reflective of comparable statistics as of the SMBS Issue Date. In addition, such information will not disclose the range of coupons (in the case of GNMA II Certificates) or remaining terms to maturity of individual Mortgage Loans within a Pool. For example, all of the coupons of the Mortgage Loans underlying a GNMA II Certificate could be 1.50% in excess of the pass-through rate. Under certain interest-rate scenarios, such a Pool could experience significantly different prepayments from a Pool consisting of Mortgage Loans with coupons that are .50% in excess of the pass-through rate. Also, the Mortgage Loans in any Pool may have remaining terms to maturity that differ significantly and any such differences may affect the scheduled amortization and the prepayment rate of the related GNMA Certificates. Furthermore, no Preliminary Data Statement or Final Data Statement will include information as to the geographic dispersion of the Mortgage Loans underlying the related GNMA Certificates, and investors will not be able to evaluate the possible effect of such geographic dispersion on prepayments.

#### **Prepayment Considerations and Risks**

The rate of principal payments on the Pooled Certificates, and therefore on SMBS Certificates with a principal component, is, except in the case of certain REMIC Certificates, directly related to the rate of payments of principal of the underlying Mortgage Loans, which may be in the form of scheduled amortization or prepayments (for this purpose, the term "prepayment" includes prepayments and liquidations due to default, casualty, condemnation and the like). In general, when the level of prevailing interest rates declines significantly below the interest rates on mortgage loans, the rate of prepayment is likely to increase, although the prepayment rate is influenced by a number of other factors, including prevailing interest rates, general economic conditions and homeowner mobility. All of the Mortgage Loans backing the GNMA Certificates will be first lien, single-family, fixed-rate, residential mortgage loans that are either insured by the FHA or partially guaranteed by the VA. None of such loans includes a "due-on-sale" clause. Consequently, the holders of such loans generally may not demand the payment in full of the remaining principal balance of any such loans on the sale or other transfer of the subject property.

The yields to maturity of the SMBS Certificates will be affected by the actual rate of payment (including prepayments) of principal of the Mortgage Loans underlying the GNMA Certificates and by

the method used by Fannie Mae to calculate and distribute such payments of principal as described herein under "The SMBS Certificates — Distributions on SMBS Certificates." Payments of principal of the Mortgage Loans at a rate faster than the rate anticipated by an investor will accelerate distributions of principal and thereby reduce the yield to maturity on interest-only SMBS Certificates and SMBS Certificates purchased at a premium to their principal amount. Sufficiently high prepayment rates could result in the failure by purchasers of interest-only SMBS Certificates and SMBS Certificates that were purchased at prices exceeding their principal amounts to recover the full amount of their initial investment. A rate of principal payments slower than the rate anticipated by an investor in calculating the initial yield to maturity on an SMBS Certificate will, conversely, by delaying the distribution of principal, reduce the yield to maturity on principal-only and other SMBS Certificates purchased at a discount from their principal amount. In addition, the method used by Fannie Mae to calculate distributions may reduce the yield to investors for such certificates.

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

The calculations appearing in the table will be based upon the assumptions that all of the underlying Mortgage Loans have identical coupons and remaining terms to maturity unless otherwise stated in the Preliminary Data Statement. These specific coupon and maturity assumptions will be set forth in the Preliminary Data Statement and each will be within the applicable range described in such Preliminary Data Statement. All of the underlying Mortgage Loans are assumed to prepay according to either (i) various constant prepayment rates per annum, each a "CPR" or (ii) various percentages of Public Securities Association assumptions ("PSA"). One hundred percent PSA is defined as a constant annualized prepayment rate of .2% per month in the first month after origination, increasing by .2% each month until the thirtieth month, and leveling off at a 6% annualized rate thereafter.

## THE SMBS CERTIFICATES

The following summaries describe certain provisions of the Trust Agreement not otherwise summarized in this Prospectus. Certain capitalized terms in these summaries are used as defined in the Trust Agreement. These summaries do not purport to be complete and are subject to, and qualified in their entirety by reference to, the more complete provisions of the Trust Agreement.

### Transfer of Pooled Certificates to SMBS Trust

The Pooled Certificates transferred to an SMBS Trust will be identified in a Fannie Mae Security Schedule appearing as an exhibit to the Series Supplement for such SMBS Trust. The Pooled Certificates will be held for the Holders of SMBS Certificates by Fannie Mae in its capacity as Trustee of the SMBS Trust.

