

I. OFFERING OF CONSOLIDATED BONDS

ough the Office of Finance, and pursuant to the Act, as amended, on Tuesday, April 14, 1998, the Federal Housing Finance Board offered the above series of bonds (the Bonds) for purchase by J.P. Morgan Securities Inc. at par less the concession described in Paragraph IV. The Bonds may be reoffered in one or more transactions at variable negotiated prices at the discretion of J.P. Morgan Securities Inc.

II. INTEREST RATE ON CMT INDEXED BONDS

Interest will be payable in arrears (on an actual/actual day basis) on the 24th of each month, commencing May 24, 1998 (an Interest Payment Date). The principal of the Bonds, together with the interest accrued and unpaid thereon, is due in full on April 24, 2000 (the Maturity Date).

The formulas for interest rates on the Bonds were established on Tuesday, April 14, 1998 to be effective April 24, 1998. For each Interest Period listed below, interest rates (Interest Reset Rates) per annum on the Bonds will be determined as described below in Determination of the 10-year CMT₍₁₎ and Determination of the 10-year CMT₍₂₎ and will be adjusted daily (a CMT₍₂₎ Reset Date). The Interest Reset Rate for the applicable CMT₍₂₎ Reset Date will be equal to a rate determined by the applicable formula.

Interest Period Commencing

Interest Reset Rate

April 24, 1998 through
April 23, 2000

If $5.00\% \leq 10\text{-year CMT}_{(2)} \leq 6.50\%$ $10\text{-year CMT}_{(1)} + 1.65\%$

If $10\text{-year CMT}_{(2)} < 5.00\%$ or $10\text{-year CMT}_{(2)} > 6.50\%$ 0%

provided, however, that the interest rate per annum will not be less than 0%. The 10-year CMT₍₁₎ for the initial Interest Period shall be determined according to the 10-year CMT₍₁₎ (as defined under Determination of the 10-year CMT₍₁₎) on the CMT₍₁₎ Determination Date (as defined below) of April 22, 1998.

Values input into the applicable formula and intermediate calculations expressed as a percentage shall be rounded to 5 decimal places and the resulting Interest Reset Rate expressed as a percentage shall be rounded to 3 decimal places. For example, if the Interest Reset Rate calculation produced 5.41254%, the Interest Reset Rate would be 5.413%. All dollar amounts resulting from application of the applicable formula will be rounded to the nearest cent. Accrued interest on the Bonds will be calculated by multiplying the principal amount of a Bond by an accrued interest factor. This accrued interest factor (rounded to nine decimal places) will be computed by adding the Interest Reset Rate for each day in the period for which accrued interest is being calculated (on an actual/actual day basis) and dividing the resulting total (the Cumulative Interest Rate) by the number of days in the year in which the applicable payment date occurs, i.e., 365 or 366. For accrued interest calculations, the accrued interest factor and the interest rate are not expressed on a percentage basis. For example, if the Cumulative Interest Rate is 25.25%, then the accrued interest factor would be equal to .2525 divided by the number of days in the year in which the applicable payment date occurs, i.e., 365 or 366.

neither the highest nor lowest of such quotes will be eliminated. If fewer than three Reference Dealers selected the Calculation Agent are quoting, the 10-year CMT₍₁₎ will be the 10-year CMT₍₁₎ in effect on the preceding CMT₍₁₎ Determination Date. For the purpose of determining a CMT₍₁₎ Determination Date, the term "New York Business Day" means any day on which commercial banks are open for business (including dealings in foreign exchange and foreign currency deposits) in New York City.

Determination of the 10-year CMT₍₂₎:

The 10-year CMT₍₂₎ shall be adjusted on each CMT₍₂₎ Reset Date. For each CMT₍₂₎ Reset Date, the 10-year CMT₍₂₎ shall be determined on the same day as such CMT₍₂₎ Reset Date (each a CMT₍₂₎ Determination Date) subject to the Rate Cut-Off Date (as defined herein). The 10-year CMT₍₂₎ for Saturday, Sunday or a day for which the 10-year CMT₍₂₎ is not available will be the 10-year CMT₍₂₎ from the immediately prior CMT₍₂₎ Determination Date for which the rate is available (for example, the rate for Saturday and Sunday will be determined on the preceding Friday). For each CMT₍₂₎ Determination Date, the 10-year CMT₍₂₎ shall be that rate published on Telerate page 7051 by the Department of Commerce under the column "10-yr" and next to the row for such CMT₍₂₎ Determination Date. Such rate is expected to be published on the New York Business Day immediately following such CMT₍₁₎ Determination Date. For example, the 10-year CMT₍₂₎ applied to the CMT₍₂₎ Reset Date of April 27, 1998 will be determined and applied on the CMT₍₂₎ Determination Date of April 27, 1998 (assuming such day is a New York Banking Day) and will be the rate as published on Telerate page 7051 and appearing under the column "10-yr" and next to the row dated "4/27/98", which is expected to be published on April 28, 1998. If Telerate page 7051 is unavailable, the 10-year CMT₍₂₎ for a CMT₍₂₎ Determination Date will be set forth in the Federal Reserve Statistical Release H.15 (519) opposite the caption "U.S. Government Securities/Treasury Constant Maturities/10-year" and under the column for such CMT₍₂₎ Determination Date. The Federal Reserve Statistical Release H.15 (519) is published on Mondays at approximately 3:45 p.m. ET and lists those rates opposite the caption "U.S. Government Securities/Treasury Constant Maturities/10-year" and under the column for each New York Banking Day during the week ending the immediately preceding Friday. For example, the 10-year CMT₍₂₎ applicable to the CMT₍₂₎ Reset Date of April 27, 1998 will be the rate for the CMT₍₂₎ Determination Date of April 27, 1998 published on May 4, 1998 (a Monday at approximately 3:45 p.m. ET) in the Federal Reserve Statistical Release H.15 (519) opposite the caption "U.S. Government Securities/Treasury Constant Maturities/10-year" and under the column "1998 April 27" (assuming such day is a New York Banking Day). If the rate, as published in the Federal Reserve Statistical Release H.15 (519), differs from the rate set forth on Telerate page 7051, then the latter will control as the 10-year CMT₍₂₎ applicable to the Bonds. The 10-year CMT₍₂₎ actually determined and applied on or before 11:00 a.m. on the date which is seven New York Banking Days prior to an Interest Payment Date (Rate Cut-Off Date) will be the 10-year CMT₍₂₎ for each CMT₍₂₎ Reset Date through the end of the Interest Period. For example, for the Interest Payment Date of May 24, 1998, the Rate Cut-Off Date for that Interest Payment Date will be Thursday, May 14, 1998 (assuming such day is seven New York Banking Days prior to the Interest Payment Date). The last 10-year CMT₍₂₎ actually determined and applied on or before 11:00 a.m. on Thursday, May 14, 1998, which is presently expected to be the 10-year CMT₍₂₎ determined and applied on May 13, 1998 (the 10-year CMT₍₂₎ Rate appear on Telerate page 7051 under the column "10 yr" for the row dated "5/13/98", which is expected to be published on May 14, 1998), will be the 10-year CMT₍₂₎ Rate for the period from May 13, 1998 through and including Friday, May 22, 1998. If such rate is no longer published in the Federal Reserve Statistical Release H.15 (519) or Telerate page 7051 (or its successor page as determined by the Calculation Agent), then the 10-year CMT₍₂₎ for such CMT₍₂₎ Determination Date will be such 10-year Treasury Constant maturity rate (or other 10-year United States Treasury rate) for the CMT₍₂₎ Determination Date as may then be published by either the Board of Governors of the Federal Reserve System or the United States Department of

historical experience of the index to which interest on the Bonds is tied should not be taken as an indication of its performance during the term of the Bonds. The Bonds are subject to redemption in whole. The Bonds may be redeemed before their stated maturity at a time when reinvestment opportunities at a similar or higher rate may not be available. IN ADDITION, THERE IS NO ASSURANCE THAT A SECONDARY MARKET FOR THE BONDS WILL DEVELOP, OR, IF IT DEVELOPS, THAT IT WILL CONTINUE.

IV. CONCESSION TO DEALER

A concession of \$.50 per \$1,000 par value on Series CC-9000 CMT Dependent Consolidated Bonds will be allowed to the Underwriter. The Underwriter will receive additional income (from parties other than the FHLBanks) that arises from a swap transaction entered into in connection with the issuance of the Bonds.

V. ADDITIONAL INFORMATION

United States Taxation

The Treasury Department has issued regulations relating to sections 1271 through 1275 of the Internal Revenue Code (the Regulations), which apply to the Bonds. Under the Regulations, the use of an interest rate structure that produces an upper limit or cap on the amount of interest paid on the Bonds during a given Interest period could result in the Bonds being treated for federal income tax purposes as if they were issued with original issue discount. However, the Regulations provide that no original issue discount will arise solely as a result of a cap that is fixed throughout the term of the debt instrument. Accordingly, because the upper limit or cap on the Bonds is fixed for the entire term of the Bonds, the Bonds will not be treated as issued with original issue discount.

