FORM 485B24E

Post-effective amendments

Filing Date: **1994-03-02**
SEC Accession No. 0000912057-94-000755

FILER

PRUDENTIAL GNMA FUND INC	Mailing Address	Business Address
CIK:**700662**| IRS No.: **133104608** | State of Incorp.:**MD** | Fiscal Year End: **1231**	*ONE SEAPORT PLZ*	*199 WATER ST*
Type: **485B24E** | Act: **33** | File No.: **002-76061** | Film No.: **94514210**	*ONE SEAPORT PLZ*	*NEW YORK NY 10292*
	NEW YORK NY 10292	*2122141250*

As filed with the Securities and Exchange Commission
on March 1, 1994

Registration No. 2-76061

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM N-1A

REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933 /X/

PRE-EFFECTIVE AMENDMENT NO. / /

POST-EFFECTIVE AMENDMENT NO. 17 /X/

AND/OR

REGISTRATION STATEMENT UNDER THE
INVESTMENT COMPANY ACT OF 1940

AMENDMENT NO. 18 /X/

(Check appropriate box or boxes)

PRUDENTIAL-BACHE GNMA FUND, INC.

(Exact name of registrant as specified in charter)

(Doing business as Prudential GNMA Fund)

ONE SEAPORT PLAZA,
NEW YORK, NEW YORK 10292

(Address of Principal Executive Offices) (Zip Code)

REGISTRANT'S TELEPHONE NUMBER, INCLUDING AREA CODE: (212) 214-1250

S. JANE ROSE, ESQ.
ONE SEAPORT PLAZA
NEW YORK, NEW YORK 10292
(NAME AND ADDRESS OF AGENT FOR SERVICE OF PROCESS)

APPROXIMATE DATE OF PROPOSED PUBLIC OFFERING:
AS SOON AS PRACTICABLE AFTER THE EFFECTIVE
DATE OF THE REGISTRATION STATEMENT.

IT IS PROPOSED THAT THIS FILING WILL BECOME EFFECTIVE
(CHECK APPROPRIATE BOX):

/X/ immediately upon filing pursuant to paragraph (b)

/ / on (date) pursuant to paragraph (b)

/ / 60 days after filing pursuant to paragraph (a)

CALCULATION OF REGISTRATION FEE CHART

<TABLE>
<CAPTION>

TITLES OF SECURITIES BEING REGISTERED	AMOUNT BEING REGISTERED	PROPOSED MAXIMUM OFFERING PRICE PER SHARE*	PROPOSED MAXIMUM AGGREGATE OFFERING PRICE**	AMOUNT OF REGISTRATION FEE
<S>	<C>	<C>	<C>	<C>

Common Stock, par value $.01 per share	Indefinite ***	N/A	N/A	N/A
Common Stock, par value $.01 per share	695,593	$15.37	$10,691,271	$100.00

<FN>

* Computed under Rule 457(d) on the basis of the offering price per share on the close of business on February 17, 1994.

** Registrant elects to calculate the maximum aggregate offering price pursuant to Rule 24e-2. $77,979,399 of shares was redeemed during the fiscal year ended December 31, 1993. $67,578,128 of shares was used for reductions pursuant to paragraph (c) of Rule 24f-2 during the fiscal year ended December 31, 1993. $10,401,271 of shares is the amount of redeemed shares used for reduction for this amendment.

*** Registrant has registered an indefinite number of shares under the Securities Act of 1933 pursuant to Rule 24f-2 under the Investment Company Act of 1940. The Rule 24f-2 Notice for the Registrant's most recent fiscal year ended December 31, 1993 was filed on February 28, 1994.

</TABLE>

CROSS REFERENCE SHEET
(AS REQUIRED BY RULE 495)

<TABLE>
<CAPTION>

N-1A ITEM NO.			LOCATION
PART A			
Item	1.	Cover Page	Cover Page
Item	2.	Synopsis	Fund Expenses
Item	3.	Condensed Financial Information	Fund Expenses; Financial Highlights; How the Fund Calculates Performance
Item	4.	General Description of Registrant	Cover Page; Fund Highlights; How the Fund Invests; General Information
Item	5.	Management of Fund	Financial Highlights; How the Fund is Managed; General Information
Item	6.	Capital Stock and Other Securities	Taxes, Dividends and Distributions; General Information
Item	7.	Purchase of Securities Being Offered	Shareholder Guide; How the Fund Values its Shares
Item	8.	Redemption or Repurchase	Shareholder Guide; How the Fund Values its Shares; General Information
Item	9.	Pending Legal Proceedings	Not Applicable
PART B			
Item	10.	Cover Page	Cover Page
Item	11.	Table of Contents	Table of Contents
Item	12.	General Information and History	Not Applicable
Item	13.	Investment Objectives and Policies	Investment Objective and Policies; Investment Restrictions
Item	14.	Management of the Fund	Directors and Officers; Manager; Distributor
Item	15.	Control Persons and Principal Holders of Securities	Not Applicable
Item	16.	Investment Advisory and Other Services	Manager; Distributor; Custodian, Transfer and Dividend Disbursing Agent and Independent Accountants
Item	17.	Brokerage Allocation and Other Practices	Portfolio Transactions and Brokerage
Item	18.	Capital Stock and Other Securities	Not Applicable
Item	19.	Purchase, Redemption and Pricing of Securities Being Offered	Purchase and Redemption of Fund Shares; Shareholder Investment Account; Net Asset Value
Item	20.	Tax Status	Dividends, Distributions and Taxes
Item	21.	Underwriters	Distributor
Item	22.	Calculation of Performance Data	Performance Information
Item	23.	Financial Statements	Financial Statements

PART C

Information required to be included in Part C is set forth under the appropriate Item, so numbered, in Part C to this Post-Effective Amendment to the Registration Statement.

</TABLE>

PRUDENTIAL GNMA FUND

PROSPECTUS DATED FEBRUARY 28, 1994

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Prudential-Bache GNMA Fund, Inc., doing business as Prudential GNMA Fund (the Fund), is an open-end, diversified management investment company whose investment objective is to achieve a high level of income over the long term consistent with providing reasonable safety in the value of each shareholder's investment. In pursuing this objective, the Fund will invest primarily in mortgage-backed securities guaranteed as to timely payment of principal and interest by the Government National Mortgage Association (GNMA) and other readily marketable fixed-income securities. The Fund may also write covered call and put options on U.S. Government securities and enter into closing purchase and sale transactions with respect to certain of such options. To hedge against changes in interest rates, the Fund may also purchase put options and engage in transactions involving interest rate futures contracts and options on such contracts and engage in interest rate swap transactions. See "How the Fund Invests--Investment Objective and Policies." The Fund's address is One Seaport Plaza, New York, New York 10292, and its telephone number is (800) 225-1852.

This Prospectus sets forth concisely the information about the Fund that a prospective investor ought to know before investing. Additional information about the Fund has been filed with the Securities and Exchange Commission in a Statement of Additional Information, dated February 28, 1994 which information is incorporated herein by reference (is legally considered to be a part of this Prospectus) and is available without charge upon request to Prudential GNMA Fund at the address or telephone number noted above.

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INVESTORS ARE ADVISED TO READ THIS PROSPECTUS AND RETAIN IT FOR FUTURE REFERENCE.

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THESE SECURITIES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION NOR HAS THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION PASSED UPON THE ACCURACY OR ADEQUACY OF THIS PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

FUND HIGHLIGHTS

The following summary is intended to highlight certain information contained in this prospectus and is qualified in its entirety by the more detailed information appearing elsewhere herein.

WHAT IS PRUDENTIAL GNMA FUND?

Prudential GNMA Fund is a mutual fund. A mutual fund pools the resources of investors by selling its shares to the public and investing the proceeds of such sale in a portfolio of securities designed to achieve its investment objective. Technically, the Fund is an open-end, diversified management investment company.

WHAT IS THE FUND'S INVESTMENT OBJECTIVE?

The Fund's investment objective is to achieve a high level of income over the long term consistent with providing reasonable safety in the value of each shareholder's investment. It seeks to achieve this objective by investing primarily in mortgage-backed securities guaranteed as to timely payment of principal and interest by the Government National Mortgage Association (GNMA) and other readily marketable fixed-income securities. See "How the Fund Invests--Investment Objective and Policies" at page 7.

WHAT ARE THE FUND'S SPECIAL CHARACTERISTICS AND RISKS?

In seeking to achieve its investment objective, the Fund may also write covered call and put options on U.S. Government securities and enter into closing purchase and sale transactions with respect to certain of such options. To hedge against changes in interest rates, the Fund may also purchase put options and engage in transactions involving interest rate futures contracts and options on such contracts and engage in interest rate swap transactions. See "How the Fund Invests--Investment Objective and Policies" at page 7.

WHO MANAGES THE FUND?

Prudential Mutual Fund Management, Inc. (PMF or the Manager) is the Manager of the Fund and is compensated for its services at an annual rate of .50 of 1% of the Fund's average daily net assets. As of January 31, 1994, PMF served as manager or administrator to 66 investment companies, including 37 mutual funds, with aggregate assets of approximately $51 billion. The Prudential Investment Corporation (PIC or the Subadviser) furnishes investment advisory services in connection with the management of the Fund under a Subadvisory Agreement with PMF. See "How the Fund is Managed--Manager" at page 13.

WHO DISTRIBUTES THE FUND'S SHARES?

Prudential Mutual Fund Distributors, Inc. (PMFD) acts as the Distributor of the Fund's Class A shares. The Fund currently reimburses PMFD for expenses related to the distribution of Class A shares at an annual rate of up to .25 of 1% of the average daily net assets of the Class A shares.

Prudential Securities Incorporated (Prudential Securities or PSI), a major securities underwriter and securities and commodities broker, acts as the Distributor of the Fund's Class B shares. Prudential Securities is reimbursed for its expenses related to the distribution of Class B shares at an annual rate of up to .75 of 1% of the average daily net assets of the Class B shares. See "How the Fund is Managed--Distributor" at page 13.

WHAT IS THE MINIMUM INVESTMENT?

The minimum initial investment is $1,000. Thereafter, the minimum investment is $100. There is no minimum investment requirement for certain retirement plans or custodial accounts for the benefit of minors. For purchases made through the Automatic Savings Accumulation Plan, the minimum initial and subsequent investment is $50. See "Shareholder Guide--How to Buy Shares of the Fund" at page 19 and "Shareholder Guide--Shareholder Services" at page 26.

HOW DO I PURCHASE SHARES?

You may purchase shares of the Fund through Prudential Securities, Pruco Securities Corporation (Prusec) or directly from the Fund, through its transfer agent, Prudential Mutual Fund Services, Inc. (PMFS or the Transfer Agent) at the net asset value per share (NAV) next determined after receipt of your purchase order by the Transfer Agent or Prudential Securities plus a sales charge which may be imposed either at the time of purchase or on a deferred basis. See "How The Fund Values Its Shares" at page 15 and "Shareholder Guide--How to Buy Shares of the Fund" at page 19.

WHAT ARE MY PURCHASE ALTERNATIVES?

The Fund offers two classes of shares which may be purchased at the next determined NAV plus a sales charge which, at your election, may be imposed either at the time of purchase (Class A shares) or on a deferred basis (Class B shares).

- Class A shares are sold with an initial sales charge of up to 4.5% of the offering price.