### Book-Entry Form

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

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

SMBS Certificates may be held of record only by entities eligible to maintain book-entry accounts with a Federal Reserve Bank. Such entities whose names appear on the book-entry records of a

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

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

#### **Distributions on SMBS Certificates**

Under the trust agreement pursuant to which the GNMA Certificates are pooled, Fannie Mae will perform the following calculations. On or about the fifth business day of each month, Fannie Mae will aggregate the amount of principal reported to be receivable on the GNMA I Certificates during such month on the basis of published GNMA factors for such month. For any GNMA I Certificate for which a factor is not available at such time and for all GNMA II Certificates, Fannie Mae will calculate the amount of scheduled payments of principal distributable in respect of such GNMA Certificates during such month on the basis of the assumed amortization schedules of the underlying Mortgage Loans. The amortization schedules will be prepared on the assumption that: (i) each of the Mortgage Loans underlying a single GNMA Certificate had an original term to maturity of 360 months (except in the case of GNMA Certificates backed by 15-year Mortgage Loans) and has a remaining term to maturity equal to the remaining term to maturity of the latest maturing Mortgage Loan underlying such GNMA Certificate at the origination of such GNMA Certificate; (ii) each Mortgage Loan underlying a GNMA I Certificate bears an interest rate of .5% per annum in excess of the pass-through rate of such GNMA Certificate, and (iii) each Mortgage Loan underlying a GNMA II Certificate bears an interest rate of 1.5% per annum in excess of the pass-through rate of such GNMA Certificate. All such amounts, whether reported in GNMA factors or calculated by Fannie Mae, will be reflected in the factors for the related Pooled Certificates for the Distribution Date in such month and will be distributed to Holders of such Pooled Certificates on the following Distribution Date, whether or not received. There will also be reflected in such factors and distributable as principal on such Distribution Date the excess of (a) the distributions of principal of the GNMA Certificates received during the month prior to the month of such Distribution Date, over (b) the amounts of principal calculated as distributable previously in accordance with the GNMA factors and the assumed amortization schedules specified above.

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

#### **Fannie Mae Obligations**

Fannie Mae acknowledges in the Trust Agreement that its obligations to Holders in its capacity as Trustee thereunder, including, without limitation, its obligation to make distributions to Holders of

each Class of SMBS Certificates in accordance with their respective Percentage Interests, are primary obligations of Fannie Mae ranking on a parity with its obligations under its guaranty of the Pooled Certificates. Fannie Mae further acknowledges that Fannie Mae is directly obligated to the Holders of SMBS Certificates in respect of such guaranty obligations to the same extent as if such Holders were holders of such Pooled Certificates.

#### **Reports to SMBS Holders**

With respect to each distribution on SMBS Certificates of each Class, Fannie Mae will cause to be forwarded to each Holder thereof a statement setting forth the total cash distribution on such Distribution Date with respect to the SMBS Certificates in each Class held by such Holder. Within a reasonable period of time after the end of each calendar year, Fannie Mae will furnish to each Holder who at any time during the calendar year was a Holder such information as shall be required pursuant to the Internal Revenue Code of 1986, as amended, and interpretations thereof.

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

The Trust Agreement provides that Fannie Mae may not resign from its obligations and duties thereunder. The Trust Agreement also provides that neither Fannie Mae nor any director, officer, employee, or agent of Fannie Mae will be under any liability to any SMBS Trust or to Holders for any action taken, or for refraining from the taking of any action, in good faith pursuant to such Trust Agreement or for errors in judgment; provided, however, that neither Fannie Mae nor any such person will be protected against any liability that would otherwise be imposed by reason of willful misfeasance, bad faith, or gross negligence or by reason of willful disregard of obligations and duties.

In addition, the Trust Agreement provides that Fannie Mae is not under any obligation to appear in, prosecute, or defend any legal action that is not incidental to its responsibilities under the Trust Agreement and that in its opinion may involve it in any expense or liability. Fannie Mae may, however, in its discretion undertake any such legal action that it may deem necessary or desirable in the interests of the Holders. In such event, the legal expenses and costs of such action and any liability resulting therefrom will be expenses, costs, and liabilities of Fannie Mae that will not be reimbursable to Fannie Mae out of any SMBS Trust.

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

#### **Voting**

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

#### **Events of Default**

Events of Default under the Trust Agreement will consist of (i) any failure by Fannie Mae to distribute to Holders any required payment that continues unremedied for 15 days after the giving of written notice of such failure to Fannie Mae by the Holders of SMBS Certificates of any Class

evidencing Percentage Interests aggregating not less than five percent of each Class of the related SMBS Trust; and (ii) certain events of insolvency, readjustment of debt, marshalling of assets and liabilities, or similar proceedings and certain actions by or against Fannie Mae indicating its insolvency, reorganization, or inability to pay its obligations.

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

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

#### **Amendment**

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

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

#### **Termination**

The Trust Agreement as it relates to each SMBS Trust terminates upon the distribution to Holders of all amounts required to be distributed as described in "Distributions on SMBS Certificates." In no event, however, will any SMBS Trust continue beyond the expiration of 21 years from the death of the last survivor of the person named in the Trust Agreement. Fannie Mae will not at any time have an option to repurchase any or all Pooled Certificates in the SMBS Trust and thereby retire the SMBS Certificates.