In the case of a Holder reporting income on a cash basis, income will not be reportable until each Interest Payment Date of the Bonds. In the case of a Holder reporting income on an accrual basis, it appears that such Holder will report income for a taxable period based on the number of days in such period that the 10-year CMT₍₂₎ is within the specified range, divided by the number of days in such period, and multiplied by the Interest Reset Rate (10-year CMT₍₁₎ + 1.65%) determined for the Interest Period.

U.S. Federal Income Taxation

Disposition or Retirement of a Security

Effective as of July 29, 1997, the maximum tax rate on long-term capital gains has been reduced to 20% for property that has been held for more than 18 months. With respect to capital gains on property that has been held for more than 12 months, but not more than 18 months, the maximum tax rate continues to be 28%.

Recent Developments

Federal Home Loan Mortgage Corporation

Debentures

Medium-Term Notes

Discount Notes

Freddie Mac periodically will offer Debentures, Medium-Term Notes and Discount Notes (collectively, the "Securities") by means of this Offering Circular and, in the case of Debentures and Medium-Term Notes, an Offering Circular Supplement relating to the specific Debentures or Medium-Term Notes being offered. The Securities will constitute unsecured general obligations of Freddie Mac or, if so provided in the applicable Offering Circular Supplement, Debentures and Medium-Term Notes may constitute secured obligations or unsecured subordinated obligations of Freddie Mac. Certain capitalized terms used and not otherwise defined in this Offering Circular are defined in the Glossary.

Discount Notes will have maturities of one year or less from their Issue Date, will be sold on a discounted basis and will be paid only at maturity. Debentures and Medium-Term Notes will have the maturities and will bear interest as set forth in the applicable Offering Circular Supplement. Debentures and Medium-Term Notes may be interest-bearing at fixed or variable rates or may be non-interest bearing. Certain Debentures and Medium-Term Notes may be subject to redemption, in whole or in part, prior to maturity. The principal amount payable on Debentures and Medium-Term Notes at maturity or earlier redemption may be par, a specified amount above or below par, an amount determined by reference to one or more interest rate or exchange rate indices, or otherwise, as specified in the applicable Offering Circular Supplement. Certain Debentures and Medium-Term Notes may be separated ("stripped") into interest and principal components. Freddie Mac may issue Debentures and Medium-Term Notes having terms other than those described herein if so provided in the applicable Offering Circular Supplement.

THE SECURITIES ARE NOT SUITABLE INVESTMENTS FOR ALL INVESTORS. IN PARTICULAR, NO INVESTOR SHOULD PURCHASE ANY SECURITIES UNLESS THE INVESTOR UNDERSTANDS AND IS ABLE TO BEAR THE ASSOCIATED YIELD, MARKET AND LIQUIDITY RISKS AND ANY OTHER APPLICABLE RISKS (INCLUDING, IF APPLICABLE, THOSE ASSOCIATED WITH OPTIONAL REDEMPTION PROVISIONS AND PERIODIC INTEREST RATE ADJUSTMENTS).

Certain Securities are complex financial instruments. It is important that an investor in any Securities possess, either alone or with a financial advisor, the expertise necessary to evaluate the information contained or incorporated in this Offering Circular and any applicable Offering Circular Supplement in the context of that investor's financial situation. See "Certain Investment Considerations."

This Offering Circular should be read in conjunction with any applicable Offering Circular Supplements and with Freddie Mac's then-current Information Statement and Information Statement Supplements. See "Availability of Information and Incorporation by Reference."

THE SECURITIES ARE OBLIGATIONS OF FREDDIE MAC ONLY. THE SECURITIES, INCLUDING ANY INTEREST THEREON, ARE NOT GUARANTEED BY THE UNITED STATES AND DO NOT CONSTITUTE DEBTS OR OBLIGATIONS OF THE UNITED STATES OR ANY AGENCY OR INSTRUMENTALITY OF THE UNITED STATES OTHER THAN FREDDIE MAC. INCOME ON THE SECURITIES HAS NO EXEMPTION UNDER FEDERAL LAW FROM FEDERAL, STATE OR LOCAL TAXATION. THE SECURITIES 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.

Freddie Mac may sell Debentures and Medium-Term Notes to Dealers as principals, either individually or as part of a syndicate. Freddie Mac may also offer Debentures and Medium-Term Notes through selected Dealers as agents of Freddie Mac, or directly to investors on its own behalf. Discount Notes will be offered for sale on a continuous basis by allocation, auction or other methods to selected Dealers. See "Plan of Distribution."

This Offering Circular may not be used to consummate sales of Debentures or Medium-Term Notes unless accompanied by any applicable Offering Circular Supplements.

AVAILABILITY OF INFORMATION AND INCORPORATION BY REFERENCE

Freddie Mac prepares an annual Information Statement that describes Freddie Mac, its business and operations and contains Freddie Mac's audited financial statements. From time to time, Freddie Mac prepares Information Statement Supplements that include unaudited financial data and other information concerning its business and operations. This Offering Circular should be read in conjunction with Freddie Mac's most recent Information Statement and any supplement thereto, each of which is incorporated by reference in this Offering Circular. Investors can obtain any of these documents and any other documents prepared and made available by Freddie Mac by writing or calling Investor Inquiry at Freddie Mac at 8200 Jones Branch Drive, McLean, Virginia 22102 (outside Washington, D.C. metropolitan area, phone 800/336-3672; within Washington, D.C. metropolitan area, phone 703/759-8160).

Freddie Mac will prepare, in respect of each particular issue of Debentures or Medium-Term Notes, an Offering Circular Supplement which will contain the terms of, and pricing information for, such issue of Debentures or Medium-Term Notes and such other information as Freddie Mac considers necessary or appropriate. Each such Offering Circular Supplement should be read together with this Offering Circular.

FEDERAL HOME LOAN MORTGAGE CORPORATION

Freddie Mac is a shareholder owned government-sponsored enterprise chartered on July 24, 1970 pursuant to the Freddie Mac Act. Freddie Mac's statutory purpose is (i) to provide stability in the secondary market for residential mortgages, (ii) to respond appropriately to the private capital market, (iii) to provide ongoing assistance to the secondary market for residential mortgages (including activities relating to mortgages on housing for low- and moderate-income families involving a reasonable economic return that may be less than the return earned on other activities) and (iv) to promote access to mortgage credit throughout the United States (including central cities, rural areas and underserved areas) by increasing the liquidity of mortgage investments and improving the distribution of investment capital available for residential mortgage financing. The principal activity of Freddie Mac consists of the purchase of first lien, conventional, residential mortgages from mortgage lending institutions. Freddie Mac finances its purchases of mortgages principally by sales of guaranteed mortgage securities. Freddie Mac also finances mortgage purchases with debt securities, other liabilities (primarily cash temporarily held pending disbursement to securities holders) and equity capital. Neither the United States nor any agency or instrumentality of the United States is obligated, either directly or indirectly, to fund the mortgage purchase or financing activities of Freddie Mac.

CAPITALIZATION

Freddie Mac's capitalization as of the end of the most recent fiscal year for which an Information Statement has been published is set forth in such Information Statement and its capitalization as of the end of the most recent fiscal quarter for which an Information Statement Supplement has been published is set forth in such Information Statement Supplement. Freddie Mac engages in transactions affecting stockholders' equity from time to time and issues or retires debt obligations on an ongoing basis. Accordingly, on any date subsequent to the date of an Information Statement or Information Statement Supplement, stockholders' equity may differ, and the amount of debt obligations outstanding will differ, and may differ substantially, from the figures contained in the capitalization table set forth in such Information Statement or Information Statement Supplement.

continue in the future. Fluctuations in any particular interest rate or other index that have occurred in the past are not necessarily indicative, however, of fluctuations that may occur in the future.

Market, Liquidity and Yield Considerations

Secondary Markets and Market Values

The Securities offered hereby will have no established trading market when issued (with the possible exception of Securities having the same terms and conditions as Securities for which settlement has previously occurred). Freddie Mac has been advised that certain Dealers for the Securities intend to use their best efforts to make a secondary market in certain Securities offered by or through them, but such Dealers are not obligated to do so and may discontinue any such secondary market making at any time without notice. There is no assurance that a secondary market for any of the Securities, particularly those that are especially sensitive to interest rate or market risks or that have been structured to meet the investment requirements of limited categories of investors, will develop or that such a market, if it develops, will be, or continue to be, liquid. Consequently, investors may not be able to sell their Securities readily or at prices that will enable them to realize a yield comparable to that of similar instruments with a developed secondary market. Investors seeking to purchase or sell relatively small amounts of Securities may not be able to do so at prices comparable to those that may be available to investors seeking to purchase or sell relatively large amounts of Securities. The market values of the Securities are likely to fluctuate; such fluctuations may be significant and, in the case of certain types of Securities, could result in significant losses to investors, particularly those investors whose circumstances do not permit them to hold the Securities until maturity.