- Class B shares are sold without an initial sales charge but are subject to a contingent deferred sales charge or CDSC (declining from 5% to zero of the lower of the amount invested or the redemption proceeds) which will be imposed on certain redemptions made within six years of purchase.

You should understand that over time the deferred sales charge plus the distribution fee of the Class B shares will exceed the initial sales charge plus the distribution fee of the Class A shares.

See "Shareholder Guide--Alternative Purchase Plan" at page 19.

HOW DO I SELL MY SHARES?

You may redeem your shares at any time at the NAV next determined after Prudential Securities or the Transfer Agent receives your sell order. Although Class B shares are sold without an initial sales charge, the proceeds of redemptions of Class B shares held for six years or less may be subject to a contingent deferred sales charge declining from 5% to zero. See "Shareholder Guide--How to Sell Your Shares" at page 22.

HOW ARE DIVIDENDS AND DISTRIBUTIONS PAID?

The Fund expects to declare daily and pay monthly dividends of net investment income and make distributions of any net capital gains, if any, at least annually. Dividends and distributions will be automatically reinvested in additional shares of the Fund at NAV without a sales charge unless you request that they be paid to you in cash. See "Taxes, Dividends and Distributions" at page 16.

FUND EXPENSES

SHAREHOLDER TRANSACTION EXPENSES+	CLASS A SHARES (INITIAL SALES CHARGE ALTERNATIVE)	CLASS B SHARES (DEFERRED SALES CHARGE ALTERNATIVE)
Maximum Sales Load Imposed on Purchases (as a percentage of offering price).....	4.5%	None
Maximum Sales Load or Deferred Sales Load Imposed on Reinvested Dividends.........	None	None
Deferred Sales Load (as a percentage of original purchase price or redemption proceeds, whichever is lower)...........	None	5% during the first year, decreasing by 1% annually to 1% in the fifth and sixth years and 0% the seventh year and thereafter
Redemption Fees..........................	None	None
Exchange Fees............................	None	None

ANNUAL FUND OPERATING EXPENSES (AS A PERCENTAGE OF AVERAGE NET ASSETS)	CLASS A	CLASS B
Management Fees..........................	0.50%	0.50%
12b-1 Fees+..............................	0.25++	0.75
Other Expenses...........................	0.35	0.35
Total Fund Operating Expenses............	1.10%	1.60%

EXAMPLE	1 YEAR	3 YEARS	5 YEARS	10 YEARS
You would pay the following expenses on a $1,000 investment, assuming (1) 5% annual return and (2) redemption at the end of each time period:				
Class A..	$ 56	$ 78	$103	$173
Class B..	$ 66	$ 80	$ 97	$190
You would pay the following expenses on the same investment, assuming no redemption:				
Class A..	$ 56	$ 78	$103	$173
Class B..	$ 16	$ 50	$ 87	$190

The above example is based on restated data for the Fund's fiscal year ended December 31, 1993. THE EXAMPLE SHOULD NOT BE CONSIDERED A REPRESENTATION OF PAST OR FUTURE EXPENSES. ACTUAL EXPENSES MAY BE GREATER OR LESS THAN THOSE SHOWN.

The purpose of this table is to assist investors in understanding the various costs and expenses that an investor in the Fund will bear, whether directly or indirectly. For more complete descriptions of the various costs and expenses, see "How the Fund is Managed." "Other Expenses" includes an estimate of operating expenses of the Fund, such as directors' and professional fees, registration fees, reports to shareholders, transfer agency and custodian fees.

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+ Pursuant to rules of the National Association of Securities Dealers, Inc., the aggregate initial sales charges, deferred sales charges and asset-based sales charges on shares of the Fund may not exceed 6.25% of total gross sales, subject to certain exclusions. This 6.25% limitation is imposed on each class of the Fund rather than on a per shareholder basis. Therefore, long-term Class B shareholders of the Fund may pay more in total sales charges than the economic equivalent of 6.25% of such shareholders' investment in such shares. See "How the Fund is Managed--Distributor."

++ Although the Class A Distribution and Service Plan provides that the Fund may pay a distribution fee of up to .30 of 1% of the average daily net assets of the Class A shares, the Distributor has agreed to limit its distribution expenses with respect to Class A shares of the Fund to no more than .25 of 1% of the average daily net asset value of Class A shares for the fiscal year ending December 31, 1994. See "How the Fund is Managed--Distributor."
</TABLE>

FINANCIAL HIGHLIGHTS

(FOR A SHARE OUTSTANDING THROUGHOUT EACH OF THE INDICATED PERIODS)
(CLASS A SHARES)

The following financial highlights have been been audited by Price Waterhouse, independent accountants, whose report thereon was unqualified. This information should be read in conjunction with the financial statements and notes thereto, which appear in the Statement of Additional Information. The following financial highlights contain selected data for a share of Class A common stock outstanding, total return, ratios to average net assets and other supplemental data for the periods indicated. The information is based on data contained in the financial statements.

<TABLE>
<CAPTION>

	CLASS A			
	YEAR ENDED DECEMBER 31,			JANUARY 22, 1990* THROUGH DECEMBER 31,
	1993	1992	1991	1990
<S>	<C>	<C>	<C>	<C>
PER SHARE OPERATING PERFORMANCE:				
Net asset value, beginning of period....	$ 15.07	$ 15.30	$ 14.84	$ 14.75
INCOME FROM INVESTMENT OPERATIONS.......				
Net investment income...................	.95	1.10	1.14	1.17
Net realized and unrealized gain (loss) on investment transactions............	(.21)	(.15)	.61	.13
Total from investment operations......	.74	.95	1.75	1.30
LESS DISTRIBUTIONS......................				
Dividends to shareholders from net investment income.....................	(.95)	(1.10)	(1.14)	(1.17)
Dividends to shareholders in excess of net investment income..................	(.11)	(.08)	(.15)	(.04)
Total distributions...................	(1.06)	(1.18)	(1.29)	(1.21)
Net asset value, end of period..........	$ 14.75	$ 15.07	$ 15.30	$ 14.84
TOTAL RETURN@:..........................	4.97%	6.42%	12.48%	9.27%
RATIOS/SUPPLEMENTAL DATA:				
Net assets, end of period (000).........	$10,863	$ 9,045	$ 6,268	$ 1,604
Average net assets (000)................	$10,199	$ 6.651	$ 3,035	$ 756
Ratios to average net assets:				
Expenses, including distribution fees................................	1.00%	1.00%	1.11%	1.15%+
Expenses, excluding distribution fees................................	.85%	.85%	.96%	.99%+
Net investment income.................	6.42%	7.26%	7.81%	9.16%+
Portfolio turnover......................	134%	33%	118%	481%

<FN>
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* Commencement of offering of Class A shares.
\+ Annualized.
@ Total return does not consider the effects of sales loads. Total return is calculated assuming a purchase of shares on the first day and a sale on the last day of each period reported and includes reinvestment of dividends and distributions. Total returns for periods of less than a full year are not annualized.
</TABLE>

FINANCIAL HIGHLIGHTS

(FOR A SHARE OUTSTANDING THROUGHOUT EACH OF THE INDICATED PERIODS)
(CLASS B SHARES)

The following financial highlights for the five years ended December 31, 1993 have been audited by Price Waterhouse, independent accountants, whose report thereon was unqualified. This information should be read in conjunction with the financial statements and notes thereto, which appear in the Statement of Additional Information. The following financial highlights contain selected data for a share of Class B common stock outstanding, total return, ratios to average net assets and other supplemental data for the periods indicated. The information is based on data contained in the financial statements.

<TABLE>
<CAPTION>

	CLASS B									
	YEAR ENDED DECEMBER 31,									
	1993	1992	1991	1990	1989	1988#	1987	1986	1985	1984
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
PER SHARE OPERATING PERFORMANCE:										
Net asset value, beginning of period.........	$15.04	$15.27	$14.81	$14.86	$14.29	$ 14.76	$15.94	$15.94	$14.99	$14.75
INCOME FROM INVESTMENT OPERATIONS:										
Net investment income...........	.87	1.02	1.06	1.15	1.19	1.17	1.14	1.13	1.36	1.53+
Net realized and unrealized gain (loss) on investment transactions......	(.23)	(.16)	.60	(.01)	.59	(.48)	(.98)	.48	1.15	.27
Total from investment operations......	.64	.86	1.66	1.14	1.78	.69	.16	1.61	2.51	1.80
LESS DISTRIBUTIONS:										
Dividends to shareholders from net investment income...........	(.87)	(1.02)	(1.06)	(1.15)	(1.19)	(1.16)	(1.14)	(1.18)	(1.36)	(1.56)
Distributions to shareholders from net realized gain on investment transactions......	--	--	--	--	--	--	(.20)	(.43)	(.20)	--
Dividends to shareholders in excess of net investment income...........	(.10)	(.07)	(.14)	(.04)	(.02)	--	--	--	--	--
Total distributions...	(.97)	(1.09)	(1.20)	(1.19)	(1.21)	(1.16)	(1.34)	(1.61)	(1.56)	(1.56)
Net asset value, end of period.....	$14.71	$15.04	$15.27	$14.81	$14.86	$ 14.29	$14.76	$15.94	$15.94	$14.99
TOTAL RETURN@:.....	4.29%	5.80%	11.82%	8.10%	12.93%	4.80%	1.10%	10.64%	17.76%	13.19%
RATIOS/SUPPLEMENTAL DATA:										
Net assets, end of period (000)......	$319,401	$325,969	$272,661	$226,605	$221,938	$236,626	$263,914	$284,421	$103,749	$30,137
Average net assets (000)............	$332,731	$295,255	$243,749	$218,749	$223,251	$252,814	$278,475	$254,992	$43,729	$26,234
Ratios to average net assets:										
Expenses, including distribution fees++.........	1.60%	1.60%	1.71%	1.74%	1.56%	1.52%	1.65%	1.39%	1.35%	1.65%+
Expenses, excluding distribution fees++.........	.85%	.85%	.96%	.99%	.98%	.91%	1.01%	.80%	1.24%	1.65%+
Net investment income.........	5.82%	6.66%	7.21%	7.96%	8.16%	7.83%	7.17%	7.21%	8.71%	10.57%+
Portfolio										

turnover..........	134%	33%	118%	481%	200%	216%	331%	254%	222%	10%*

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\# On May 2, 1988, Prudential Mutual Fund Management, Inc. succeeded The Prudential Insurance Company of America as investment adviser and since then has acted as manager of the Fund. See "Manager" in the Statement of Additional Information.

\+ Net of expense reimbursement.

++ Because of the adoption of a plan of distribution effective July 1, 1985, and an amended and restated plan of distribution effective January 22, 1990, historical expenses and ratios of expenses to average net assets of Class B shares are not necessarily indicative of future expenses and related ratios of Class B shares. See "How the Fund is Managed--Distributor."

* Excludes turnover of U.S. Government securities.

@ Total return does not consider the effects of sales loads. Total return is calculated assuming a purchase of shares on the first day and a sale on the last day of each period reported and includes reinvestment of dividends and distributions.