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

#### **General**

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

Except as noted in this paragraph, this discussion does not address the federal income tax consequences applicable to owners of SMBS Certificates from an Issue with respect to which each Class is entitled to all the payments on certain REMIC Certificates. Each owner of an SMBS Certificate from an Issue with respect to which each Class is entitled to all the payments on certain REMIC Certificates will be treated for federal income tax purposes as the owner of such REMIC Certificates.

Such SMBS Certificates will be treated under applicable provisions of the Code as ownership interests in a regular interest of a REMIC. See the discussion under the heading "Certain Federal Income Tax Consequences" in the REMIC Prospectus.

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

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

#### **Characterization**

##### *The Custodial Arrangement*

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

##### *The SMBS Certificates*

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

In August 1991, the IRS issued guidance on the tax treatment of Mortgage Loans in cases in which the Servicing Fee exceeds what is established under tax law to be reasonable compensation for the services to be performed. This guidance is directed primarily to servicers and, in most cases, should not have a significant effect on Owners of SMBS Certificates. Investors are advised, however, to consult their tax advisors about the IRS guidance and its application to investments in SMBS Certificates.

Several Code sections provide beneficial treatment to certain taxpayers that invest in mortgage loans of the type that make up the Pools. With respect to these Code sections, no specific legal authority exists regarding whether the character of the SMBS Certificates for federal income tax purposes will be the same as that of the Mortgage Loans. Although the characterization is not clear, policy considerations indicate that SMBS Certificates owned by applicable Owners should be considered to represent "qualifying real property loans" within the meaning of section 593(d) of the Code, "real estate assets" within the meaning of section 856(c)(5)(A) of the Code, and "loans secured by an

interest in real property" within the meaning of section 7701(a)(19)(C)(v) of the Code, and original issue discount on SMBS Certificates, at least to the extent such discount is attributable to principal payments on the underlying Mortgage Loans, should be considered to represent "interest on obligations secured by mortgages on real property" within the meaning of section 856(c)(3)(B) of the Code, provided that in each case the Mortgage Loans and interest on such Mortgage Loans qualify for such treatment:

#### **U.S. Persons**

The discussion below sets forth certain federal tax aspects of the holding of an SMBS Certificate by a "U.S. Person." "U.S. Person" means a citizen or resident of the United States, a corporation, partnership or other entity created or organized in or under the laws of the United States or any political subdivision thereof, or an estate or trust that is subject to U.S. federal income tax regardless of the source of its income.

While computations for federal income tax purposes on SMBS Certificates, as described below, arguably should be done on a Mortgage Loan by Mortgage Loan basis, provisions of Treasury regulations proposed on April 8, 1986 (the "Proposed Regulations") may be construed to suggest that such computations be made by aggregating all principal payments or all interest payments on the Mortgage Loans, as the case may be, that constitute each payment on an SMBS Certificate. In the absence of substantial legal authority to the contrary, Fannie Mae intends to make and report all computations described below using this aggregate approach.

#### *Stripped Bonds and Stripped Coupons*

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

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

With respect to an SMBS Certificate that is entitled to a proportionately smaller share of the interest payments on the underlying Mortgage Loans than of the principal payments thereon (or exclusively to principal payments), to the extent that the underlying Mortgage Loans prepay at a rate faster than that under the Prepayment Assumption, an Owner's recognition of original issue discount will be accelerated. To the extent that such Mortgage Loans prepay at a rate slower than that under the Prepayment Assumption, an Owner's recognition of original issue discount will be delayed.

With respect to an SMBS Certificate that is entitled to a proportionately larger share of the interest payments on the underlying Mortgage Loans than of the principal payments thereon (or exclusively to interest payments), prepayments of principal on such Mortgage Loans will preclude

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

An Owner of an SMBS Certificate (other than an SMBS Certificate issued by an SMBS Trust that holds REMIC Certificates) will be entitled to a deduction each year with respect to payments attributable to the Servicing Fee allocable to such Certificate to the extent that such allocable Servicing Fee represents reasonable compensation for services rendered. Such deduction may be limited 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).

#### *Accrual of Original Issue Discount*

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

#### *Sale of an SMBS Certificate*

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



on the SMBS Certificate. The subsequent purchaser will be required for federal income tax purposes to accrue and report such market discount as if it were original issue discount in the manner described above.