Any secondary market for, and the market value of, an issue of Securities will be affected by a number of factors independent of the creditworthiness of Freddie Mac and the value of any applicable index or indices. These factors may include the complexity and volatility of such index or indices, any applicable method of calculating the principal or any interest to be paid in respect of such Securities, the time remaining to the maturity of such Securities, the outstanding amount of such Securities, the availability of comparable securities, any applicable redemption features of such Securities, the amount of other securities linked to any applicable index or indices, and the level, direction and volatility of market interest rates generally.

The market prices of zero coupon instruments, such as Discount Notes and Zero Coupon Debentures and Medium-Term Notes, as well as other instruments issued at a substantial discount from their principal amount payable at maturity or upon redemption, tend to fluctuate more in relation to general changes in interest rates than do such prices for conventional interest-bearing securities with comparable maturities. Likewise, the market prices of instruments issued at a substantial premium to their principal amount payable at maturity or upon redemption, such as Debentures or Medium-Term Notes issued with significantly above-market interest rates, tend to fluctuate more in relation to general changes in interest rates than do the prices of conventional securities with at-the-market interest rates and comparable maturities. In addition, certain Debentures and Medium-Term Notes may be structured to meet the investment requirements of limited categories of investors and such securities therefore may have a more limited secondary market and experience more price volatility than conventional debt securities.

The secondary markets for Securities that are especially sensitive to interest rate or market risks or that have been structured to meet the investment requirements of limited categories of investors have experienced periods of illiquidity and may do so in the future. Illiquidity can have a severely adverse effect on the prices of Securities. Investors in such Securities should consider whether their circumstances permit them to hold the Securities until maturity or otherwise to bear the risks of illiquidity and price volatility.

Redeemable Debentures and Medium-Term Notes

Certain Debentures and Medium-Term Notes, as described in the applicable Offering Circular Supplement, may be redeemed by Freddie Mac from and after a specified date, typically at 100% of their principal amount plus accrued interest. Optional redemption provisions are likely to restrict the market values that such

converse effect. Variable Rate Debentures and Medium-Term Notes with Leverage Factors are referred to as "leveraged," and those with Deleverage Factors are referred to as "deleveraged." In general, the volatility associated with the level of an applicable index is higher for leveraged Debentures and Medium-Term Notes and lower for deleveraged Debentures and Medium-Term Notes. For example, a leveraged Variable Rate Debenture or Medium-Term Note with an interest rate determined on the basis of an inverse relationship to a specified index generally will experience an accentuated decline in its interest rate as the value of the applicable index increases, compared to a Variable Rate Debenture or Medium-Term Note that does not have a Leverage Factor. The interest rate of a deleveraged Variable Rate Debenture or Medium-Term Note with an interest rate determined on the basis of an inverse relationship to a specified index generally will decline more slowly as the value of the applicable index increases, compared to a Variable Rate Debenture or Medium-Term Note that does not have a Deleverage Factor.

In addition, investors in Variable Rate Debentures and Medium-Term Notes should consider the effects on interest rates and yields of any applicable maximum interest rates or minimum interest rates and of any delays in periodic interest rate adjustments.

The indices applicable to Variable Rate Debentures and Medium-Term Notes are not likely to remain constant at any level. The timing of changes in the level of an applicable index may affect the actual yield to an investor, even if the average level is consistent with the investor's expectation. In general, the earlier a change in the level of an applicable index, the greater the effect on an investor's yield, especially in the case of Debentures and Medium-Term Notes providing for repayment of principal at one or more times prior to maturity. As a result, the effect on an investor's yield of an index level that is lower (or higher) than the rate anticipated by the investor during earlier periods is not likely to be offset by a later equivalent increase (or reduction). Moreover, changes in the index applicable to a particular Variable Rate Debenture or Medium-Term Note may not correlate with changes in interest rates generally or with changes in other indices. An investor's yield could be either adversely or positively affected if changes in the index applicable to that investor's Variable Rate Debenture or Medium-Term Note do not reflect changes in interest rates generally.

DESCRIPTION OF THE SECURITIES

General

The Securities will be issued pursuant to authority vested in Freddie Mac by Section 306(a) of the Freddie Mac Act. Debentures and Medium-Term Notes will be issued pursuant to the Debenture and Medium-Term Note Agreement and the applicable Supplemental Agreement, and Discount Notes will be issued pursuant to the Discount Note Agreement. Copies of the Debenture and Medium-Term Note Agreement and the Discount Note Agreement (together, the "Agreements") and any applicable Supplemental Agreement are available from Investor Inquiry upon request. By receiving and accepting a Security, or an interest in a Security, each Holder, financial intermediary and Beneficial Owner of the Security agrees to be bound by the terms and conditions of the applicable Agreement, as supplemented, modified or amended, pursuant to its terms, from time to time. See "The Agreements—Binding Effect of the Agreements."

Freddie Mac may require a Holder of a Security, as a condition to payment of principal of or interest on such Security or as a condition to transfer or exchange of such Security, to present a certificate in the form prescribed by Freddie Mac to enable Freddie Mac to determine its duties and liabilities with respect to any taxes or other charges which may be required to be deducted or withheld under United States law or any reporting or other requirements thereunder.

The Securities are obligations of Freddie Mac only. The Securities, including any interest thereon, are not guaranteed by the United States and do not constitute debts or obligations of the United States or any agency or instrumentality of the United States other than Freddie Mac. The Securities 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.

date, or during one or more specified periods of time, upon such terms and procedures as are described in the applicable Offering Circular Supplement.

The principal amount payable on the Maturity Date or upon redemption of a Debenture or Medium-Term Note will be a fixed amount (the "Fixed Principal Repayment Amount") equal to 100% of the principal amount thereof (*i.e.*, par), or a specified amount above or below such principal amount, or an amount (the "Variable Principal Repayment Amount") determined by reference to one or more interest rate or exchange rate indices or otherwise, in each case as specified in the applicable Offering Circular Supplement.

Payment Terms

Debentures and Medium-Term Notes may bear interest at one or more fixed rates or variable rates or may not bear interest. Freddie Mac will specify in the applicable Offering Circular Supplement whether such Debenture or Medium-Term Note is a Fixed Rate Debenture or Medium-Term Note, a Step Debenture or Medium-Term Note, a Variable Rate Debenture or Medium-Term Note, a Fixed/Variable Rate Debenture or Medium-Term Note, a Zero Coupon Debenture or Medium-Term Note or otherwise. Each type of Debenture or Medium-Term Note is defined below:

- "Fixed Rate Debentures or Medium-Term Notes" are Debentures or Medium-Term Notes that bear interest at a fixed rate.
- "Fixed/Variable Rate Debentures or Medium-Term Notes" are Debentures or Medium-Term Notes that bear interest at a fixed rate for one or more specified periods and at a variable rate, reset periodically, determined by reference to one or more interest rate or exchange rate indices, or otherwise, for one or more other specified periods.
- "Step Debentures or Medium-Term Notes" are Debentures or Medium-Term Notes that bear interest at specified fixed rates for specified periods.
- "Variable Rate Debentures or Medium-Term Notes" are Debentures or Medium-Term Notes that bear interest at a variable rate, reset periodically, determined by reference to one or more interest rate or exchange rate indices, or otherwise.
- "Zero Coupon Debentures or Medium-Term Notes" are Debentures or Medium-Term Notes that do not bear interest and are issued at a discount to their principal amount.

If so provided in the applicable Offering Circular Supplement, Debentures and Medium-Term Notes may be separated ("stripped") by a Holder into an interest component that includes the right to receive all interest payments, or specified portions thereof, and a principal component that includes the right to receive principal payments only or payments of principal and specified portions of interest. The applicable Offering Circular Supplement for such Debentures and Medium-Term Notes will describe the procedure for stripping such Debentures and Medium-Term Notes into such interest and principal components.

The applicable Offering Circular Supplement will specify the frequency with which interest is payable on the related Debentures and Medium-Term Notes. Interest on Debentures and Medium-Term Notes will be payable in arrears on the Interest Payment Dates specified in the applicable Offering Circular Supplement and on the Principal Payment Date.