</TABLE>

HOW THE FUND INVESTS

INVESTMENT OBJECTIVE AND POLICIES

THE FUND'S INVESTMENT OBJECTIVE IS TO ACHIEVE A HIGH LEVEL OF INCOME OVER THE LONG TERM CONSISTENT WITH PROVIDING REASONABLE SAFETY IN THE VALUE OF EACH SHAREHOLDER'S INVESTMENT. IN PURSUING THIS OBJECTIVE, THE FUND WILL INVEST PRIMARILY IN READILY MARKETABLE FIXED-INCOME SECURITIES THAT PROVIDE ATTRACTIVE YIELDS BUT DO NOT INVOLVE SUBSTANTIAL RISK OF LOSS OF CAPITAL THROUGH DEFAULT, PRINCIPALLY MORTGAGE-BACKED SECURITIES ISSUED OR GUARANTEED BY AGENCIES OR INSTRUMENTALITIES OF THE U.S. GOVERNMENT. SEE "INVESTMENT OBJECTIVE AND POLICIES" IN THE STATEMENT OF ADDITIONAL INFORMATION.

It is expected that, under normal market conditions, at least 65% of the total assets of the Fund will consist of GNMA securities. To a lesser extent, the Fund may also write covered call or put options, purchase put options on U.S. Government securities and enter into closing purchase and sale transactions with respect to certain of such options and, solely for BONA FIDE hedging purposes, enter into contracts with respect to interest rate futures relating to U.S. Government securities and options on such securities.

THE FUND'S INVESTMENT OBJECTIVE IS A FUNDAMENTAL POLICY AND, THEREFORE, MAY NOT BE CHANGED WITHOUT THE APPROVAL OF THE HOLDERS OF A MAJORITY OF THE FUND'S OUTSTANDING VOTING SECURITIES AS DEFINED IN THE INVESTMENT COMPANY ACT OF 1940, AS AMENDED (THE INVESTMENT COMPANY ACT). FUND POLICIES THAT ARE NOT FUNDAMENTAL MAY BE MODIFIED BY THE BOARD OF DIRECTORS.

THE FUND MAY VARY THE PROPORTION OF ITS HOLDINGS OF LONG-AND SHORT-TERM DEBT SECURITIES IN ORDER TO REFLECT ITS ASSESSMENT OF PROSPECTIVE CHANGES IN INTEREST RATES EVEN IF SUCH ACTION MAY ADVERSELY AFFECT CURRENT INCOME. For example, if, in the opinion of the investment adviser, interest rates generally are expected to decline, the Fund may sell its shorter term securities and purchase longer term securities in order to benefit from greater expected relative price appreciation; the securities sold may have a higher current yield than those being purchased. The success of this strategy will depend on the investment adviser's ability to forecast changes in interest rates. Moreover, the Fund intends to manage its portfolio actively by taking advantage of trading opportunities such as sales of portfolio securities and purchases of higher yielding securities of similar quality due to distortions in normal yield differentials.

GNMA SECURITIES AND OTHER FIXED-INCOME OBLIGATIONS

THE GOVERNMENT NATIONAL MORTGAGE ASSOCIATION (GNMA). GNMA is a wholly-owned U.S. Government corporation within the Department of Housing and Urban Development. GNMA is authorized to guarantee, with the full faith and credit of the U.S. Government, the timely payment of principal and interest on securities issued by GNMA and backed by pools of FHA-insured or VA-guaranteed mortgages. Interests in pools of mortgage-backed securities differ from other forms of debt securities, which normally provide for periodic payments of interest in fixed amounts with principal payments at maturity or specified call dates. GNMA securities, which are described as "modified pass-through" securities, provide a monthly payment which consists of both interest and principal payments owed on the mortgage pool, net of certain fees, regardless of whether or not the mortgagor actually makes the payment.

Because the prepayment characteristics of the underlying mortgages vary, it is not possible to predict accurately the average life of a particular issue of pass-through certificates. Mortgage-backed securities are often subject to more rapid repayment than their stated maturity date would indicate as a result of the pass-through of prepayments of principal on the underlying mortgage

obligations. During periods of declining interest rates, prepayment of mortgages underlying mortgage-backed securities can be expected to accelerate. Accordingly, the Fund's ability to maintain positions in high-yielding mortgage-backed securities will be affected by reductions in the principal amount of such securities resulting from such prepayments, and its ability to reinvest the returns of principal at comparable yields is subject to generally prevailing interest rates at that time. The Fund's net asset value will vary with changes in the values of the Fund's portfolio securities. Such values will vary with changes in market interest rates generally and the differentials in yields among various kinds of U.S. Government securities. See "Investment Objective and Policies--GNMA Securities" in the Statement of Additional Information.

In addition, mortgage-backed securities which are secured by manufactured (mobile) homes and multi-family residential properties, such as GNMA and FNMA certificates, are subject to a higher risk of default than are other types of mortgage-backed securities. See "Investment Objective and Policies--GNMA Certificates" in the Statement of Additional Information. The investment adviser will seek to minimize this risk by investing in mortgage-backed securities rated at least "A" by Moody's Investors Service, Inc. (Moody's) and Standard & Poor's Corporation (S&P).

The Fund may also invest in mortgage pass-through securities where all interest payments go to one class of holders (Interest Only Securities or IOs) and all principal payments go to a second class of holders (Principal Only Securities or POs). These securities are commonly referred to as mortgage-backed securities strips or MBS strips. The yields to maturity on IOs are very sensitive to the rate of principal payments (including prepayments) on the related underlying mortgage assets, and a rapid rate of principal payments may have a material adverse effect on yield to maturity. If the underlying mortgage assets experience greater than anticipated prepayments of principal, the Fund may not fully recoup its initial investment in these securities. Conversely, if the underlying mortgage assets experience less than anticipated prepayments of principal, the yield on POs could be materially adversely affected.

OTHER FIXED-INCOME OBLIGATIONS. IN ADDITION TO GNMA SECURITIES, THE FUND MAY INVEST IN OTHER MORTGAGE-BACKED SECURITIES AND U.S. GOVERNMENT AND CORPORATE BONDS, NOTES AND DEBENTURES AND MONEY MARKET INSTRUMENTS WHICH ARE RATED AT LEAST AA BY MOODY'S OR AA BY S&P OR, IF NOT SO RATED, WHICH ARE OF COMPARABLE QUALITY IN THE OPINION OF THE FUND'S INVESTMENT ADVISER. The Fund may also invest up to 20% of its assets in fixed-income securities which are rated A by Moody's or S&P. See the Appendix to the Statement of Additional Information. The value of fixed-income securities generally fluctuates with changes in the creditworthiness of issuers and inversely with changes in interest rates. There are risks in any investment, including fixed-income securities, and there can be no assurance that the Fund will be able to achieve its investment objective.

Obligations issued or guaranteed as to principal and interest by the U.S. Government may be acquired by the Fund in the form of custodial receipts that evidence ownership of future interest payments, principal payments or both on certain U.S. Treasury notes or bonds. Such notes and bonds are held in custody by a bank on behalf of the owners. These custodial receipts are commonly referred to as Treasury strips.

Other fixed-income obligations that the Fund may invest in include certain U.S. dollar denominated debt securities of foreign issuers, provided that such investments do not, in the judgment of the Fund's investment adviser, entail substantial additional risk to the Fund. See "Investment Restrictions" in the Statement of Additional Information. Securities of foreign issuers may involve considerations and risks not present in domestic securities, such as the risk to the issuer of nationalization, confiscation or other national restrictions. There may be less information about foreign issuers publicly available than is generally the case with respect to domestic issuers. Furthermore, foreign issuers are not generally subject to uniform accounting, auditing and financial reporting standards, practices and requirements comparable to those applicable to domestic issuers.

The Fund may also purchase collateralized mortgage obligations (CMOs). A CMO is a security issued by a corporation or a U.S. Government instrumentality which is backed by a portfolio of mortgages or mortgage-backed securities. The issuer's obligation to make interest and principal payments is secured by the underlying portfolio of mortgages or mortgage-backed securities. CMOs are partitioned into several classes with a ranked priority by which the classes of obligations are redeemed. The Fund may invest in only those privately-issued CMOs which are collateralized by mortgage-backed securities issued or guaranteed by GNMA, Federal Home Loan Mortgage Corporation (FHLMC) or Federal National Mortgage Association (FNMA) and in CMOs issued by any other agency or instrumentality of the U.S. Government. CMOs issued by GNMA, FHLMC or FNMA are considered U.S. Government securities for purposes of this Prospectus. In reliance on rules and interpretations of the Securities and Exchange Commission (the SEC), the Fund's investments in certain qualifying CMOs and REMICs are not subject to the limitation of the Investment Company Act on acquiring interests in other investment companies. To the extent the staff of the SEC considers the issuer of a privately-issued CMO to be an "investment company," the Fund's investment in all such CMOs and REMICs, together with securities issued by other investment companies, will not exceed 5% of the Fund's total assets. See "Investment Objective and Policies--Collateralized Mortgage Obligations" in the Statement of Additional Information.

HEDGING AND INCOME ENHANCEMENT STRATEGIES

THE FUND ALSO MAY ENGAGE IN VARIOUS PORTFOLIO STRATEGIES TO REDUCE CERTAIN RISKS OF ITS INVESTMENTS AND TO ATTEMPT TO ENHANCE INCOME, BUT NOT FOR SPECULATION. These strategies currently include the use of options on U.S. Government securities and futures contracts and options thereon. The Fund's ability to use these strategies may be limited by market conditions, regulatory limits and tax considerations, and there can be no assurance that any of these strategies will succeed. See "Investment Objective and Policies--Interest Rate Futures and Options Thereon" in the Statement of Additional Information. New financial products and risk management techniques continue to be developed and the Fund may use these new investments and techniques to the extent consistent with its investment objective and policies.

OPTIONS TRANSACTIONS

THE FUND MAY PURCHASE AND WRITE (I.E., SELL) PUT AND CALL OPTIONS ON U.S. GOVERNMENT SECURITIES THAT ARE TRADED ON NATIONAL SECURITIES EXCHANGES OR IN THE OVER-THE-COUNTER MARKET WITH PRIMARY GOVERNMENT SECURITIES DEALERS RECOGNIZED BY THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM TO ENHANCE INCOME OR TO HEDGE THE FUND'S PORTFOLIO. The Fund may write covered put and call options to generate additional income through the receipt of premiums, purchase put options in an effort to protect the value of a security that it owns against a decline in market value and purchase call options in an effort to protect against an increase in price of securities it intends to purchase. The Fund may also purchase put and call options to offset previously written put and call options of the same series. See "Investment Objective and Policies--Option Writing and Related Risks" in the Statement of Additional Information.

A CALL OPTION GIVES THE PURCHASER, IN EXCHANGE FOR A PREMIUM PAID, THE RIGHT FOR A SPECIFIED PERIOD OF TIME TO PURCHASE THE SECURITIES SUBJECT TO THE OPTION AT A SPECIFIED PRICE (THE "EXERCISE PRICE" OR "STRIKE PRICE"). The writer of a call option, in return for the premium, has the obligation, upon exercise of the option, to deliver, depending upon the terms of the option contract, the underlying securities or a specified amount of cash to the purchaser upon receipt of the exercise price. When the Fund writes a call option, the Fund gives up the potential for gain on the underlying securities in excess of the exercise price of the option during the period that the option is open.

A PUT OPTION GIVES THE PURCHASER, IN RETURN FOR A PREMIUM, THE RIGHT, FOR A SPECIFIED PERIOD OF TIME, TO SELL THE SECURITIES SUBJECT TO THE OPTION TO THE WRITER OF THE PUT AT THE SPECIFIED EXERCISE PRICE. The writer of the put option, in return for the premium, has the obligation, upon exercise of the option, to acquire the securities underlying the option at the exercise price. The Fund might, therefore, be obligated to purchase the underlying securities for more than their current market price.