#### *Possible Alternative Characterizations*

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

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

If an investor purchases SMBS Certificates of two or more Classes, while the matter is not free from doubt, it appears that the federal income tax treatment of the SMBS Certificates should be determined by treating each such SMBS Certificate separately, rather than as a combined Certificate evidencing ownership of the aggregate payments represented by the Owner's SMBS Certificates. On the other hand, if an Owner of such SMBS Certificates of two or more Classes surrenders such SMBS Certificates to Fannie Mae for an SMBS Certificate of a different Class or a Mega Certificate evidencing the aggregate payments represented by the surrendered SMBS Certificates, and the newly issued Certificate is sold to another person, while the matter again is not free from doubt, it appears that the Certificate so issued and sold should be treated as a single SMBS Certificate representing an ownership interest in the applicable payments on the underlying Mortgage Loans and taxed in accordance with this tax discussion or, in the case where the new Certificate is a Mega Certificate, in accordance with the discussion under the heading "Certain Federal Income Tax Consequences" in the Mega Prospectus. For federal income tax purposes, Fannie Mae intends to report to Holders of SMBS Certificates of two or more Classes and Holders of Certificates issued in exchange for SMBS Certificates of two or more other Classes in accordance with these positions. The IRS could assert, however, that combined treatment should apply to an investor owning two or more SMBS Certificates even if no exchange occurs, or conversely, that separate treatment should continue to apply even if an exchange does occur.

#### *Information Reporting and Backup Withholding*

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

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

Payments made to, or on behalf of, an Owner who is a "Non-U.S. Person" on an SMBS Certificate that represents an interest in a pool of mortgages all of which were issued after July 18, 1984 generally will be exempt from U.S. federal income and withholding taxes, provided the following conditions are satisfied: (a) such Owner does not hold the Certificate in connection with the conduct by such person of a trade or business in the United States, (b) the 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, (c) the 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, (d) the Owner is not an "excluded person" (i.e., a 10 percent shareholder of the Corporation within the meaning of section 871(b)(3)(B) of the Code or a "controlled foreign corporation" related to the Corporation within the meaning of section 881(c)(3)(C) of the Code), (e) the Owner signs a statement under penalties of perjury that certifies that it is a Non-U.S. Person, or, in the case of an individual, that the Owner is neither a citizen nor resident of the United States, and provides the name, address and taxpayer identification number, if any, of the Owner and (f) the last U.S. Person in the chain of payment to the Owner (the "Withholding Agent") receives such non-U.S. beneficial ownership statement from the Owner or a financial institution holding on behalf of the Owner and does not have actual knowledge that such statement is false. That portion of interest income of an Owner who is a Non-U.S. Person on a Certificate that represents an interest in one or more Mortgage Loans issued before July 19, 1984 will be subject to a U.S. withholding tax at the rate of 30 percent or lower treaty rate, if applicable. Regardless of the date of issuance of the Mortgage Loans, backup withholding will not apply to payments made to an Owner that is such a Non-U.S. Person if the Owner or a financial institution holding on behalf of the Owner provides the non-U.S. beneficial ownership statement to the Withholding Agent. In the case of an SMBS Trust holding REMIC Certificates, see the discussion under the heading "Certain Federal Income Tax Consequences—Foreign Investors—Regular Certificates" in the REMIC Prospectus.

### **LEGAL INVESTMENT CONSIDERATIONS**

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

### **LEGAL OPINION**

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

### **ERISA CONSIDERATIONS**

The Employee Retirement Income Security Act of 1974, as amended ("ERISA") and the Code impose certain requirements on employee benefit plans and certain other retirement plans and arrangements, as well as on collective investment funds and separate accounts in which such plans or arrangements are invested (all of which are hereinafter referred to as a "Plan") and on persons who are fiduciaries with respect to such Plans. Any Plan fiduciary which proposes to cause a Plan to

acquire SMBS Certificates would be required to determine whether such investment is permitted under the governing Plan instruments and is prudent and appropriate for the Plan in view of its overall investment policy and the composition and diversification of its portfolio. In addition, ERISA and the Code prohibit certain transactions involving the assets of a Plan and "disqualified persons" (within the meaning of the Code) and "parties in interest" (within the meaning of ERISA) who have certain specified relationships to the Plan. Therefore, a Plan fiduciary considering an investment in SMBS Certificates should also consider whether such an investment might constitute or give rise to a prohibited transaction under ERISA or the Code.