Each issue of interest-bearing Debentures and Medium-Term Notes will bear interest from and including the most recent Interest Payment Date or, if no interest has been paid or made available for payment in respect of such issue of Debentures and Medium-Term Notes, from and including the Issue Date of such issue of Debentures or Medium-Term Notes (or such other date specified in the applicable Offering Circular Supplement) to but excluding the applicable Interest Payment Date or the Principal Payment Date (each such period is referred to herein as an "Interest Period"). The Maturity Date or, if applicable, earlier date of redemption is referred to herein as the "Principal Payment Date" with respect to the principal of such Debentures and Medium-Term Notes

"Actual/360" means that interest or any other relevant accrual factor will be calculated on the basis of the actual number of days elapsed in a year of 360 days.

"Actual/365 (fixed)" means that interest or any other relevant accrual factor will be calculated on the basis of the actual number of days elapsed in a year of 365 days, regardless of whether payment occurs during a calendar leap year.

"Actual/Actual" means that interest or any other relevant accrual factor will be calculated on the basis of (i) the actual number of days elapsed in the Interest Period divided by 365, or (ii) if any portion of the Interest Period falls in a calendar leap year, (A) the actual number of days in that portion of the Interest Period falling in the calendar leap year divided by 366 plus (B) the actual number of days in that portion of the Interest Period falling in a calendar non-leap year divided by 365.

The applicable Offering Circular Supplement will specify the frequency with which the rate of interest on the related Variable Rate Debentures and Medium-Term Notes will reset (which may be daily, weekly, monthly, quarterly, semiannually, annually or any other frequency). The applicable Offering Circular Supplement also will specify the dates on which a new rate of interest becomes effective (each, a "Reset Date"). Variable Rate Debentures and Medium-Term Notes may bear interest prior to the initial Reset Date at an initial interest rate, if any, specified in the applicable Offering Circular Supplement. Each period beginning on the applicable Reset Date and ending on the calendar day preceding the next Reset Date is referred to herein as an "Interest Reset Period." The rate of interest applicable to each Interest Reset Period will be determined as of the applicable Determination Date. Except as described in the succeeding sentence, the Determination Date for a Variable Rate Debenture or Medium-Term Note means the second Business Day preceding the Reset Date applicable to an Interest Reset Period. The Determination Date for a Variable Rate Debenture or Medium-Term Note as to which the rate of interest thereon is determined by reference to LIBOR means the second London Banking Day preceding the Reset Date applicable to an Interest Reset Period.

If the rate of interest on a Variable Rate Debenture or Medium-Term Note is subject to adjustment within an Interest Period, accrued interest will be calculated by multiplying the principal amount of such Variable Rate Debenture or Medium-Term Note by an accrued interest factor. Unless otherwise specified in the applicable Offering Circular Supplement, this accrued interest factor will be computed by adding the interest factor calculated for each Interest Reset Period in such Interest Period and rounding the sum to nine decimal places. The interest factor for each such Interest Reset Period will be computed by multiplying the number of days in the Interest Reset Period by the interest rate (expressed as a decimal) applicable to such Interest Reset Period and dividing the product by the number of days in the year referred to in the accrual method specified in the applicable Offering Circular Supplement.

The determination of the interest rate on Variable Rate Debentures and Medium-Term Notes (or any interim calculation in the determination of such interest rate) by the Calculation Agent shall, absent manifest error, be final and binding on all parties. The "Calculation Agent" will be Freddie Mac or a bank or broker-dealer designated by Freddie Mac.

Information concerning the current interest rate on Variable Rate Debentures and Medium-Term Notes is expected to be available from Freddie Mac, by writing or calling Investor Inquiry at Freddie Mac at the address and telephone numbers shown on page 3, and, if Freddie Mac is not the Calculation Agent, from the Calculation Agent.

LIBOR. If the applicable Offering Circular Supplement specifies LIBOR as the applicable interest rate index for determining the rate of interest for the related Variable Rate Debenture or Medium-Term Note, the following provisions will apply:

"LIBOR" means, with respect to a Reset Date (in the following order of priority):

(i) the rate (expressed as a percentage per annum) for Deposits having the Index Maturity that appears on the Designated Telerate Page as of 11:00 a.m. (London time) on the related Determination Date;

(ii) if such rate does not appear on the Designated Telerate Page as of 11:00 a.m. (London Time) on the related Determination Date, LIBOR will be the rate (expressed as a percentage per annum) for Deposits having the Index Maturity that appears on the Designated Reuters Page as of 11:00 a.m. (London time) on such Determination Date;

(iii) if such rate does not appear on the Designated Reuters Page as of 11:00 a.m. (London time) on the related Determination Date, the Calculation Agent will request the principal London offices of four leading banks in the London interbank market selected by the Calculation Agent (after consultation with Freddie Mac, if Freddie Mac is not then acting as Calculation Agent) to provide such bank's offered quotation (expressed as a percentage per annum) to prime banks in the London interbank market for Deposits having the Index Maturity as of 11:00 a.m. (London time) on such Determination Date and in a Representative Amount. If at least two quotations are provided, LIBOR will be the arithmetic mean (if necessary rounded upwards) of such quotations;

(iv) if fewer than two such quotations are provided as requested in clause (iii) above, the Calculation Agent will request four major banks in the City of New York selected by the Calculation Agent (after consultation with Freddie Mac, if Freddie Mac is not then acting as Calculation Agent) to provide such bank's offered quotation (expressed as a percentage per annum) to leading European banks for loans in U.S. dollars having the Index Maturity, commencing on such Reset Date, as of approximately 11:00 a.m. in the City of New York on such Determination Date and in a Representative Amount. If at least two such quotations are provided, LIBOR will be the arithmetic mean (if necessary rounded upwards) of such quotations; and

(v) if fewer than two such quotations are provided as requested in clause (iv) above, LIBOR will be LIBOR determined with respect to the Reset Date immediately preceding such Reset Date (or, in the case of the first Reset Date, will be the rate for Deposits having the Index Maturity as of 11:00 a.m. (London time) on the most recent London Banking Day preceding the related Determination Date for which such rate shall have been displayed on either the Designated Telerate Page or the Designated Reuters Page with respect to deposits commencing on the second London Banking Day following such date (and if such rate appears on both such screens on such London Banking Day, using the Designated Telerate Page)).

If the rate for Deposits having the Index Maturity that initially appears on the Designated Telerate Page or the Designated Reuters Page, as the case may be, as of 11:00 a.m. (London time) on the related Determination Date is superseded on the Designated Telerate Page or the Designated Reuters Page, as the case may be, by a corrected rate before 12:00 noon (London time) on such Determination Date, such corrected rate as so substituted on the applicable page shall be the applicable LIBOR for such Determination Date.

"Deposits" means deposits in U.S. dollars commencing on the applicable Reset Date.

"Designated Reuters Page" means the display on the Reuters Monitor Money Rates Service for the purpose of displaying interbank rates from London for deposits in U.S. dollars, which will be the ISDA page (or such other page as may replace the ISDA page on that service for the purpose of displaying interbank rates from London in U.S. dollars).

"Designated Telerate Page" means the display on the Dow Jones Telerate Service for the purpose of displaying the London interbank rates for deposits in U.S. dollars, which will be page 3750 (or such other page as may replace page 3750 on that service or such other service as may be nominated by the British Bankers' Association as the information vendor for the purpose of displaying British Bankers' Association Interest Settlement Rates for deposits in U.S. dollars).

"Index Maturity" means the period with respect to which LIBOR will be calculated that is specified in the applicable Offering Circular Supplement.

"London Banking Day" means any day on which commercial banks are open for business (including dealings in deposits in U.S. dollars) in London.

"Representative Amount" means a principal amount of not less than U.S. \$1,000,000 that, in the Calculation Agent's sole judgment, is representative for a single transaction in the relevant market at the relevant time.

Secured Debentures and Medium-Term Notes. If so provided in the applicable Offering Circular Supplement, the indebtedness represented by certain Debentures and Medium-Term Notes will be secured obligations of Freddie Mac. In such event, the description of the security interest and the terms of the grant of the security interest will be set forth in the applicable Offering Circular Supplement.

Subordinated Debentures and Medium-Term Notes. If so provided in the applicable Offering Circular Supplement, the indebtedness represented by certain Debentures and Medium-Term Notes and the payment of principal of and interest on such Debentures and Medium-Term Notes will be subordinated to prior payment in full of all "Senior Obligations" of Freddie Mac which are due and payable. Such Senior Obligations of Freddie Mac will be specified in the applicable Offering Circular Supplement.

Business Day Convention

Unless otherwise specified in the applicable Offering Circular Supplement, in any case in which an Interest Payment Date or Principal Payment Date is not a Business Day, payment of any interest on or the principal of the Debentures and Medium-Term Notes will not be made on such date but will be made on the next Business Day with the same force and effect as if made on such Interest Payment Date or Principal Payment Date, as the case may be. Unless otherwise specified in the applicable Offering Circular Supplement, no interest on such payment will accrue for the period from and after such Interest Payment Date or Principal Payment Date, as the case may be, to the date of such payment.