THE FUND WILL WRITE ONLY "COVERED" OPTIONS. An option is covered if, so long as the Fund is obligated under the option, it owns an offsetting position in the underlying security or maintains cash, U.S. Government securities or other liquid high-grade debt obligations with a value sufficient at all times to cover its obligations in a segregated account. See "Investment Objective and Policies--Option Writing and Related Risks" in the Statement of Additional Information.

THERE IS NO LIMITATION ON THE AMOUNT OF CALL OPTIONS THE FUND MAY WRITE. THE FUND WILL NOT PURCHASE AN OPTION IF, AS A RESULT OF SUCH PURCHASE, MORE THAN 10% OF ITS TOTAL ASSETS WOULD BE INVESTED IN PREMIUMS FOR OPTIONS.

FUTURES CONTRACTS AND OPTIONS THEREON

THE FUND MAY PURCHASE AND SELL FINANCIAL FUTURES CONTRACTS AND OPTIONS THEREON WHICH ARE TRADED ON A COMMODITIES EXCHANGE OR BOARD OF TRADE FOR CERTAIN HEDGING, RETURN ENHANCEMENT AND RISK MANAGEMENT PURPOSES IN ACCORDANCE WITH REGULATIONS OF THE COMMODITY FUTURES TRADING COMMISSION. These futures contracts and options thereon will be on financial indices (including futures linked to the London Interbank offered rate) and U.S. Government securities.

A FINANCIAL FUTURES CONTRACT IS AN AGREEMENT TO PURCHASE OR SELL AN AGREED AMOUNT OF SECURITIES AT A SET PRICE FOR DELIVERY IN THE FUTURE.

THE FUND MAY NOT PURCHASE OR SELL FUTURES CONTRACTS OR OPTIONS THEREON FOR RETURN ENHANCEMENT OR RISK MANAGEMENT PURPOSES IF IMMEDIATELY THEREAFTER THE SUM OF THE AMOUNT OF INITIAL MARGIN DEPOSITS ON THE FUND'S FUTURES POSITIONS AND PREMIUMS PAID FOR OPTIONS THEREON WOULD EXCEED 5% OF THE LIQUIDATION VALUE OF THE FUND'S TOTAL ASSETS. THE FUND MAY PURCHASE AND SELL FUTURES CONTRACTS AND OPTIONS THEREON FOR BONA FIDE HEDGING PURPOSES WITHOUT LIMITATION. ALTHOUGH THERE ARE NO OTHER LIMITS APPLICABLE TO FUTURES CONTRACTS, THE VALUE OF ALL FUTURES CONTRACTS SOLD WILL NOT EXCEED THE TOTAL MARKET VALUE OF THE FUND'S PORTFOLIO.

THE FUND'S SUCCESSFUL USE OF FUTURES CONTRACTS AND OPTIONS THEREON DEPENDS UPON THE INVESTMENT ADVISER'S ABILITY TO PREDICT THE DIRECTION OF THE MARKET AND IS SUBJECT TO VARIOUS ADDITIONAL RISKS. The correlation between movements in the price of a futures contract and the price of the securities being hedged is imperfect and there is a risk that the value of the securities being hedged may increase or decrease at a greater rate than the related futures contract resulting in losses to the Fund. Certain futures exchanges or boards of trade have established daily limits on the amount that the price of a futures contract or option thereon may vary, either up or down, from the previous day's settlement price. These daily limits may restrict the Fund's ability to purchase or sell certain futures contracts or options thereon on any particular day.

THE FUND'S ABILITY TO ENTER INTO FUTURES CONTRACTS AND OPTIONS THEREON IS LIMITED BY THE REQUIREMENTS OF THE INTERNAL REVENUE CODE OF 1986, AS AMENDED (THE INTERNAL REVENUE CODE), FOR QUALIFICATION AS A REGULATED INVESTMENT COMPANY. SEE "INVESTMENT OBJECTIVE AND POLICIES--INTEREST RATE FUTURES AND OPTIONS THEREON" AND "TAXES" IN THE STATEMENT OF ADDITIONAL INFORMATION.

SPECIAL RISKS OF HEDGING AND INCOME ENHANCEMENT STRATEGIES

PARTICIPATION IN THE OPTIONS AND FUTURES MARKETS INVOLVES INVESTMENT RISKS AND TRANSACTION COSTS TO WHICH THE FUND WOULD NOT BE SUBJECT ABSENT THE USE OF THESE STRATEGIES. If the investment adviser's prediction of movements in the direction of the securities and interest rate markets are inaccurate, the adverse consequences to the Fund may leave the Fund in a worse position than if such strategies were not used. Risks inherent in the use of options and futures contracts and options on futures contracts include (1) dependence on the investment adviser's ability to predict correctly movements in the direction of interest rates and securities prices; (2) imperfect correlation between the price of options and futures contracts and options thereon and movements in the prices of the securities being hedged; (3) the fact that skills needed to use these strategies are different from those needed to select portfolio securities; (4) the possible absence of a liquid secondary market for any particular instrument at any time; and (5) the possible need to defer closing out certain hedged positions to avoid adverse tax consequences. See "Taxes" in the Statement of Additional Information.

OTHER CONSIDERATIONS

THE FUND MAY INVEST UP TO 10% OF ITS TOTAL ASSETS (DETERMINED AT THE TIME OF INVESTMENT) IN ILLIQUID SECURITIES, INCLUDING SECURITIES FOR WHICH MARKET QUOTATIONS ARE NOT READILY AVAILABLE, AND IN REPURCHASE AGREEMENTS WHICH HAVE A MATURITY OF LONGER THAN SEVEN DAYS. The staff of the SEC has taken the position that purchased OTC options and assets

used as "cover" for written OTC options are illiquid securities. However, the Fund may treat the securities it uses as cover for written OTC options as liquid provided it follows a specified procedure. The Fund may sell OTC options only to qualified dealers who

agree that the Fund may repurchase any OTC options it writes for a maximum price to be calculated by a predetermined formula. In such cases, the OTC option would be considered illiquid only to the extent that the maximum repurchase price under the formula exceeds the intrinsic value of the option.

OTHER INVESTMENTS AND POLICIES

WHEN-ISSUED AND DELAYED DELIVERY SECURITIES

The Fund may purchase or sell securities on a when-issued or delayed delivery basis. When-issued or delayed delivery transactions arise when securities are purchased or sold by the Fund with payment and delivery taking place in the future in order to secure what is considered to be an advantageous price and yield to the Fund at the time of entering into the transaction. The Fund's Custodian will maintain, in a segregated account of the Fund, cash, U.S. Government securities or other liquid high-grade debt obligations having a value equal to or greater than the Fund's purchase commitments; the Custodian will likewise segregate securities sold on a delayed delivery basis. The value of securities so purchased are subject to market fluctuation and no interest accrues to the purchaser during the period between purchase and settlement. At the time of delivery of the securities the value may be more or less than the purchase price and an increase in the percentage of the Fund's assets committed to the purchase of securities on a when-issued or delayed delivery basis may increase the volatility of the Fund's net asset value.

REPURCHASE AGREEMENTS

The Fund may on occasion enter into repurchase agreements, whereby the seller of a security agrees to repurchase that security from the Fund at a mutually agreed-upon time and price. The period of maturity is usually quite short, possibly overnight or a few days, although it may not be for a number of months. The resale price is in excess of the purchase price, reflecting an agreed-upon rate of return effective for the period of time the Fund's money is invested in the repurchase agreement. The Fund's repurchase agreements will at all times be fully collateralized in an amount at least equal to the purchase price including accrued interest earned on the underlying securities. The instruments held as collateral are valued daily, and as the value of instruments declines, the Fund will require additional collateral in order to maintain its fully collateralized position. If the seller defaults and the value of the collateral securing the repurchase agreement declines, the Fund may incur a loss. The Fund participates in a joint repurchase account with other investment companies managed by Prudential Mutual Fund Management, Inc. pursuant to an order of the SEC. See "Investment Objective and Policies--Repurchase Agreements" in the Statement of Additional Information.

DOLLAR ROLLS

The Fund may enter into dollar rolls in which the Fund sells securities to be issued and delivered in the current month and simultaneously contracts to repurchase substantially similar (same type and coupon) securities on a specified future date from the same party. During the roll period, the Fund forgoes principal and interest paid on the securities. The Fund is compensated by the difference between the current sales price and the forward price for the future purchase (often referred to as the "drop") as well as by the interest earned on the cash proceeds of the initial sale.

A "covered roll" is a specific type of dollar roll for which there is an offsetting cash position or a cash equivalent security position which matures on or before the forward settlement date of the dollar roll transaction. Dollar rolls (other than covered rolls) are considered borrowings by the Fund for purposes of the percentage limitations applicable to borrowings. Covered rolls, however, are not treated as borrowings or other senior securities and will be excluded from the calculation of the Fund's borrowings and other senior securities.

The Fund will establish a segregated account with its Custodian in which it will maintain cash, U.S. Government securities or other liquid, high-grade debt obligations equal in value to its obligations in respect of dollar rolls.

SECURITIES LENDING

The Fund may lend its portfolio securities to brokers or dealers, banks or other recognized institutional borrowers of securities, provided that the borrower at all times maintains cash or equivalent collateral or secures a letter of credit in favor of the Fund in an amount equal to at least 100% of the market value of the securities loaned. During the time portfolio securities are on loan, the borrower will pay the Fund an amount equivalent to any dividend or interest paid on such securities and the Fund may invest the cash collateral and earn additional income, or it may receive an agreed upon amount of interest income from the borrower. See "Investment Objective and Policies--Lending of

Portfolio Securities" in the Statement of Additional Information.

BORROWING

The Fund may borrow an amount equal to no more than 20% of the value of its total assets (calculated when the loan is made) from banks for temporary, extraordinary or emergency purposes or for the clearance of transactions. The Fund may pledge up to 20% of its total assets to secure these borrowings.

INTEREST RATE SWAPS

The Fund may enter into interest rate swaps. Interest rate swaps involve the exchange by the Fund with another party of their respective commitments to pay or receive interest (E.G., an exchange of floating rate payments for fixed rate payments). The Fund expects to enter into these transactions primarily to preserve a return or spread on a particular investment or portion of its portfolio or to protect against any increase in the price of securities the Fund anticipates purchasing at a later date. The Fund intends to use these transactions as a hedge and not as a speculative investment. The risk of loss with respect to interest rate swaps is limited to the net amount of interest payments that the Fund is contractually obligated to make and will not exceed 5% of the Fund's net assets.

When the Fund enters into interest rate swaps on other than a net basis, the entire amount of the Fund's obligations, if any, with respect to such interest rate swaps will be treated as illiquid. To the extent that the Fund enters into interest rate swaps on a net basis, the net amount of the excess, if any, of the Fund's obligations over its entitlements with respect to each interest rate swap will be treated as illiquid.

See "Investment Objective and Policies--Interest Rate Transactions" in the Statement of Additional Information.

INVESTMENT RESTRICTIONS

The Fund is subject to certain investment restrictions which, like its investment objectives, constitute fundamental policies. Such fundamental policies are those which cannot be changed without the approval of the holders of a majority of the Fund's outstanding voting securities, as defined in the Investment Company Act. See "Investment Restrictions" in the Statement of Additional Information.