The United States Department of Labor issued a final regulation on November 13, 1986, which provides that in the case where a Plan acquires a "guaranteed governmental mortgage pool certificate" then, for purposes of the fiduciary responsibility provisions of ERISA and the prohibited transaction provisions of the Code, the Plan's assets include the certificate and all of its rights with respect to such certificate under applicable law, but do not, solely by reason of the Plan's holding of such certificate, include any of the mortgages underlying such certificate. Under the regulation, the term "guaranteed governmental mortgage pool certificate" is specifically defined to include a certificate "backed by, or evidencing an interest in specified mortgages or participation interests therein" and with respect to which interest and principal payable pursuant to the certificate are guaranteed by Fannie Mae. The effect of such regulation is to make clear that the sponsor (that is, the entity that organizes and services the pool, in this case Fannie Mae), the trustee, and other persons, in providing services with respect to the mortgages in the pool, would not be subject to the fiduciary responsibility provisions of Title I of ERISA, nor be subject to the prohibited transaction provisions of section 4975 of the Code, merely by reason of the Plan's investment in a certificate. At the time the regulation was originally issued, certificates similar to SMBS Certificates were not in existence. However, Fannie Mae has been advised by its counsel, Brown & Wood, that the SMBS Certificates qualify as "guaranteed governmental mortgage pool certificates," and thus the acquisition and holding of the SMBS Certificates by Plans would not be prohibited either by ERISA or related provisions of the Code.

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Prospectus Dated December 1, 1992

## Federal National Mortgage Association



### Guaranteed MBS Pass-Through Securities

("Mega Certificates")

(Backed by GNMA Certificates)

**Principal and Interest Payable on the 25th Day of Each Month  
Beginning in the Month Following the Issue Date**

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THE CERTIFICATES, TOGETHER WITH INTEREST THEREON, ARE NOT GUARANTEED BY THE UNITED STATES. THE OBLIGATIONS OF FANNIE MAE UNDER ITS GUARANTY OF THE CERTIFICATES ARE OBLIGATIONS SOLELY OF THE CORPORATION AND DO NOT CONSTITUTE AN OBLIGATION OF THE UNITED STATES OR ANY AGENCY OR INSTRUMENTALITY THEREOF OTHER THAN THE CORPORATION. THE CERTIFICATES ARE EXEMPT FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT OF 1933 AND ARE "EXEMPTED SECURITIES" WITHIN THE MEANING OF THE SECURITIES EXCHANGE ACT OF 1934.

The Guaranteed MBS Pass-Through Securities (the "Certificates") are issued and guaranteed as to timely distribution of principal and interest by the Federal National Mortgage Association, a corporation organized and existing under the laws of the United States (the "Corporation" or "Fannie Mae"). The Certificates represent beneficial ownership interests in the principal and interest distributions on certain "fully modified pass-through" mortgage-backed securities ("GNMA Certificates"), guaranteed as to timely distribution of principal and interest by the Government National Mortgage Association ("GNMA"). The GNMA Certificates will be held for the Holders (as hereinafter defined) of Certificates by Fannie Mae in its capacity as Trustee of the related Trust (the "Trust"). All Certificates relating to a particular Trust are hereinafter referred to as an "Issue." The GNMA Certificates represent beneficial interests in pools ("Pools") of first lien, residential mortgage loans (the "Mortgage Loans").

Each Issue of Certificates will be issued pursuant to a Trust Agreement dated as of April 1, 1988, executed by Fannie Mae in its corporate capacity and its capacity as Trustee, as supplemented by an Issue Supplement to the Trust Agreement, dated as of the Issue Date specified in the Preliminary Data Statement referred to in the attached SMBS Prospectus (collectively, the "Trust Agreement"). The Certificates will evidence the entire beneficial interest in the distributions of principal and interest on the underlying GNMA Certificates. Principal and interest will be distributed monthly on the 25th day of each month (or if such 25th day is not a business day, on the first business day next succeeding such 25th day, commencing in the month following the Issue Date) (each a "Distribution Date"). The aggregate distributions of principal and interest required to be made by Fannie Mae on each Distribution Date to Holders of Certificates will be calculated as described herein. The portion of principal and interest to which the Holder of each Certificate is entitled will be equal to the percentage obtained by dividing the original principal amount or "denomination" of such Certificate by the aggregate original principal amount of all Certificates of the related Issue.

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**This Prospectus does not contain complete information regarding this offering and should be read only in conjunction with the attached SMBS Prospectus.**

## THE GNMA CERTIFICATES

### GNMA

The Government National Mortgage Association ("GNMA") is a wholly owned corporate instrumentality of the United States within the Department of Housing and Urban Development. Section 306(g) of Title III of the National Housing Act of 1934, as amended (the "Housing Act"), authorizes GNMA to guarantee the timely payment of the principal of, and interest on, certificates that are based on and backed by a pool of mortgage loans insured by the Federal Housing Administration (the "FHA") under the Housing Act or Title V of the Housing Act of 1949, or partially guaranteed by the Department of Veterans Affairs ("VA") under the Servicemen's Readjustment Act of 1944, as amended, or Chapter 37 of Title 38, United States Code.

Section 306(g) of the Housing Act provides that "the full faith and credit of the United States is pledged to the payment of all amounts which may be required to be paid under any guaranty under this subsection." To meet its obligations under such guaranties, GNMA is authorized, under Section 306(d) of the Housing Act, to borrow from the United States Treasury with no limitations as to amount.