As used herein, "Business Day" means any day other than (a) a Saturday, (b) a Sunday, (c) a day on which the Federal Reserve Bank of New York is authorized or obligated by law or executive order to remain closed or (d) as to any Holder, a day on which the Federal Reserve Bank at which such Holder's account is maintained is authorized or obligated by law or executive order to remain closed.

Further Issues of Debentures and Medium-Term Notes

In its discretion and at any time, Freddie Mac may offer additional Debentures and Medium-Term Notes which have the same terms (other than Issue Date, interest commencement date and issue price) and conditions as Debentures and Medium-Term Notes for which settlement has previously occurred or been scheduled so as to form a single series of Debentures and Medium-Term Notes as specified in the applicable Offering Circular Supplement.

Discount Notes

Discount Notes issued hereunder will be unsecured general obligations of Freddie Mac. Discount Notes will be offered on a continuous basis, have maturities of one year or less and be paid only on their Maturity Dates at their principal amounts. Discount Notes will be issued and must be maintained and transferred on the Fed Book-Entry System in minimum principal amounts of \$25,000 and additional increments of \$1,000.

Discount Notes will be sold on a discounted basis. The purchase price of a Discount Note will be the difference between the principal amount of the Discount Note and the amount derived from the following formula:

$$\frac{\text{Principal Amount of Discount Note} \times \text{Percentage of Discount}}{360 \text{ days}} \times \text{Number of Days From Issue Date to Maturity Date of Discount Note}$$

Freddie Mac generally will not offer a Discount Note having a Maturity Date that is not a Business Day. In the event that the Maturity Date of a Discount Note should fall on a day that is not a Business Day, the Maturity

owners of Securities for the purpose of making payments in respect thereof and for all other purposes, whether or not such Securities shall be overdue and notwithstanding any notice to the contrary.

Payments

Payments of principal of and any interest on Securities will be made in U.S. dollars on the applicable payment dates to Holders thereof as of the end of the Business Day preceding such payment dates. Payments on Securities will be made by credit of the payment amount to the Holders' accounts at the Federal Reserve Banks. All payments to or upon the order of a Holder will be valid and effective to discharge the liability of Freddie Mac and the Fiscal Agent in respect of the related Securities. The Holders and each other financial intermediary holding such Securities directly or indirectly on behalf of the Beneficial Owners will have the responsibility of remitting payments for the accounts of their customers. All payments on Securities are subject to any applicable law or regulation.

Fiscal Agent

The Federal Reserve Banks will be the fiscal agents for Securities. Freddie Mac and the Federal Reserve Banks may amend, modify or supplement in any respect, or may terminate, substitute or replace, the Fiscal Agency Agreement.

In acting under the Fiscal Agency Agreement, the Federal Reserve Banks act solely as fiscal agent of Freddie Mac and do not assume any obligation or relationship of agency or trust for or with any Holder of a Security.

THE AGREEMENTS

The following summary describes certain provisions of the Agreements not otherwise described in this Offering Circular.

Binding Effect of the Agreements

By receiving and accepting a Security, each Holder, financial intermediary and Beneficial Owner of such Security agrees, without any signature or further manifestation of assent, to be bound by the terms and conditions of the applicable Agreement, as supplemented, modified or amended pursuant to its terms, from time to time.

The Agreements will be binding upon and inure to the benefit of any successor to Freddie Mac.

Events of Default

Under the Debenture and Medium-Term Note Agreement, an "Event of Default" with respect to a specific issue of Debentures or Medium-Term Notes will consist of (i) any failure by Freddie Mac to pay to Holders of such Debentures or Medium-Term Notes any required payment that continues unremedied for 30 days; (ii) any failure by Freddie Mac to perform in any material respect any other covenant or agreement in the Debenture and Medium-Term Note Agreement, which failure continues unremedied for 60 days after the giving of notice of such failure to Freddie Mac by the Holders of not less than 25% of the outstanding principal amount (or notional principal amount) of such Debentures or Medium-Term Notes; or (iii) certain events of bankruptcy, insolvency or similar proceedings involving Freddie Mac. The Discount Note Agreement does not define events of default or specify the remedies available to Holders in the event of a default by Freddie Mac thereunder.

Rights Upon Event of Default—Debentures and Medium-Term Notes

As long as an Event of Default under the Debenture and Medium-Term Note Agreement remains unremedied, Holders of not less than 50% of the outstanding principal amount (or notional principal amount) of an issue of Debentures or Medium-Term Notes to which such Event of Default relates may, by written notice to Freddie Mac, declare such Debentures or Medium-Term Notes due and payable.

OFFERING CIRCULAR

\$400,010,000

Federal National Mortgage Association



Guaranteed REMIC Pass-Through Certificates, Fannie Mae REMIC Trust 1990-2

The Guaranteed REMIC Pass-Through Certificates offered hereby (the "REMIC Certificates") represent beneficial ownership interests in Fannie Mae REMIC Trust 1990-2 (the "Trust"), consisting of one or more Fannie Mae Guaranteed Mortgage Pass-Through Certificates (the "MBS Certificates"), each of which represents a beneficial interest in a pool of first lien, single-family, fixed-rate mortgage loans (the "Mortgage Loans"). The REMIC Certificates are to be issued and guaranteed as to timely distribution of principal and interest by Fannie Mae and are offered by Fannie Mae pursuant to its Prospectus for Guaranteed Mortgage Pass-Through Certificates dated November 1, 1989 (the "MBS Prospectus"), its Prospectus for Guaranteed REMIC Pass-Through Certificates dated July 13, 1989 (the "REMIC Prospectus") and its Prospectus Supplement dated November 28, 1989 (the "Prospectus Supplement"), each accompanying this Offering Circular. Morgan Stanley & Co. Incorporated ("Morgan Stanley") is to receive the REMIC Certificates in exchange for the MBS Certificates pursuant to a Fannie Mae commitment and will sell them as described below and under "Plan of Distribution" herein.

THE OBLIGATIONS OF FANNIE MAE UNDER ITS GUARANTY OF THE REMIC CERTIFICATES ARE OBLIGATIONS OF FANNIE MAE ONLY AND ARE NOT BACKED BY THE FULL FAITH AND CREDIT OF THE UNITED STATES. THE REMIC CERTIFICATES ARE EXEMPT FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT OF 1933 AND ARE "EX-EMPTED SECURITIES" WITHIN THE MEANING OF THE SECURITIES EXCHANGE ACT OF 1934.

	Original Principal Amount	Interest Rate	Final Distribution Date (1)	Price to Public (2)
Class 2-A	\$27,479,000	8.625%	January 2005	(4)
Class 2-B	\$20,845,000	8.750%	November 2008	99.9581%
Class 2-C	\$36,721,000	8.800%	January 2013	99.8602%
Class 2-D	\$54,761,000	8.375%	December 2016	96.8883%
Class 2-E	\$41,073,000	8.700%	December 2018	97.4456%
Class 2-G	\$27,078,000	7.350%	January 2020	(5)
Class 2-H	\$70,415,000	9.125%	June 2016	(5)
Class 2-J	\$73,628,000	9.300%	June 2016	(5)
Class 2-K	\$31,000,000	9.150%	December 2016	(5)
Class 2-Z	\$17,000,000	9.500%	January 2020	(5)
Class 2-R	\$ 10,000	(3)	January 2020	(5)

(1) Determined on the basis of the assumptions referred to under "Description of the REMIC Certificates—Final Distribution Dates and Weighted Average Lives of the REMIC Certificates" in the Prospectus Supplement.

(2) Plus, except in the case of the Class 2-R REMIC Certificates, accrued interest from January 1, 1990.

(3) Holders of the Class 2-R REMIC Certificates will be entitled on each Distribution Date to receive all Surplus Cash. See "Description of the REMIC Certificates—Additional Characteristics of the Class 2-R REMIC Certificates" in the Prospectus Supplement.

(4) The Class 2-A REMIC Certificates will be sold to Fannie Mae by Morgan Stanley in a negotiated transaction and are not offered hereby.

(5) The Class 2-G, Class 2-H, Class 2-J, Class 2-K, Class 2-Z and Class 2-R REMIC Certificates are being offered by Morgan Stanley from time to time in negotiated transactions, at varying prices to be determined at the time of sale.

The REMIC Certificates are offered by Morgan Stanley, subject to issuance by Fannie Mae and to prior sale, withdrawal or modification of the offer without notice, when, as and if delivered to and accepted by Morgan Stanley, and subject to approval of certain legal matters by counsel. It is expected that the REMIC Certificates, except for the Class 2-R REMIC Certificates, will be available through the book-entry system of Federal Reserve Banks on or about January 30, 1990. It is expected that the Class 2-R REMIC Certificates registered, certificated form will be available for delivery at the offices of Morgan Stanley, New York, New York on or about January 30, 1990.