HOW THE FUND IS MANAGED

THE FUND HAS A BOARD OF DIRECTORS WHICH, IN ADDITION TO OVERSEEING THE ACTIONS OF THE FUND'S MANAGER, SUBADVISER AND DISTRIBUTOR, AS SET FORTH BELOW, DECIDES UPON MATTERS OF GENERAL POLICY. THE FUND'S MANAGER CONDUCTS AND SUPERVISES THE DAILY BUSINESS OPERATIONS OF THE FUND. THE FUND'S SUBADVISER FURNISHES DAILY INVESTMENT ADVISORY SERVICES.

For the fiscal year ended December 31, 1993, the Fund's total expenses as a percentage of average net assets for the Fund's Class A and Class B shares were 1.00% and 1.60%, respectively. See "Financial Highlights."

MANAGER

PRUDENTIAL MUTUAL FUND MANAGEMENT, INC. (PMF OR THE MANAGER), ONE SEAPORT PLAZA, NEW YORK, NEW YORK 10292, IS THE MANAGER OF THE FUND AND IS COMPENSATED FOR ITS SERVICES AT AN ANNUAL RATE OF .50 OF 1% OF THE FUND'S AVERAGE DAILY NET ASSETS. PMF was incorporated in May 1987 under the laws of the State of Delaware. For the fiscal year ended December 31, 1993, the Fund paid management fees to PMF of .50% of the Fund's average net assets. See "Manager" in the Statement of Additional Information.

As of January 31, 1994, PMF served as the manager to 37 open-end investment companies, constituting all of the Prudential Mutual Funds, and as manager or administrator to 29 closed-end investment companies. These companies have aggregate assets of approximately $51 billion.

UNDER THE MANAGEMENT AGREEMENT WITH THE FUND, PMF MANAGES THE INVESTMENT OPERATIONS OF THE FUND AND ALSO ADMINISTERS THE FUND'S CORPORATE AFFAIRS. SEE "MANAGER" IN THE STATEMENT OF ADDITIONAL INFORMATION.

UNDER A SUBADVISORY AGREEMENT BETWEEN PMF AND THE PRUDENTIAL INVESTMENT

CORPORATION (PIC OR THE SUBADVISER), PIC FURNISHES INVESTMENT ADVISORY SERVICES IN CONNECTION WITH THE MANAGEMENT OF THE FUND AND IS REIMBURSED BY PMF FOR ITS REASONABLE COSTS AND EXPENSES INCURRED IN PROVIDING SUCH SERVICES. PMF continues to have responsibility for all investment advisory services and supervises PIC's performance of such services.

The current portfolio manager of the Fund is David Graham, a Vice President of Prudential Investment Avisors, a unit of PIC. Mr. Graham has responsibility for the day-to-day management of the Fund's portfolio. Mr. Graham was previously employed by Alliance Capital Management L.P. (February 1993-October 1993) as a fixed-income portfolio manager in the mortgage-backed securities group, by Equitable Capital Management Corporation (May 1989-February 1993), where he served as a Vice President and was responsible for managing total return accounts with mortgage securities, and, prior thereto, by Metropolitan Life Insurance Company (June 1986-April 1989), where he served as a portfolio manager. Mr. Graham joined PIC on November 15, 1993.

PMF and PIC are indirect, wholly-owned subsidiaries of The Prudential Insurance Company of America (Prudential), a major diversified insurance and financial services company.

DISTRIBUTOR

PRUDENTIAL MUTUAL FUND DISTRIBUTORS, INC. (PMFD), ONE SEAPORT PLAZA, NEW YORK, NEW YORK 10292, IS A CORPORATION ORGANIZED UNDER THE LAWS OF THE STATE OF DELAWARE AND SERVES AS THE DISTRIBUTOR OF THE CLASS A SHARES OF THE FUND. IT IS A WHOLLY-OWNED SUBSIDIARY OF PMF.

PRUDENTIAL SECURITIES INCORPORATED (PRUDENTIAL SECURITIES OR PSI), ONE SEAPORT PLAZA, NEW YORK, NEW YORK 10292, IS A CORPORATION ORGANIZED UNDER THE LAWS OF THE STATE OF DELAWARE AND SERVES AS THE DISTRIBUTOR OF THE CLASS B SHARES OF THE FUND. IT IS AN INDIRECT, WHOLLY-OWNED SUBSIDIARY OF PRUDENTIAL.

UNDER SEPARATE DISTRIBUTION AND SERVICE PLANS (THE CLASS A PLAN AND THE CLASS B PLAN, COLLECTIVELY, THE PLANS) ADOPTED BY THE FUND UNDER RULE 12B-1 UNDER THE INVESTMENT COMPANY ACT AND SEPARATE DISTRIBUTION AGREEMENTS (THE DISTRIBUTION AGREEMENTS), PMFD AND PRUDENTIAL SECURITIES (COLLECTIVELY, THE DISTRIBUTOR) INCUR THE EXPENSES OF DISTRIBUTING THE FUND'S CLASS A AND CLASS B SHARES, RESPECTIVELY. These expenses include commissions and account servicing fees paid to, or on account of, financial advisers of Prudential Securities and Pruco Securities Corporation (Prusec), an affiliated broker-dealer, commissions and account servicing fees paid to, or on account of, other broker-dealers or financial institutions (other than national banks) which have entered into agreements with the Distributor, interest and/or carrying charges (Class B only), advertising expenses, the cost of printing and mailing prospectuses to potential investors and indirect and

overhead costs of Prudential Securities and Prusec associated with the sale of Fund shares, including lease, utility, communications and sales promotion expenses. The State of Texas requires that shares of the Fund may be sold in that state only by dealers or other financial institutions which are registered there as broker-dealers.

UNDER THE CLASS A PLAN, THE FUND REIMBURSES PMFD FOR ITS DISTRIBUTION-RELATED EXPENSES WITH RESPECT TO CLASS A SHARES AT AN ANNUAL RATE OF UP TO .30 OF 1% OF THE AVERAGE DAILY NET ASSETS OF THE CLASS A SHARES. The Class A Plan provides that (i) up to .25 of 1% of the average daily net assets of the Class A shares may be used to pay for personal service and/ or the maintenance of shareholder accounts (service fee) and (ii) total distribution fees (including the service fee of up to .25 of 1%) may not exceed .30 of 1% of the average daily net assets of the Class A shares. It is expected that in the case of Class A shares, proceeds from the distribution fee will be used primarily to pay account servicing fees to financial advisers. Unlike the Class B Plan, there are no carry forward amounts under the Class A Plan, and interest expenses are not incurred under the Class A Plan. PMFD has advised the Fund that distribution fees under the Class A Plan will not exceed .25 of 1% of the average daily net assets of the Class A shares for the fiscal year ending December 31, 1994.

For the fiscal year ended December 31, 1993, PMFD incurred distribution expenses under the Class A Plan of $15,299, all of which was recovered through the distribution fee paid by the Fund to PMFD.

For the fiscal year ended December 31, 1993, PMFD received approximately $131,000 in initial sales charges from the Class A shareholders of the Fund.

UNDER THE CLASS B PLAN, THE FUND REIMBURSES PRUDENTIAL SECURITIES FOR ITS DISTRIBUTION-RELATED EXPENSES WITH RESPECT TO CLASS B SHARES (ASSET-BASED SALES CHARGES) AT AN ANNUAL RATE OF UP TO .75 OF 1% OF THE AVERAGE DAILY NET ASSETS OF THE CLASS B SHARES. Prudential Securities recovers the distribution expenses it incurs through the receipt of reimbursement payments from the Fund under the Class B Plan and the receipt of contingent deferred sales charges from certain redeeming shareholders. See "Shareholder Guide--How To Sell your Shares--Contingent Deferred Sales Charge--Class B Shares." For the fiscal year ended December 31, 1993, Prudential Securities received approximately $504,000 in contingent deferred sales charges.

THE CLASS B PLAN ALSO PROVIDES FOR THE PAYMENT OF A SERVICE FEE TO PRUDENTIAL SECURITIES AT A RATE NOT TO EXCEED .25 OF 1% OF THE AVERAGE DAILY NET ASSETS OF THE CLASS B SHARES. The service fee is used to pay for personal service and/or the maintenance of shareholder accounts.

Actual distribution expenses (asset-based sales charges) for Class B shares for any given year may exceed the fees received pursuant to the Class B Plan and will be carried forward and paid by the Fund in future years so long as the Class B Plan is in effect. Interest is accrued monthly on such carry forward amounts at a rate comparable to that paid by Prudential Securities for bank borrowings. See "Distributor" in the Statement of Additional Information.

THE AGGREGATE DISTRIBUTION FEE FOR CLASS B SHARES (ASSET-BASED SALES CHARGES PLUS SERVICE FEES) WILL NOT EXCEED THE ANNUAL RATE OF .75 OF 1% OF THE AVERAGE DAILY NET ASSETS OF THE CLASS B SHARES.

For the fiscal year ended December 31, 1993, Prudential Securities received $2,495,486 from the Fund under the Class B Plan. It is estimated that Prudential Securities spent approximately $2,744,800 on behalf of the Fund during such period. At December 31, 1993, the aggregate amount of distribution expenses incurred by Prudential Securities and not yet reimbursed by the Fund or recovered through contingent deferred sales charges was approximately $11,763,000 or 3.68% of the Fund's net assets of the Class B shares. These unreimbursed distribution expenses may be recovered by Prudential Securities through future payments under the Class B Plan or contingent deferred sales charges.

For the fiscal year ended December 31, 1993, the Fund paid distribution expenses of .15% and .75% of the average daily net assets of the Class A and Class B shares, respectively. The Fund records all payments made under the Plans as expenses in the calculation of net investment income.

Distribution expenses attributable to the sale of both Class A and Class B shares will be allocated to each class based upon the ratio of sales of each class to the sales of all shares of the Fund. The distribution fee and initial sales charge in the case of Class A shares will not be used to subsidize the sale of Class B shares. Similarly, the distribution fee and contingent deferred sales charge in the case of Class B shares will not be used to subsidize the sale of Class A shares.

Each Plan provides that it shall continue in effect from year to year provided that a majority of the Board of Directors of the Fund, including a majority of the Directors who are not "interested persons" of the Fund (as defined in the Investment Company Act) and who have no direct or indirect financial interest in the operation of the Plan or any agreement related to the Plan (the Rule 12b-1 Directors), vote annually to continue the Plan. Each Plan may be terminated at any time by vote of a majority of the Rule 12b-1 Directors or of a majority of the outstanding shares of the applicable class of the Fund. In the event of termination or noncontinuation of the Class B Plan, the Board of Directors may consider the appropriateness of having the Fund reimburse Prudential Securities for the outstanding carry forward amounts plus interest thereon.

In addition to distribution and service fees paid by the Fund under the Class A and Class B Plans, the Manager (or one of its affiliates) may make payments to dealers and other persons which distribute shares of the Fund. Such payments may be calculated by the reference to the net asset value of shares sold by such persons or otherwise.

The Distributor is subject to the rules of the National Association of Securities Dealers, Inc. governing maximum sales charges. See "Distributor" in the Statement of Additional Information.

PORTFOLIO TRANSACTIONS

Prudential Securities may also act as a broker or futures commission merchant for the Fund, provided that the commissions, fees or other remuneration it receives are fair and reasonable. See "Portfolio Transactions and Brokerage" in the Statement of Additional Information.