### GNMA Certificates

Each GNMA Certificate underlying an Issue of Certificates will be a "fully modified pass-through" mortgage-backed security issued and serviced by a mortgage banking company or other financial concern approved by GNMA as a seller-servicer of loans insured by the FHA and/or loans partially guaranteed by the VA. Each of the Mortgage Loans will be a fixed-rate, fully amortizing Mortgage Loan secured by a first mortgage or deed of trust on a one- to four-family residential property. Although GNMA Certificates may be backed by 15-year Mortgage Loans, GNMA's normal requirements provide that at least 90% of the principal amount of a pool or loan package must consist of Mortgage Loans with original maturities of at least 20 years. GNMA Certificates may be issued under either or both of the GNMA I program ("GNMA I Certificates") and the GNMA II program ("GNMA II Certificates"). The holder of a GNMA Certificate has essentially the same rights with respect to a GNMA Certificate issued under either program. However, there are certain differences between the two programs.

Under the GNMA I program, monthly payments will be made directly by the GNMA issuer to the registered holder of the GNMA I Certificate by the 15th calendar day of each month. Under the GNMA I program an individual GNMA issuer assembles a pool of mortgage loans against which it issues and markets GNMA I Certificates. All mortgage loans underlying a particular GNMA I Certificate must have the same annual interest rate, and the pass-through rate on each GNMA I Certificate will be 0.5% per annum less than the annual interest rate on the mortgage loans included in the pool of mortgage loans backing such GNMA I Certificate.

Under the GNMA II program, monthly payments will be made to the registered holder of the GNMA II Certificate through Chemical Bank, as paying agent, no later than the 20th calendar day of each month. Under the GNMA II program multiple issuer pools may be formed through the aggregation of loan packages of more than one GNMA issuer. Under this option, packages submitted by various GNMA issuers for a particular issue date and pass-through rate are aggregated into a single pool which backs a single issue of GNMA II Certificates. Each GNMA II Certificate issued under a multiple issuer pool is backed by a proportionate interest in the entire pool rather than solely by the loan package contributed by any one GNMA issuer. Single issuer pools also may be formed under the GNMA II program. Mortgages underlying a particular GNMA II Certificate may have annual interest rates that vary from each other by up to 1%, and the pass-through rate on each GNMA II Certificate will be between 0.5% and 1.5% per annum less than the highest annual interest rate on any mortgage loan included in the pool of mortgage loans backing such GNMA II Certificate.

## THE CERTIFICATES

The following summaries describe certain provisions of the Trust Agreement. Certain capitalized terms in these summaries are used as defined in the Trust Agreement. These summaries do not purport to be complete and are subject to, and qualified in their entirety by reference to, the more complete provisions of the Trust Agreement.

### **Transfer of GNMA Certificates to Mega Trust**

The GNMA Certificates transferred to a Trust will be identified in a Fannie Mae Security Schedule appearing as an exhibit to the Issue Supplement for such Trust, and will be held for the Holders of Certificates by Fannie Mae in its capacity as Trustee of the Trust.

### **Distributions on GNMA Certificates; Deposits in the Certificate Account**

Fannie Mae will deposit or credit to an account (the "Certificate Account") an amount equal to the sum of the distributions of the principal and interest on the GNMA Certificates in the Trust as the same are received. Amounts credited to the Certificate Account as of a Distribution Date will be available to be distributed to Holders on such date. Any reinvestment earnings on amounts so deposited will be used by Fannie Mae to pay the expenses of the Trust and will not be included in the calculation of amounts distributable to Certificateholders.

The Trust Agreement permits Fannie Mae as Trustee to maintain the Certificate Account either (i) as a trust account with an eligible depository institution (which account may contain other funds held by Fannie Mae in a trust capacity) or (ii) as part of Fannie Mae's general assets, with appropriate entries being made on its books and records designating the funds and investments credited to the Trust.

As noted above, Fannie Mae, as Trustee, has the option to maintain the Certificate Account as part of its general assets, by making appropriate entries on its books and records designating the funds and investments credited to the Trust. Although Fannie Mae is required to hold all such funds (and, upon deposit in the Certificate Account, the investment of such funds) for the account of Certificateholders in the Trust, the law applicable to a liquidation, reorganization or similar proceeding involving the assets of Fannie Mae is unclear and as a result no opinion can be rendered as to the status of Certificateholders' interest in such funds and investments in the event of any such proceeding.

### **Book-Entry Form**

The Certificates will be issued, maintained and may be transferred by Holders (as defined below) only on the book-entry system of the Federal Reserve Banks. Certificates will be issuable and transferable in minimum denominations of \$1,000 and integral multiples of \$1 in excess thereof.