THE MBS CERTIFICATES

General

The MBS Certificates underlying the REMIC Certificates are Fannie Mae Guaranteed Mortgage Pass-Through Certificates, which will have an aggregate unpaid principal amount of \$400,010,000, Pass-Through Rates of 9.50% and the general characteristics described in the attached MBS Prospectus. The Mortgage Loans that underlie the MBS Certificates are conventional Level Payment Mortgage Loans, each secured by a first mortgage or deed of trust on a one-to four-family ("single-family") residential property, and all of which have an original maturity of up to 30 years, as described under "The Mortgage Pools" and "Yield Considerations" in the MBS Prospectus. The weighted average coupon of the Mortgage Loans in each Pool at the Issue Date of the related MBS Certificate ("WAC") was within the range of 9.75% to 12.00% per annum. The weighted average remaining term to maturity, in months, of the Mortgage Loans in each Pool at the Issue Date of the related MBS Certificate ("WAM"), less the number of months elapsed from such Issue Date through the January 1, 1990 REMIC Issue Date ("Adjusted WAM"), or the current WAM, if available, was not less than 180 and not greater than 360. The weighted average of the Adjusted WAMs (or current WAMs, to the extent available) of all the MBS Certificates underlying the REMIC Certificates is expected to be approximately 356 months. Following the issuance of the REMIC Certificates, Fannie Mae will prepare a Final Data Statement setting forth the Pool number, the WAC at the Issue Date (or current WAC, to the extent available) and the Adjusted WAM (or current WAM, to the extent available) of each MBS Certificate underlying the REMIC Certificates, along with the weighted average of all the WACs (or of any available current WACs) and the weighted average of all the Adjusted WAMs (or of any available current WAMs) based on the current unpaid principal balances of the MBS Certificates as of the REMIC Issue Date, Final Data Statements will not accompany Prospectus Supplements but will be made available by Fannie Mae to investors on request.

Prepayment Considerations and Risks

The rate of principal payments of the MBS Certificates, and therefore of distributions on the REMIC Certificates, is related directly 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 resulting from default, casualty, condemnation and payments made pursuant to any guaranty of payment by, or option to repurchase of, Fannie Mae). In general, when the level of prevailing interest rates declines significantly below the interest rates on fixed-rate mortgage loans, the rate of prepayment is likely to increase, although the prepayment rate is influenced by a number of other factors, including general economic conditions and homeowner mobility. See "Maturity and Prepayment Assumptions" in the MBS Prospectus.

Acceleration of mortgage payments as a result of transfers of the mortgaged property is another factor affecting prepayment rates. The Mortgage Loans underlying the MBS Certificates will generally provide by their terms that, in the event of the transfer or prospective transfer of title to the underlying mortgaged property, the full unpaid principal balance of the Mortgage Loan is due and payable at the option of the holder. As set forth under "Description of Certificates—Collection and Other Servicing Procedures" in the MBS Prospectus, Fannie Mae is required to exercise its right to accelerate the maturity of Mortgage Loans containing enforceable "due-on-sale" provisions upon certain transfers of the mortgaged property.

Prepayments of mortgage loans commonly are measured relative to a prepayment standard or model. The model used in this Prospectus Supplement, the Public Securities Association's standard prepayment model ("PSA"), represents an assumed rate of prepayment each month of the then outstanding principal balance of a pool of new mortgage loans. *PSA does not purport to be either a historical description of the prepayment experience of any pool of mortgage loans or a prediction of the anticipated rate of prepayment of any pool of mortgage loans, including the Mortgage Loans underlying the MBS Certificates backing the REMIC Certificates.* 100% PSA assumes prepayment rates of 0.2% per annum of the then unpaid principal balance of such mortgage loans in the first month of the life

REMIC Certificates immediately preceding such Distribution Date *over* the aggregate of the Cash Flow Values of all MBS Certificates in the REMIC Trust immediately following such Distribution Date (the "Cash Flow Value Distribution Amount"); and (iii) the percentage, if any, of the Surplus Cash (as described below) specified in such Prospectus Supplement. The Prospectus Supplement for each Series of REMIC Certificates will specify the manner in which the amount of such aggregate principal distribution will be determined.

The Cash Flow Value for an MBS Certificate backing the REMIC Certificates represents the principal amount of REMIC Certificates of a Series that, based upon certain assumptions and irrespective of any prepayments on such MBS Certificate, can be supported by the distributions on such MBS Certificate, together with any reinvestment income thereon, at the Assumed Reinvestment Rate specified in the Prospectus Supplement. (As used herein, "MBS Certificate" will include all MBS Certificates in a REMIC Trust representing beneficial ownership interests in the same Pool.) Unless the related Prospectus Supplement provides otherwise, the Cash Flow Value of an MBS Certificate will be calculated as if the underlying Mortgage Loans constituted a single mortgage loan having such of the payment characteristics as would result in the lowest Cash Flow Value being assigned to the MBS Certificate. The aggregate of the Cash Flow Values of the MBS Certificates backing a Series of REMIC Certificates will always be at least equal to the outstanding principal amount of the REMIC Certificates of such Series.

The Surplus Cash for a Series of REMIC Certificates represents the excess, if any, of the sum of (i) all distributions payable on the MBS Certificates backing such Series of REMIC Certificates in the Deposit Period ending on the Distribution Date for such Series of REMIC Certificates and (ii) any reinvestment income thereon, *over* the sum of (i) all interest accrued on the REMIC Certificates of such Series in the Interest Accrual Period preceding such Distribution Date (whether or not then payable), (ii) the Cash Flow Value Distribution Amount for such Series of REMIC Certificates for such Distribution Date, (iii) any amount provided in the Prospectus Supplement as payable to Fannie Mae from the Certificate Account to cover administrative expenses and (iv) the amount of any special distribution made since the last Distribution Date.

Fannie Mae's Guaranty

Pursuant to its guaranty of the MBS Certificates, Fannie Mae will guaranty the timely payment of principal of and interest on the underlying Mortgage Loans. In addition, pursuant to its guaranty of the REMIC Certificates, Fannie Mae will be obligated to distribute on a timely basis to Holders of REMIC Certificates required installments of principal and interest, to begin principal distributions on each Class of REMIC Certificates no later than the applicable First Mandatory Principal Distribution Date, if any, and to distribute the certificate principal balance of each Class of REMIC Certificates in full no later than the applicable Final Distribution Date, whether or not sufficient funds are available in the Certificate Account. The obligations of Fannie Mae under its guaranties are obligations solely of Fannie Mae and are not backed by, nor entitled to, the full faith and credit of the United States. If Fannie Mae were unable to perform these guaranty obligations, distributions to Certificateholders would consist solely of payments and other recoveries on the underlying Mortgage Loans (including payments under FHA insurance and VA guarantees, as applicable) and any reinvestment income thereon and, accordingly, delinquencies and defaults on the Mortgage Loans would affect distributions to Certificateholders.

Special Distributions

In the case of REMIC Certificates with other than monthly Distribution Dates, Fannie Mae may, at its option, make special distributions of principal and interest on the REMIC Certificates on the 25th day of any month (other than a month in which a Distribution Date occurs) or, if such

Federal National Mortgage Association



Guaranteed Mortgage Pass-Through Certificates

(Residential Mortgage Loans)

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

THE OBLIGATIONS OF THE FEDERAL NATIONAL MORTGAGE ASSOCIATION UNDER ITS GUARANTY ARE OBLIGATIONS SOLELY OF THE CORPORATION AND ARE NOT BACKED BY THE FULL FAITH AND CREDIT OF THE UNITED STATES.

THE CERTIFICATES ARE EXEMPT FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT OF 1933 AND ARE "EXEMPTED SECURITIES" WITHIN THE MEANING OF THE SECURITIES EXCHANGE ACT OF 1934.

The Guaranteed Mortgage Pass-Through Certificates ("Certificates") are issued and guaranteed by the Federal National Mortgage Association (the "Corporation" or "Fannie Mae"), a corporation organized and existing under the laws of the United States, under the authority contained in Section 304(d) of the Federal National Mortgage Association Charter Act (12 U.S.C. 1716 *et seq.*).

Each Certificate offered hereby and by the Supplement related hereto will represent an undivided interest in a pool of mortgage loans (a "Pool") to be formed by the Corporation. Each Pool will consist of residential mortgage loans ("Mortgage Loans") either previously owned by the Corporation or purchased by it in connection with the formation of the Pool. Each Pool will consist entirely of one of the following: (i) fixed-rate level installment Mortgage Loans, (ii) fixed-rate growing equity Mortgage Loans that provide for scheduled annual increased payments, with the full amount of the increase applied to principal, (iii) fixed-rate graduated payment Mortgage Loans having deferred interest features, (iv) conventional variable-rate California Mortgage Loans, (v) other adjustable-rate Mortgage Loans, some of which may have deferred interest features, (vi) fixed-rate Mortgage Loans secured by multifamily projects consisting of five or more dwelling units, some of which may have balloon payments or other unique features and (vii) adjustable-rate Mortgage Loans secured by multifamily projects consisting of five or more dwelling units, some of which may have balloon payments, deferred interest or other unique features.