CUSTODIAN AND TRANSFER AND DIVIDEND DISBURSING AGENT

State Street Bank and Trust Company, One Heritage Drive, North Quincy, Massachusetts 02171, serves as Custodian for the Fund's portfolio sercurities and cash and, in that capacity, maintains certain financial and accounting books and records pursuant to an agreement with the Fund. Its mailing address is P.O. Box 1713, Boston, Massachusetts 02105.

Prudential Mutual Fund Services, Inc. (PMFS), Raritan Plaza One, Edison, New Jersey 08837, serves as Transfer Agent and Dividend Disbursing Agent and in those capacities maintains certain books and records for the Fund. PMFS is a wholly-owned subsidiary of PMF. Its mailing address is P.O. Box 15005, New Brunswick, New Jersey 08906-5005.

HOW THE FUND VALUES ITS SHARES

THE FUND'S NET ASSET VALUE PER SHARE OR NAV IS DETERMINED BY SUBTRACTING ITS LIABILITIES FROM THE VALUE OF ITS ASSETS AND DIVIDING THE REMAINDER BY THE NUMBER OF OUTSTANDING SHARES. NAV IS CALCULATED SEPARATELY FOR EACH CLASS. THE BOARD OF DIRECTORS HAS FIXED THE SPECIFIC TIME OF DAY FOR THE COMPUTATION OF THE FUND'S NAV TO BE AS OF 4:15 P.M. NEW YORK TIME.

Portfolio securities are valued based on market quotations or, if not readily available, at fair value as determined in good faith under procedures established by the Fund's Board of Directors. See "Net Asset Value" in the Statement of Additional Information.

The Fund will compute its NAV once daily on days that the New York Stock Exchange is open for trading except on days on which no orders to purchase, sell or redeem shares have been received by the Fund or days on which changes in the value of the

Fund's portfolio securities do not materially affect the NAV. The New York Stock Exchange is closed on the following holidays: New Year's Day, Presidents' Day, Good Friday, Memorial Day, Independence Day, Labor Day, Thanksgiving Day and Christmas Day.

Although the legal rights of Class A and Class B shares are substantially identical, the different expenses borne by each class will result in different dividends. As long as the Fund declares dividends daily, the NAV of the Class A and Class B shares will generally be the same. It is expected, however, that the dividends will differ by approximately the amount of the distribution expense differential between the classes.

HOW THE FUND CALCULATES PERFORMANCE

FROM TIME TO TIME THE FUND MAY ADVERTISE ITS "YIELD" AND "TOTAL RETURN" (INCLUDING "AVERAGE ANNUAL" TOTAL RETURN AND "AGGREGATE" TOTAL RETURN) IN ADVERTISEMENTS AND SALES LITERATURE. YIELD AND TOTAL RETURN ARE CALCULATED SEPARATELY FOR CLASS A AND CLASS B SHARES. These figures are based on historical earnings and are not intended to indicate future performance. The "yield" refers to the income generated by an investment in the Fund over a one-month or 30-day period. This income is then "annualized" that is, the amount of income generated by the investment during that 30-day period is assumed to be generated each 30-day period for twelve periods and is shown as a percentage of the investment. The income earned on the investment is also assumed to be reinvested at the end of the sixth 30-day period. The "total return" shows how much an investment in the Fund would have increased (decreased) over a specified period of time (I.E., one, five or ten years or since inception of the Fund) assuming that all distributions and dividends by the Fund were reinvested on the reinvestment dates during the period and less all recurring fees. The "aggregate" total return reflects actual performance over a stated period of time. "Average annual" total return is a hypothetical rate of return that, it achieved annually, would have produced the same aggregate total return if performance had been constant over the entire period. "Average annual" total return smooths out variations in performance and takes into account any applicable initial or contingent deferred sales charges. Neither "average annnual" total return nor "aggregate" total return takes into account any federal or state income taxes which may be payable upon redemption. The Fund also may include comparative peformance information in advertising or marketing the Fund's shares. Such performance information may include data from Lipper Analytical Services, Inc., other industry publications, business periodicals and market indices. See "Performance Information" in the Statement of Additional Information. The Fund will include performance data for both Class A and Class B shares of the Fund in any advertisement or information including performance data of the Fund.

Further performance information is contained in the Fund's annual and semi-annual report to shareholders, which may be obtained without charge. See "Shareholder Guide--Shareholder Services--Reports to Shareholders."

TAXES, DIVIDENDS AND DISTRIBUTIONS

TAXATION OF THE FUND

THE FUND HAS ELECTED TO QUALIFY AND INTENDS TO REMAIN QUALIFIED AS A REGULATED INVESTMENT COMPANY UNDER THE INTERNAL REVENUE CODE OF 1986, AS AMENDED. ACCORDINGLY, THE FUND WILL NOT BE SUBJECT TO FEDERAL INCOME TAXES ON ITS NET INVESTMENT INCOME AND CAPITAL GAINS, IF ANY, THAT IT DISTRIBUTES TO ITS SHAREHOLDERS. SEE "TAXES" IN THE STATEMENT OF ADDITIONAL INFORMATION.

TAXATION OF SHAREHOLDERS

All dividends out of net investment income, together with distributions of net short-term capital gains in excess of net long-term capital losses, will be taxable as ordinary income to the shareholder whether or not reinvested. Any net long-term capital gains (I.E., the excess of net long-term capital gains over net short-term capital losses) distributed to shareholders will be taxable as such to the shareholders, whether or not reinvested and regardless of the length of time a shareholder has owned his or her shares. The maximum long-term capital gains rate for individuals is 28%. The maximum long-term capital gains rate for corporate shareholders is currently the same as the maximum tax rate for ordinary income.

Any gain or loss realized upon a sale or redemption of Fund shares by a shareholder who is not a dealer in securities will be treated as long-term capital gain or loss if the shares have been held more than one year, and otherwise as short-term capital gain or loss. Any such loss, however, on shares that have been held for six months or less will be treated as long-term capital loss to the extent of any capital gain distributions received by the shareholders.

Shareholders are advised to consult their own tax advisers regarding specific questions as to federal, state or local taxes. See "Taxes" in the Statement of Additional Information.

WITHHOLDING TAXES

Under U.S. Treasury Regulations, the Fund generally is required to withhold and remit to the U.S. Treasury 31% of dividends, capital gain distributions and redemption proceeds on the accounts of those shareholders who fail to furnish their tax identification numbers on IRS Form W-9 (or IRS Form W-8 in the case of certain foreign shareholders) or who are otherwise subject to backup withholding. Dividends of net investment income and net short-term capital gains paid to a foreign shareholder will generally be subject to U.S. withholding tax at the rate of 30% (or lower treaty rate).

DIVIDEND AND DISTRIBUTIONS

THE FUND INTENDS TO DECLARE DAILY AND PAY MONTHLY INCOME DIVIDENDS BASED ON ACTUAL NET INVESTMENT INCOME, IF ANY, DETERMINED IN ACCORDANCE WITH GENERALLY ACCEPTED ACCOUNTING PRINCIPLES; HOWEVER, A PORTION OF SUCH DIVIDENDS MAY ALSO INCLUDE PROJECTED NET INVESTMENT INCOME. The Fund expects to make distributions of net capital gains, if any, at least annually. Dividends paid by the Fund with respect to Class A and Class B shares, to the extent any dividends are paid, will be calculated in the same manner, at the same time, on the same day and will be in the same amount except that each class will bear its own distribution expenses, resulting in lower dividends for Class B shares. Distributions of net capital gains, if any, will be paid in the same amount for Class A and Class B shares. See "How The Fund Values Its Shares."

DIVIDENDS AND DISTRIBUTIONS WILL BE PAID IN ADDITIONAL FUND SHARES BASED ON THE NAV OF FUND SHARES ON THE PAYMENT DATE AND RECORD DATE, RESPECTIVELY, OR SUCH OTHER DATE AS THE BOARD OF DIRECTORS MAY DETERMINE, UNLESS THE SHAREHOLDER ELECTS IN WRITING NOT LESS THAN FIVE BUSINESS DAYS PRIOR TO THE RECORD DATE TO RECEIVE SUCH DIVIDENDS AND DISTRIBUTIONS IN CASH. Such election should be submitted to Prudential Mutual Fund Services, Inc., Attention: Account Maintenance, P.O. Box 15015, New Brunswick, New Jersey 08906-5015. If you hold shares through Prudential Securities, you should contact your financial adviser to elect to receive dividends and distributions in cash.The Fund will notify each shareholder after the close of the Fund's taxable year of both the dollar amount and the taxable status of that year's dividends and distributions on a per share basis.

As of December 31, 1993, the Fund had a capital loss carryforward for federal income tax purposes of $11,324,000. Accordingly, no capital gains distribution is expected to be paid to shareholders until net gains have been realized in excess of such carryforward amount.

To the extent that, in a given year, distributions to shareholders exceed recognized net investment income and recognized short-term and long-term capital gains for the year, shareholders will receive a return of capital in respect of such year and, in an annual statement, will be notified of the amount of any return of capital for such year.

When the Fund goes "ex-dividend," the NAV of each class is reduced by the amount of the dividend or distribution allocable to each class. If you buy shares just prior to the ex-dividend date, the price you pay will include the distribution and a portion of your investment will be returned to you as a taxable dividend or distribution. Accordingly, prior to purchasing shares of the Fund, an investor should carefully consider the impact of dividends and distributions which are expected to be or have been announced.

GENERAL INFORMATION

DESCRIPTION OF COMMON STOCK

THE FUND WAS INCORPORATED IN MARYLAND ON JANUARY 4, 1982. THE FUND IS AUTHORIZED TO ISSUE 500 MILLION SHARES OF COMMON STOCK, $.01 PAR VALUE PER SHARE, DIVIDED INTO TWO CLASSES, DESIGNATED CLASS A AND CLASS B COMMON STOCK, EACH OF WHICH CONSISTS OF 250 MILLION AUTHORIZED SHARES. Both Class A and Class B common stock represent an interest in the same assets of the Fund and are identical in all respects except that each class bears different distribution expenses and has exclusive voting rights with respect to its distribution plan. See "How the Fund Is Managed--Distributor." The Fund has received an order from the SEC permitting the issuance and sale of multiple classes of common stock. Currently, the Fund is offering only two classes, designated Class A and Class B shares.In accordance with the Fund's Articles of Incorporation, the Board of Directors may authorize the creation of additional series of common stock and classes within such series, with such preferences, privileges, limitations and voting and dividend rights as the Board may determine.

The Board of Directors may increase or decrease the number of authorized shares without approval by the shareholders. Shares of the Fund, when issued, are fully paid, nonassessable, fully transferable and redeemable at the option of the holder. Shares are also redeemable at the option of the Fund under certain circumstances as described under "Shareholder Guide--How to Sell Your Shares." Each share of Class A and Class B common stock is equal as to earnings, assets and voting privileges, except as noted above, and each class bears the expenses related to the distribution of its shares. There are no conversion, preemptive or other subscription rights. In the event of liquidation, each share of common stock of the Fund is entitled to its portion of all of the Fund's assets after all debt and expenses of the Fund have been paid. Since Class B shares bear higher distribution expenses, the liquidation proceeds to Class B shareholders are likely to be lower than to Class A shareholders. The Fund's shares do not have cumulative voting rights for the election of Directors.