Certificates may be held of record only by entities eligible to maintain book-entry accounts with a Federal Reserve Bank. Such entities whose names appear on the book-entry records of a Federal Reserve Bank as the entities for whose accounts Certificates have been deposited are herein referred to as "Holders." A Holder is not necessarily the beneficial owner of a Certificate. Beneficial owners will ordinarily hold Certificates through one or more financial intermediaries, such as banks, brokerage firms and securities clearing organizations. A Holder that is not the beneficial owner of a Certificate, and each other financial intermediary in the chain to the beneficial owner, will have the responsibility of establishing and maintaining accounts for its respective customers. The rights of the beneficial owner of a Certificate with respect to Fannie Mae and the Federal Reserve Banks may be exercised only through the Holder thereof. Fannie Mae and the Federal Reserve Banks will have no direct obligation to a beneficial owner of a Certificate that is not also the Holder of the Certificate. A Federal Reserve Bank will act only upon the instructions of the Holder in recording transfers of a Certificate.

A Fiscal Agency Agreement between Fannie Mae and the Federal Reserve Bank of New York makes generally applicable to the Certificates (i) regulations governing Fannie Mae's use of the book-

entry system, contained in 24 C.F.R. Part 81, Subpart E, and (ii) such procedures, insofar as applicable, as may from time to time be established by regulations of the United States Department of the Treasury governing United States securities, as now set forth in Treasury Department Circular Number 300, 31 C.F.R. Part 306 (other than Subpart 0). The Certificates are also governed by applicable operating circulars and letters of the Federal Reserve Banks.

#### **Distributions on Certificates**

On or about the fifth business day of each month, Fannie Mae will aggregate the amount of principal reported to be receivable on the GNMA I Certificates during such month on the basis of published GNMA factors for such month. For any GNMA I Certificate for which a factor is not available at such time and for all GNMA II Certificates, Fannie Mae will calculate the amount of scheduled payments of principal distributable in respect of such GNMA Certificates during such month on the basis of the assumed amortization schedules of the underlying Mortgage Loans. The amortization schedules will be prepared on the assumption that: (i) each of the Mortgage Loans underlying a single GNMA Certificate had an original term to maturity of 360 months (except in the case of GNMA Certificates backed by 15-year Mortgage Loans) and has a remaining term to maturity equal to the remaining term to maturity of the latest maturing Mortgage Loan underlying such GNMA Certificate at the origination of such GNMA Certificate; (ii) each Mortgage Loan underlying a GNMA I Certificate bears an interest rate 0.5% per annum in excess of the pass-through rate of such GNMA I Certificate; and (iii) each Mortgage Loan underlying a GNMA II Certificate bears an interest rate 1.5% per annum in excess of the pass-through rate of such GNMA II Certificate. All such amounts, whether reported in GNMA factors or calculated by Fannie Mae, will be reflected in the Mega Trust Factors (as defined herein) for the related Issue for the Distribution Date in such month and will be distributed to Holders of such Issue of Certificates on the following Distribution Date, whether or not received. There will also be reflected in such Mega Trust Factors and distributable as principal on such Distribution Date the excess of (a) the distributions of principal of the GNMA Certificates received during the month prior to the month of such Distribution Date, over (b) the amounts of principal calculated as distributable previously in accordance with the GNMA factors and the assumed amortization schedules specified above.

On each Distribution Date, Fannie Mae will, respecting each Trust, distribute to Holders of Certificates their respective Percentage Interests (as defined below) in the principal distributions (calculated as described above) and interest distributions on the underlying GNMA Certificates. Distributions on any Distribution Date will be made to Holders of record on the prior Record Date (the close of business on the last day of the immediately preceding month). The Percentage Interest evidenced by a Certificate in principal and interest distributions on the underlying GNMA Certificates is equal to the percentage equivalent of a fraction the numerator of which is the principal denomination of such Certificate and the denominator of which is the aggregate of the principal denominations of all Certificates of the related Issue.

#### **Fannie Mae Guaranty**

In the Trust Agreement, Fannie Mae guarantees to the Holders of Certificates that (i) the amount distributed by Fannie Mae in respect thereof on each Distribution Date will include an amount as to interest which is equal to one month's interest on the unpaid principal balance of the Certificates at the pass-through rate borne by the underlying GNMA Certificates and (ii) principal will be distributed on each Distribution Date in an amount calculated as described above, the aggregate of such principal distributions over the life of the Certificates being equal to the original principal amount of the Certificates.

#### **Information to Holders**

With respect to each distribution on the Certificates, Fannie Mae will cause to be forwarded to each Holder thereof a statement setting forth the total cash distribution on such Distribution Date with respect to the Certificates held by such Holder together with information as to the allocation thereof as between principal and interest. Within a reasonable period of time after the end of each



calendar year, Fannie Mae will furnish to each Holder who at any time during the calendar year was a Holder such information as shall be required pursuant to the Internal Revenue Code of 1986, as amended (the "Code"), and interpretations thereof.