Interests in each Pool will be evidenced by a separate issue of Certificates. Information regarding the aggregate principal amount and characteristics of the related Pool (including the type of Mortgage Loans in the Pool) will be furnished in a Supplement to this Prospectus at the time of the identification of the Pool.

Unless the related Supplement to this Prospectus provides otherwise, Certificates evidencing undivided interests in Pools formed on or after May 1, 1985 (other than Pools containing Mortgage Loans with deferred interest features) will be available in book-entry form only.

The Corporation will have certain contractual servicing responsibilities with respect to each Pool. In addition, the Corporation will be obligated to distribute scheduled monthly installments of principal and interest (adjusted to reflect the Corporation's servicing and guaranty fee) to Certificateholders, whether or not received. The Corporation also will be obligated to distribute to Certificateholders the full principal balance of any foreclosed Mortgage Loan, whether or not such principal balance is actually recovered.

The date of this Prospectus is November 1, 1989

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

STATEMENT OF TERMS

The following is qualified in its entirety by reference to the information appearing elsewhere in this Prospectus Supplement and in the accompanying REMIC Prospectus and MBS Prospectus. Capitalized terms used and not otherwise defined in this Prospectus Supplement have the respective meanings assigned to such terms therein.

Issuer and Guarantor	The Federal National Mortgage Association, a corporation organized and existing under the laws of the United States ("Fannie Mae").
The MBS Certificates	The Fannie Mae Guaranteed Mortgage Pass-Through Certificates having the characteristics described in the MBS Prospectus under "Description of Certificates" and in this Prospectus Supplement under "The MBS Certificates."
REMIC Certificates	The REMIC Certificates in the Classes and aggregate original principal amounts set forth on the cover page hereof will be issued pursuant to a trust agreement dated as of September 1, 1987, executed by Fannie Mae in its corporate capacity and its capacity as Trustee, as supplemented by an issue supplement to the trust agreement relating to the REMIC Certificates, dated as of January 1, 1990 (collectively, the "Trust Agreement"). Each REMIC Certificate evidences a beneficial ownership interest in the Trust, including the distributions of principal of and interest on the underlying MBS Certificates, subject to the limits and order of distribution described herein.
<u>Fannie Mae Guaranty</u>	Pursuant to its guaranty of the MBS Certificates, Fannie Mae will guaranty the timely payment of principal of and interest on the underlying Mortgage Loans. In addition, Fannie Mae will be obligated to distribute on a timely basis to Holders of REMIC Certificates required installments of principal and interest and to distribute the principal balance of each Class of REMIC Certificates in full no later than its applicable Final Distribution Date, whether or not sufficient funds are available in the Certificate Account. If Fannie Mae were unable to perform these guaranty obligations, distributions to Certificateholders would consist solely of payments and other recoveries on the Mortgage Loans and, accordingly, delinquencies and defaults on the Mortgage Loans would affect distributions to Certificateholders. The guaranties of Fannie Mae are not backed by the full faith and credit of the United States. See "Description of the REMIC Certificates—Fannie Mae's Guaranty" in the REMIC Prospectus and "Description of Certificates—The Corporation's Guaranty" in the MBS Prospectus.
Form of REMIC Certificates	The REMIC Certificates, other than the Class 2-R REMIC Certificates, will be issued, maintained and may be transferred by Holders only on the book-entry system of the Federal Reserve Banks. Book-entry REMIC 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 such REMIC Certificates have been deposited are herein referred to as "Holders" or "Certificateholders." A Holder is not necessarily the beneficial owner of a book-entry REMIC Certificate. Beneficial owners ordinarily will hold book-entry REMIC Certificates through one or more financial intermediaries, such as banks, brokerage firms and securities clearing organizations and must depend on such intermediaries for the enforcement of their rights. See "Description of the REMIC Certificates—Denominations, Book-Entry Form" in the REMIC Prospectus.

FEDERAL NATIONAL MORTGAGE ASSOCIATION

BALANCE SHEETS

Assets

	December 31,	
	1988	1987
	(Dollars in millions)	
Mortgage portfolio, net	\$ 99,867	\$ 93,470
Cash and cash equivalents	2,859	2,457
Investments	5,289	3,468
Accrued interest receivable	939	811
Receivable from currency swaps	1,717	1,573
Acquired property and foreclosure claims, net	418	416
Other assets	1,169	1,264
Total assets	<u>\$112,258</u>	<u>\$103,459</u>

Liabilities and Stockholders' Equity

Liabilities:

Bonds, notes, and debentures, net:

Due within one year	\$ 36,599	\$ 29,718
Due after one year	68,860	67,339
	105,459	97,057
Accrued interest payable	2,173	2,145
Payable from currency swaps	1,150	958
Mortgagors' escrow deposits	353	352
Deferred federal income taxes	157	298
Other liabilities	706	838
Total liabilities	<u>109,998</u>	<u>101,648</u>

Stockholders' Equity:

Common stock, \$6.25 stated value, no maximum authorization—82,051,744 shares issued in 1988 (81,924,206 shares in 1987)	513	512
Additional paid-in capital	781	777
Retained earnings	1,067	617
	2,361	1,906
Less treasury stock, at cost—3,389,591 shares in 1988 (3,198,478 shares in 1987)	101	95
Total stockholders' equity	<u>2,260</u>	<u>1,811</u>
Total liabilities and stockholders' equity	<u>\$112,258</u>	<u>\$103,459</u>

See Notes to Financial Statements

FEDERAL NATIONAL MORTGAGE ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

Summary of Significant Accounting Policies

Fannie Mae is a federally chartered and stockholder-owned corporation operating in the residential mortgage finance industry. Certain amounts in prior years' financial statements have been reclassified to conform with the current presentation.

Mortgage Portfolio

Mortgages acquired for investment are carried at their unpaid principal balances less unamortized purchase discount and deferred loan fees. Discount and deferred loan fees are recognized as income using the interest method over the estimated life of the related mortgages. The accrual of interest on conventional mortgages, which are not federally insured or guaranteed, is discontinued when the mortgages become 90 days delinquent. Interest income on such mortgages is recognized only to the extent that cash payments are received. Any accrued but uncollected interest on mortgages that are 90 days delinquent is reversed against current period interest income.

Commitment Fees and Mortgage Prepayments

In the fourth quarter of 1987, the Corporation implemented Financial Accounting Standard No. 91 ("FAS 91"), which requires that most commitment fees be treated as an adjustment to interest income and amortized over the life of the related mortgages. The Corporation elected to apply the provisions of FAS 91 retroactively and restated results for all years prior to 1987. Accordingly, the majority of commitment fees recorded in those prior periods were retroactively deferred and amortized. The Corporation also revised its estimate of mortgage prepayments in 1987. The effect of these changes on net interest income and net income in 1987 and 1986 was as follows:

	Increase (Decrease)	
	1987	1986
	(Dollars in millions, except per share amounts)	
Effect on:		
Net interest income	\$ 570	\$ 80
Net income	290	(78)
Earnings per share (fully diluted) (1)	1.19	(.35)

(1) Restated to reflect the three-for-one stock split effective October 16, 1989.

The Corporation uses actual principal prepayment experience and estimates of future principal prepayments in the calculation of the constant effective yield necessary to apply the interest method in the amortization of loan fees and discount. In evaluating prepayments, loans are aggregated by similar characteristics (e.g., loan type, coupon, period of origination, and maturity). Factors used in determining estimates of future prepayments include historical prepayment data, existing and forecasted interest rates and economic conditions, and expected prepayment performance in varying interest rate scenarios.

Guaranteed Mortgage-Backed Securities

The Corporation guarantees the timely payment of principal and interest on Mortgage-Backed Securities ("MBS"). These securities represent interests in pools of mortgages held in trust by the Corporation. The mortgages are not assets of the Corporation, except when acquired for investment purposes, nor are the outstanding securities liabilities of the Corporation; accordingly, neither is reflected in the accompanying balance sheets.