THE FUND DOES NOT INTEND TO HOLD ANNUAL MEETINGS OF SHAREHOLDERS UNLESS OTHERWISE REQUIRED BY LAW. THE FUND WILL NOT BE REQUIRED TO HOLD MEETINGS OF SHAREHOLDERS UNLESS, FOR EXAMPLE, THE ELECTION OF DIRECTORS IS REQUIRED TO BE ACTED ON BY SHAREHOLDERS UNDER THE INVESTMENT COMPANY ACT. SHAREHOLDERS HAVE CERTAIN RIGHTS, INCLUDING THE RIGHT TO CALL A MEETING UPON A VOTE OF 10% OF THE FUND'S OUTSTANDING SHARES FOR THE PURPOSE OF VOTING ON THE REMOVAL OF ONE OR

MORE DIRECTORS OR TO TRANSACT ANY OTHER BUSINESS.

ADDITIONAL INFORMATION

This Prospectus, including the Statement of Additional Information which has been incorporated by reference herein, does not contain all the information set forth in the Registration Statement filed by the Fund with the SEC under the Securities Act of 1933. Copies of the Registration Statement may be obtained at a reasonable charge from the SEC or may be examined, without charge, at the office of the SEC in Washington, D.C.

SHAREHOLDER GUIDE

HOW TO BUY SHARES OF THE FUND

YOU MAY PURCHASE SHARES OF THE FUND THROUGH PRUDENTIAL SECURITIES, PRUSEC OR DIRECTLY FROM THE FUND THROUGH ITS TRANSFER AGENT, PRUDENTIAL MUTUAL FUND SERVICES, INC. (PMFS OR THE TRANSFER AGENT). The minimum initial investment is $1,000. The minimum subsequent investment is $100. All minimum investment requirements are waived for certain retirement and employee savings plans or custodial accounts for the benefit of minors. For purchases made through the Automatic Savings Accumulation Plan, the minimum initial and subsequent investment required is $50. See "Shareholder Services" below.

THE PURCHASE PRICE IS THE NAV PER SHARE NEXT DETERMINED FOLLOWING RECEIPT OF AN ORDER BY THE TRANSFER AGENT OR PRUDENTIAL SECURITIES PLUS A SALES CHARGE WHICH, AT THE OPTION OF THE PURCHASER, MAY BE IMPOSED AT THE TIME OF PURCHASE OR ON A DEFERRED BASIS. SEE "ALTERNATIVE PURCHASE PLAN" BELOW. SEE ALSO "HOW THE FUND VALUES ITS SHARES."

Application Forms can be obtained from PMFS, Prudential Securities or Prusec. If a stock certificate is desired, it must be requested in writing for each transaction. Certificates are issued only for full shares. Shareholders who hold their shares through Prudential Securities will not receive stock certificates.

The Fund reserves the right to reject any purchase order (including an exchange) or to suspend or modify the continuous offering of its shares. See "How to Sell Your Shares" below.

Your dealer is responsible for forwarding payment promptly to the Fund. The Distributor reserves the right to cancel any purchase order for which payment has not been received by the fifth business day following the investment.

Transactions in Fund shares made through dealers other than Prudential Securities or Prusec may be subject to postage and handling charges imposed by the dealer; however, you may avoid such charges by placing orders directly with the Fund's Transfer Agent, Prudential Mutual Fund Services, Inc., Attention: Investment Services, P.O. Box 15020, New Brunswick, New Jersey 08906-5020.

PURCHASE BY WIRE. For an initial purchase of shares of the Fund by wire, you must first telephone PMFS at (800) 225-1852 (toll-free) to receive an account number. The following information will be requested: your name, address, tax identification number, class election, dividend distribution election, amount being wired and wiring bank. Instructions should then be given by you to your bank to transfer funds by wire to State Street Bank and Trust Company, Boston, Massachusetts, Custody and Shareholder Services Division, Attention: Prudential GNMA Fund, specifying on the wire the account number assigned by PMFS and your name and identifying the sales charge alternative (Class A or Class B shares).

If you arrange for receipt by State Street of Federal Funds prior to 4:15 P.M., New York time, on a business day, you may purchase shares of the Fund as of that day.

In making a subsequent purchase order by wire, you should wire State Street directly and should be sure that the wire specifies Prudential GNMA Fund, Class A or Class B shares and your name and individual account number. It is not necessary to call PMFS to make subsequent purchase orders utilizing Federal Funds. The minimum amount which may be invested by wire is $1,000.

ALTERNATIVE PURCHASE PLAN

THE FUND OFFERS TWO CLASSES OF SHARES WHICH ALLOWS YOU TO CHOOSE THE MOST BENEFICIAL SALES CHARGE STRUCTURE FOR YOUR INDIVIDUAL CIRCUMSTANCES GIVEN THE AMOUNT OF THE PURCHASE, THE LENGTH OF TIME YOU EXPECT TO HOLD THE SHARES

AND OTHER RELEVANT CIRCUMSTANCES. You may purchase shares at the next determined NAV plus a sales charge which, at your election, may be imposed either at the time of purchase (the Class A shares or the initial sales charge alternative) or on a deferred basis (the Class B shares or the deferred sales charge alternative) (the Alternative Purchase Plan).

CLASS A SHARES ARE SUBJECT TO AN INITIAL SALES CHARGE OF UP TO 4.5% OF THE OFFERING PRICE AND AN ANNUAL DISTRIBUTION FEE WHICH IS CURRENTLY BEING CHARGED AT A RATE OF UP TO .25 OF 1% OF THE AVERAGE DAILY NET ASSETS OF THE CLASS A SHARES. Certain purchases of Class A shares may qualify for reduction or waiver of initial sales charges. See "Initial Sales Charge Alternative--Class A Shares--Reduction or Waiver of Initial Sales Charges" below.

CLASS B SHARES DO NOT INCUR A SALES CHARGE WHEN THEY ARE PURCHASED BUT ARE SUBJECT TO A CONTINGENT DEFERRED SALES CHARGE (DECLINING FROM 5% TO ZERO OF THE LESSER OF THE AMOUNT INVESTED OR THE REDEMPTION PROCEEDS) WHICH WILL BE IMPOSED ON CERTAIN REDEMPTIONS MADE WITHIN SIX YEARS OF PURCHASE AND AN ANNUAL DISTRIBUTION FEE OF UP TO .75 OF 1% OF THE AVERAGE DAILY NET ASSETS OF THE CLASS B SHARES. Certain redemptions of Class B shares may qualify for waiver or reduction of the contingent deferred sales charge. See "How to Sell Your Shares--Waiver of Contingent Deferred Sales Charge" and "How to Sell Your Shares--Quantity Discount."

The two classes of shares represent an interest in the same portfolio of investments of the Fund and have the same rights, except that each class bears the separate expenses of its Rule 12b-1 distribution plan and has exclusive voting rights with respect to such plan. The two classes also have separate exchange privileges. See "How to Exchange Your Shares" below. The net income attributable to each class and the dividends payable on the shares of each class will be reduced by the amount of the distribution fee of each class. Class B shares bear the expenses of a higher distribution fee which will cause the Class B shares to have a higher expense ratio and to pay lower dividends than the Class A shares.

Financial advisers will receive different compensation for selling Class A and Class B shares.

The following illustrations are provided to assist you in determining which method of purchase best suits your individual circumstances:

If you qualify for a reduced sales charge, you might elect the initial sales charge alternative because a similar sales charge reduction is not available for purchases under the deferred sales charge alternative. However, because the initial sales charge is deducted at the time of purchase, you would not have all of your money invested initially.

If you do not qualify for a reduced initial sales charge and expect to maintain your investment in the Fund for a long period of time, you might also elect the initial sales charge alternative because over time the accumulated continuing distribution charges of Class B shares will exceed the initial sales charge plus the distribution fees of Class A shares. Again, however, you must weigh this consideration against the fact that not all of your money will be invested initially. Furthermore, the ongoing distribution charges under the deferred sales charge alternative will be offset to the extent any return is realized on the additional funds. However, there can be no assurance that any return will be realized on the additional funds.

On the other hand, you might determine that it is more advantageous to have all of your money invested initially, although it is subject to a distribution fee of up to .75 of 1% and, for a six-year period, a contingent deferred sales charge of up to 5%. For example, based on current fees and expenses, if you purchase Class A shares you would have to hold your investment for more than nine years for the .75 of 1% Class B distribution fee to exceed the initial sales charge plus distribution fee of the Class A shares. In this example, if you intend to maintain your investment in Fund for more than nine years, you should consider purchasing Class A shares. However, this example does not take into account the time value of money which further reduces the impact of the .75 of 1% distribution fee on the investment, fluctuations in net asset value, the effect of the return on the investment over this period of time or redemptions while the contingent deferred sales charge is applicable.

INITIAL SALES CHARGE ALTERNATIVE--CLASS A SHARES

The offering price of Class A shares for investors choosing the initial sales charge alternative is the next determined NAV plus a sales charge (expressed as a percentage of the offering price and of the amount invested) as shown in the following table:

AMOUNT OF PURCHASE	SALES CHARGE AS PERCENTAGE OF OFFERING PRICE	SALES CHARGE AS PERCENTAGE OF AMOUNT INVESTED	DEALER CONCESSION AS PERCENTAGE OF OFFERING PRICE
Less than $50,000	4.50%	4.71%	4.25%
$50,000 to $99,999	4.00%	4.17%	3.75%
$100,000 to $249,999	3.50%	3.63%	3.25%
$250,000 to $499,999	3.00%	3.09%	2.90%
$500,000 to $999,999	2.00%	2.04%	1.90%
$1,000,000 to $2,499,999	1.00%	1.01%	0.95%
$2,500,000 and above	0.50%	0.50%	0.45%

Selling dealers may be deemed to be underwriters, as that term is defined under the Federal Securities Laws.

REDUCTION AND WAIVER OF INITIAL SALES CHARGES. Sales charges are reduced under Rights of Accumulation and Letters of Intent. Class A shares are offered at NAV to participants in certain retirement and deferred compensation plans, including qualified or non-qualified plans under the Internal Revenue Code and certain affinity group and group savings plans, provided that the plan has existing assets of at least $10 million or 2,500 eligible employees or members. Additional information concerning the reduction and waiver of initial sales charges is set forth in the Statement of Additional Information. In the case of pension, profit-sharing or stock bonus plans under Section 401 of the Internal Revenue Code and deferred compensation and annuity plans under Sections 457 and 403(b)(7) of the Internal Revenue Code (Benefit Plans) whose accounts are held directly with the Transfer Agent and for which the Transfer Agent does individual account record keeping (Direct Account Benefit Plans) and Benefit Plans sponsored by PSI or its subsidiaries (PSI or Subsidiary Prototype Benefit Plans), Class A shares are offered at NAV to participants who are repaying loans made from such plans to the participant.

Class A shares are offered at NAV to Directors and officers of the Fund and other Prudential Mutual Funds, to employees of Prudential Securities and PMF and their subsidiaries and to members of the families of such persons who maintain an "employee related" account at Prudential Securities or the Transfer Agent. Class A shares are offered at NAV to employees and special agents of Prudential and its subsidiaries and to all persons who have retired directly from active service with Prudential or one of its subsidiaries.