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

The Trust Agreement provides that Fannie Mae may not resign from its obligations and duties thereunder, except upon determination that those duties are no longer permissible under applicable law. No such resignation will become effective until a successor has assumed Fannie Mae's obligations and duties under the Trust Agreement; provided, however, that no successor will succeed to Fannie Mae's guaranty obligations described above. Fannie Mae will continue to be responsible under its guaranty notwithstanding any termination of its other duties and responsibilities under the Trust Agreement. See "Rights Upon Event of Default" below.

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

In addition, the Trust Agreement provides that Fannie Mae is not under any obligation to appear in, prosecute, or defend any legal action that is not incidental to its responsibilities under the Trust Agreement and that in its opinion may involve it in any expense or liability. Fannie Mae may, however, in its discretion undertake any such legal action that it may deem necessary or desirable in the interests of the Holders. In such event, the legal expenses and costs of such action will be expenses and costs of Fannie Mae that will not be reimbursable to Fannie Mae out of any Trust.

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

#### **Events of Default**

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

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

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

### **Amendment**

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

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

### **Termination**

The Trust Agreement as it relates to each Trust terminates upon the distribution to Holders of all amounts required to be distributed. In no event, however, will any Trust continue beyond the expiration of 21 years from the death of the last survivor of the person named in the Trust Agreement. Fannie Mae will not at any time have an option to repurchase any or all GNMA Certificates in any Trust and thereby retire the Certificates.

### **MARGINABILITY; REPURCHASE AGREEMENTS**

The 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 Certificates, including repurchase agreements, are treated under such rules in the same manner as transactions in MBS Certificates.

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

Dewey Ballantine, special tax counsel to Fannie Mae, have delivered an opinion to Fannie Mae that each Trust will not be classified as an association taxable as a corporation, but will be classified as a trust of which the beneficial owners of the Certificates (the "Owners") are the owners under Subpart E of Part I of Subchapter J of the Code. Accordingly, each Owner will be treated as the owner of a pro rata undivided interest in the Mortgage Loans underlying the GNMA Certificates.

### **LEGAL OPINION**

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

### **ERISA CONSIDERATIONS**

The Department of Labor issued a final regulation on November 13, 1986, which provides that in the case where an employee benefit plan ("plan") subject to the Employee Retirement Income Security Act of 1974 ("ERISA") acquires a "guaranteed governmental mortgage pool certificate" then, for purposes of the fiduciary responsibility provisions of ERISA and the prohibited transaction provisions of the Code, the plan's assets include the certificate and all of its rights with respect to such certificate under applicable law, but do not, solely by reason of the plan's holding of such certificate, include any of the mortgages underlying such certificate. Under the regulation, the term "guaranteed governmental mortgage pool certificate" is specifically defined to include a certificate "backed by, or evidencing an interest in specified mortgages or participation interests therein" and with respect to which interest and principal payable pursuant to the certificate are guaranteed by Fannie Mae. The

effect of such regulation is to make clear that the sponsor (that is, the entity that organizes and services the trust, in this case Fannie Mae), the trustee, and other persons, in providing services with respect to the mortgages in the trust, would not be subject to the fiduciary responsibility provisions of Title I of ERISA, nor be subject to the prohibited transaction provisions of section 4975 of the Code, merely by reason of the plan's investment in a certificate. At the time this Labor Department regulation was originally issued, certificates similar to the Certificates were not in existence. However, Fannie Mae has been advised by its counsel, Brown & Wood, that the Certificates qualify as "guaranteed governmental mortgage pool certificates," and thus the acquisition and holding of the Certificates by plans would not be prohibited either by ERISA or related provisions of the Code.

No person has been authorized to give any information or to make any representations other than those contained or incorporated by reference in this Prospectus and the related Preliminary Data Statement or the Mega Prospectus and, if given or made, such information or representations must not be relied upon as having been authorized. This Prospectus, the Preliminary Data Statement and the Mega Prospectus do not constitute an offer to sell or the solicitation of an offer to buy any certificates other than the SMBS Certificates described in this Prospectus, or an offer to sell or the solicitation of an offer to buy such SMBS Certificates in any circumstances in which such offer or solicitation is unlawful. Neither the delivery of this Prospectus, the Preliminary Data Statement or the Mega Prospectus nor any sale made hereunder or thereunder shall, under any circumstances, create any implication that the information contained or incorporated by reference herein or therein is correct as of any time subsequent to the date of such information.

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**Federal National  
Mortgage Association**

**Stripped Mortgage-Backed  
Securities**

**SMBS Trust Consisting  
of Fannie Mae Guaranteed  
MBS Pass-Through  
Securities backed by  
GNMA Certificates**