State of North Carolina

LACY H. THORNBURG
ATTORNEY GENERAL

Department of Justice
P.O. BOX 629
RALEIGH
27602-0629
February 21, 1990

MEMORANDUM

TO: Lee Carter, Director
Fiscal Management Section

FROM: Douglas A. Johnston 
Assistant Attorney General

SUBJECT: REMICs/Other Asset-backed Securities

You have inquired about the authority of units of local government to invest in Federal National Mortgage Association (Fannie Mae) REMICs. REMICs are securities issued by a REMIC Trust. Fannie Mae is the trustee of the Trust and a guarantor of payment of the Trust's obligations. The underlying securities of the REMIC Trust are Fannie Mae mortgage-backed securities and cash and other securities held by the Trust. The mortgage-backed securities themselves are securities issued and guaranteed by Fannie Mae. The underlying assets for these securities are the pools of mortgages purchased by Fannie Mae. Principal and interest payments for both the REMICs and the mortgage-backed securities are intended to come from the principal and interest payments from the underlying Fannie Mae-purchased mortgages. Fannie Mae will pay any shortfalls for both classes of securities from its own funds; consequently, both types of securities are guaranteed by Fannie Mae, but neither of them is a direct obligation of Fannie Mae.

Units of local government have the authority to invest in obligations of the Federal National Mortgage Association [G.S. 159-30(c)(2)]. Units of local government also have the authority to invest in direct obligations of the United States as well as obligations "fully guaranteed" by the United States [G.S. 159-30(c)(1)]; the former would be U.S. Treasury securities, while the latter would be mortgage-backed securities of the Government National Mortgage Association that are guaranteed by the U.S. government. Because of the specificity of the General Assembly in setting out the classes of securities in which a unit may invest public funds, it appears that "obligations," as that term is used in G.S. 159-30, is intended to include only direct obligations of Fannie Mae such as intermediate term notes, debentures, and other direct debt of the Federal National Mortgage Association. These obligations would be indicated as liabilities in the financial statements of the Federal National Mortgage Association. Furthermore,

February 21, 1990

units of local government do not have the authority, unlike the authority provided to the State itself in G.S. 147-69.1(c)(5)(g), to invest in asset-backed securities of any of the organizations listed in G.S. 159-30(c)(2), unless these securities are either direct obligations of one of the agencies listed or are obligations "fully guaranteed" by the U.S. government.

The financial statements included with the REMIC certificate prospectus show the REMIC certificates to be a contingent liability of the Federal National Mortgage Association and not a direct obligation of it. Therefore, since REMIC certificates and other asset-backed securities, as noted previously, are not direct obligations and appear to be only guaranteed by the Federal National Mortgage Association, there is currently no authority for moneys of units of local government to be invested in them.

DAJ/cs/msw



State Of North Carolina
Department Of State Treasurer

HARLAN E. BOYLES
TREASURER

State and Local Government Finance Division
and the Local Government Commission

ROBERT M. HIGH
DEPUTY TREASURER

March 20, 1990

MEMORANDUM

TO: Crissty Martin
Systems Accountant

FROM: Douglas A. Johnston 
Assistant Attorney General

SUBJECT: G.S. 159-30(c)(7)

You have asked whether a bank incorporated in another state may offer "bankers' acceptances" to North Carolina units of government.

Such a bank may offer bankers' acceptances, "provided that the accepting bank or its holding company" is incorporated in the State of North Carolina. Therefore, so long as the holding company of the out-of-state bank was incorporated in North Carolina, its bankers' acceptances would be appropriate for investment under G. S. 159-30(c)(7).

If I could be of further assistance, please let me know.

DAJ/cb

cc: Lee Carter



State of North Carolina

Department of Justice

P.O. BOX 629

RALEIGH

27602-0629

LACY H. THORNBURG

ATTORNEY GENERAL

October 25, 1989

MEMORANDUM

To: Mr. Robert M. High, Director
Fiscal Management Section

From: Douglas A. Johnston 
Assistant Attorney General

Subject: Commercial Paper/Sweep Arrangement

Several banks, among them Wachovia and First Union National Bank, have presented proposals for the reference means of investment for units of local government. It is presented that the investments offered are prime quality commercial paper authorized for investment by the units under G.S. 159-30(c)(6). These are subject to the custodial provisions of G.S. 159-30(d). The proposal for this sort of investment arose in the context of the need for a means to invest unit moneys overnight in a manner consistent with these custodial requirements and with the legal nature of commercial paper.

The following conditions should be clear in any agreement:

- A. The unit must have physical possession of the promissory note of the corporation. The note may be payable through the bank as agent of the corporation, but the note itself is the commercial paper of the corporation not the bank.
- B. The promissory note (which the unit takes possession of) must meet the definition of prime quality commercial paper in G.S. 159-30(C)(6).
- C. Its rating would be commercial paper of the corporation not the bank.

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- D. The interest which the unit holds i.e. the commercial paper, must be the paper of the issuer itself not a promise or participation in commercial paper of another entity.
- E. The need for liquidity requires that the principal deposit made by the unit be returnable on demand so that the customer may demand payment of the principal amount outstanding on the note at anytime prior to its maturity.

In general, the main question is whether the promissory note is determined to be commercial paper of the corporation issuing the promissory note as determined by its legal counsel. If this determination is made, then the remaining question is the one of establishing that it is "prime quality" paper.

DAJ/ne



State Of North Carolina
Department Of State Treasurer

HARLAN E. BOYLES
TREASURER

State and Local Government Finance Division
and the Local Government Commission

ROBERT M. HIGH
DEPUTY TREASURER

December 2, 1993

Mr. James G. Vanderberry
Wachovia Bank of North Carolina, N.A.
Post Office Box 3099
Winston-Salem, North Carolina 27150-3099

Dear Mr. Vanderberry :

Thank you for your inquiry about Pitt County Memorial Hospital, specifically regarding its investment options. I can appreciate your interest in assisting the officers of the Hospital in the exercise of their responsibilities.

Enclosed is a copy of North Carolina General Statute (G.S.) 159-30, which addresses the investment of idle funds. Local governments and public authorities may invest only in the securities which are listed therein. They do not possess the authority to purchase any investment, regardless of how "safe" it may be perceived, if that investment is not allowed under G.S. 159-30.

In your letter, you asked why would the security described as Vet. Obl. Mtg. not be qualified under G.S. 159-30(c)(1). The Guaranteed REMIC Pass-Through Certificates (Vet. Obl. Mtg.) do not appear to be legal because, based on a review of the information supplied to our office, the certificates themselves are not direct obligations of the United States or direct obligations fully guaranteed both as to principal and interest by the United States. Our determination is based on the certificates themselves, not the guaranty which underlies the certificates.

You also asked whether the Attorney General's opinion dated February 21, 1990 has application for the pass-through mortgage-backed securities of GNMA and FHLMC. Certainly, the concepts in that opinion would apply to other securities. However, we would like to review the particular securities you noted; it is possible that a particular offering statement satisfies the requirements of the law. Again, the objective of any review by us would be to determine if the security being marketed, not any underlying security, is a direct obligation of the United States or is an obligation fully guaranteed both as to principal and interest by the United States.

Please feel free to send the full offering statements on any securities for which you would like our feedback. We are glad to assist in any way possible.

Sincerely,

Craig M. Barfield, Director
Fiscal Management Section

CMB/loc
Enclosure



Department of State Treasurer - Policy Manual for Local Governments
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Exhibit L - North Carolina Attorney General's Memorandums

Topic: Gift of Ineligible Securities - Page 1 of 2



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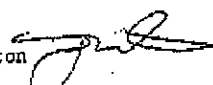
Department of Justice

LACY H. THORNTON
ATTORNEY GENERAL

P.O. BOX #29
RALEIGH
27603-0029

September 27, 1989

MEMORANDUM

TO: Mr. Bob High
FROM: Douglas A. Johnston 
SUBJECT: G.S. 159-30 and G.S. 159-33

You have asked what procedure should be followed when a unit receives a gift of a security which is not otherwise eligible for investment under G.S. 159-30.

These gifts are appropriate for receipt by a unit. However, upon receipt the unit governing board becomes a trustee of the funds. Therefore, it is important for them to take whatever action available to insure that they are not held accountable for any losses occasioned by holding such an investment. The best insurance against liability is for the unit to follow the procedures of G.S. 159-33 and liquidate such an investment so that the money can be invested in a security which is listed in G.S. 159-30.

This practice is suggested as a matter of good practice for trustees. To a certain extent, it can be argued that it is required by G.S. 159-33. However, the language of that section is susceptible to a different interpretation which would result in the funds being considered not the result of "idle funds" but a gift and therefore not covered by G.S. 159-30 or G.S. 159-33. To the extent practical, it is better to follow the working assumption that these funds should be treated like idle funds.

One final note is that when a gift is received with a condition that the stock be held without sale, the unit may properly do so and in its report to you make certain that the particular circumstances are clearly spelled out. Finally, even in this latter situation, it is possible for a



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unit to proceed to court to get a determination that it may change or vary the conditions upon which it has received such a gift. Whenever it appears that such an effort would be likely to succeed, the unit should be prepared to do so.

DAJ/ee