Class A shares are offered at NAV to an investor who has a business relationship with a financial adviser who joined Prudential Securities from another investment firm, provided that (i) the purchase is made within 90 days of the commencement of the financial adviser's employment at Prudential Securities, (ii) the purchase is made with proceeds of a redemption of shares of any open-end investment company sponsored by the financial adviser's previous employer (other than a money market fund or other no-load fund which imposes a distribution or service fee of .25 of 1% or less) on which no deferred sales load, fee or other charge was imposed on redemption and (iii) the financial adviser served as the client's broker on the previous purchase.

You must notify the Transfer Agent either directly or through Prudential Securities or Prusec that you are entitled to the reduction or waiver of the sales charge. The reduction or waiver will be granted subject to confirmation of your entitlement. No initial sales charges are imposed upon Class A shares purchased upon the reinvestment of dividends and distributions. See "Purchase and Redemption of Fund Shares--Reduction and Waiver of Initial Sales Charges--Class A Shares" in the Statement of Additional Information.

DEFERRED SALES CHARGE ALTERNATIVE--CLASS B SHARES

The offering price of Class B shares for investors choosing the deferred sales charge alternative is the NAV per share next determined following receipt of an order by the Transfer Agent or Prudential Securities. Although there is no sales charge imposed at the time of purchase, redemptions of Class B shares may be subject to a contingent deferred sales charge. See "How to Sell Your Shares--Contingent Deferred Sales Charge--Class B Shares" below.

HOW TO SELL YOUR SHARES

YOU CAN REDEEM YOUR SHARES AT ANY TIME FOR CASH AT THE NAV NEXT DETERMINED AFTER THE REDEMPTION REQUEST IS RECEIVED IN PROPER FORM BY THE TRANSFER AGENT OR PRUDENTIAL SECURITIES. SEE "HOW THE FUND VALUES ITS SHARES." In certain cases, however, redemption proceeds from the Class B shares will be reduced by the amount of any applicable contingent deferred sales charge, as described below. See "Contingent Deferred Sales Charge--Class B Shares" below.

IF YOU HOLD SHARES OF THE FUND THROUGH PRUDENTIAL SECURITIES, YOU MUST REDEEM SHARES BY CONTACTING YOUR PRUDENTIAL SECURITIES FINANCIAL ADVISER. IF YOU HOLD SHARES IN NON-CERTIFICATE FORM, A WRITTEN REQUEST FOR REDEMPTION SIGNED BY YOU EXACTLY AS THE ACCOUNT IS REGISTERED IS REQUIRED. IF YOU HOLD CERTIFICATES, THE CERTIFICATES, SIGNED IN THE NAME(S) SHOWN ON THE FACE OF THE CERTIFICATES, MUST BE RECEIVED BY THE TRANSFER AGENT IN ORDER FOR THE REDEMPTION REQUEST TO BE PROCESSED. IF REDEMPTION IS REQUESTED BY A CORPORATION, PARTNERSHIP, TRUST OR FIDUCIARY, WRITTEN EVIDENCE OF AUTHORITY ACCEPTABLE TO THE TRANSFER AGENT MUST BE SUBMITTED BEFORE SUCH REQUEST WILL BE ACCEPTED. All correspondence and documents concerning redemptions should be sent to the Fund in care of its Transfer Agent, Prudential Mutual Fund Services, Inc., Attention: Redemption Services, P.O. Box 15010, New Brunswick, New Jersey 08906-5010.

If the proceeds of the redemption (a) exceed $50,000, (b) are to be paid to a person other than the record owner, (c) are to be sent to an address other than the address on the Transfer Agent's records, or (d) are to be paid to a corporation, partnership, trust or fiduciary, the signature(s) on the redemption request and on the certificates, if any, must be guaranteed by an "eligible guarantor institution." An "eligible guarantor institution" includes any bank, broker, dealer or credit union. The Transfer Agent reserves the right to request additional information from, and make reasonable inquiries of, any eligible guarantor institution. For clients of Prusec, a signature guarantee may be obtained from the agency or office manager of most Prudential Insurance and Financial Services or Prudential Preferred Financial Services offices.

PAYMENT FOR SHARES PRESENTED FOR REDEMPTION WILL BE MADE BY CHECK WITHIN SEVEN DAYS AFTER RECEIPT BY THE TRANSFER AGENT OF THE CERTIFICATE AND/OR WRITTEN REQUEST EXCEPT AS INDICATED BELOW. Such payment may be postponed or the right of redemption suspended at times (a) when the New York Stock Exchange is closed for other than customary weekends and holidays, (b) when trading on such Exchange is restricted, (c) when an emergency exists as a result of which disposal by the Fund of securities owned by it is not reasonably practicable or it is not reasonably practicable for the Fund fairly to determine the value of its net assets, or (d) during any other period when the SEC, by order, so permits; provided that applicable rules and regulations of the SEC shall govern as to whether the conditions prescribed in (b), (c) or (d) exist.

PAYMENT FOR REDEMPTION OF RECENTLY PURCHASED SHARES WILL BE DELAYED UNTIL THE FUND OR ITS TRANSFER AGENT HAS BEEN ADVISED THAT THE PURCHASE CHECK HAS BEEN HONORED, UP TO 10 CALENDAR DAYS FROM THE TIME OF RECEIPT OF THE PURCHASE CHECK BY THE TRANSFER AGENT. SUCH DELAY MAY BE AVOIDED BY PURCHASING SHARES BY WIRE OR BY CERTIFIED OR OFFICIAL BANK CHECK.

REDEMPTION IN KIND. If the Board of Directors determines that it would be detrimental to the best interests of the remaining shareholders of the Fund to make payment wholly or partly in cash, the Fund may pay the redemption price in whole or in part by a distribution in kind of securities from the investment portfolio of the Fund, in lieu of cash, in conformity with applicable rules of the SEC. Securities will be readily marketable and will be valued in the same manner as in a regular redemption. See "How The Fund Values Its Shares." If your shares are redeemed in kind, you will incur transaction costs in converting the assets into cash.

The Fund, however, has elected to be governed by Rule 18f-1 under the Investment Company Act, under which the Fund is obligated to redeem shares solely in cash up to the lesser of $250,000 or 1% of the net asset value of the Fund during any 90-day period for any one shareholder.

INVOLUNTARY REDEMPTION. In order to reduce expenses of the Fund, the Board of Directors may redeem all of the shares of any shareholder, other than a shareholder which is an IRA or other tax-deferred retirement plan, whose account has a net asset value of less than $500 due to a redemption. The Fund will give such shareholders 60 days' prior written notice in which to purchase sufficient additional shares to avoid such redemption. No contingent deferred sales charge will be imposed on any involuntary redemption.

30-DAY REPURCHASE PRIVILEGE. If you redeem your shares and have not previously exercised the repurchase privilege, you may reinvest any portion or all of the proceeds of such redemption in shares of the Fund at the NAV next determined after the order is received, which must be within 30 days after the date of the redemption. No sales charge will apply to such repurchases. You will receive pro rata credit for any contingent deferred sales charge paid in connection with the redemption of Class B shares. You must notify the Fund's Transfer Agent, either directly or through Prudential Securities or Prusec, at the time the repurchase privilege is exercised that you are entitled to credit for the contingent deferred sales charge previously paid. Exercise of the repurchase privilege generally will not affect federal income tax treatment of any gain realized upon redemption. If the redemption resulted in a loss, some or all of the loss, depending on the amount reinvested, will generally not be allowed for federal income tax purposes.

CONTINGENT DEFERRED SALES CHARGE--CLASS B SHARES

If you have elected to purchase shares without an initial sales charge (Class B), a contingent deferred sales charge or CDSC (declining from 5% to zero) will be imposed at the time of redemption. The CDSC will be deducted from the redemption proceeds and reduce the amount paid to you. The CDSC will be imposed on any redemption by you which reduces the current value of your Class B shares to an amount which is lower than the amount of all payments by you for Class B shares during the preceding six years. A CDSC will be applied on the lesser of the original purchase price or the current value of the shares being redeemed. Increases in the value of your shares or shares purchased through reinvestment of dividends or distributions are not subject to a CDSC. The amount of any contingent deferred sales charge will be paid to and retained by the Distributor. See "How the Fund Is Managed--Distributor" and "Waiver of the Contingent Deferred Sales Charge" below.

The amount of the CDSC, if any, will vary depending on the number of years from the time of payment for the purchase of Class B shares until the time of redemption of such shares. Solely for purposes of determining the number of years from the time of any payment for the purchase of shares, all payments during a month will be aggregated and deemed to have been made on the last day of the month. The following table sets forth the rates of the CDSC:

<TABLE>
<CAPTION>

YEAR SINCE PURCHASE PAYMENT MADE	CONTINGENT DEFERRED SALES CHARGE AS A PERCENTAGE OF DOLLARS INVESTED OR REDEMPTION PROCEEDS
<S>	<C>
First..........................	5.0%
Second.........................	4.0%
Third..........................	3.0%
Fourth.........................	2.0%
Fifth..........................	1.0%
Sixth..........................	1.0%
Seventh and thereafter.........	None

</TABLE>

In determining whether a CDSC is applicable to a redemption, the calculation will be made in a manner that results in the lowest possible rate. It will be assumed that the redemption is made first of amounts representing shares acquired pursuant to the

reinvestment of dividends and distributions; then of amounts representing the increase in net asset value above the total amount of payments for the purchase of Fund shares made during the preceding six years (five years for shares purchased prior to January 22, 1990); then of amounts representing the cost of shares purchased six years prior to the redemption; then of amounts representing the cost of shares acquired prior to July 1, 1985; and finally, of amounts representing the cost of shares held for the longest period of time within the applicable six-year period (five years for shares purchased prior to January 22, 1990).

For example, assume you purchased 100 shares at $10 per share for a cost of $1,000. Subsequently, you acquired 5 additional shares through dividend reinvestment. During the second year after the purchase you decided to redeem

$500 of your investment. Assuming at the time of the redemption the net asset value had appreciated to $12 per share, the value of your shares would be $1,260 (105 shares at $12 per share). The CDSC would not be applied to the value of the reinvested dividend shares and the amount which represents appreciation ($260). Therefore, $240 of the $500 redemption proceeds ($500 minus $260) would be charged at a rate of 4% (the applicable rate in the second year after purchase) for a total CDSC of $9.60.

For federal income tax purposes, the amount of the CDSC will reduce the gain or increase the loss, as the case may be, on the amount recognized on the redemption of shares.

WAIVER OF THE CONTINGENT DEFERRED SALES CHARGE. The CDSC will be waived in the case of a redemption following the death or disability of a shareholder or, in the case of a trust account, following the death or disability of the grantor. The waiver is available for total or partial redemptions of shares owned by a person, either individually or in joint tenancy (with rights of survivorship), or a trust, at the time of death or initial determination of disability.

The CDSC will also be waived in the case of a total or partial redemption in connection with certain distributions made without penalty under the Internal Revenue Code from a tax-deferred retirement plan, an IRA or Section 403(b) custodial account. These distributions include a lump-sum or other distribution after retirement, or for an IRA or Section 403(b) custodial account, after attaining age 59 1/2, a tax-free return of an excess contribution or plan distributions following the death or disability of the shareholder. The waiver does not apply in the case of a tax-free rollover or transfer of assets, other than one following a separation from service. In the case of Direct Account and PSI or Subsidiary Prototype Benefit Plans, the CDSC will be waived on redemptions which represent borrowings from such plans. Shares purchased with amounts used to repay a loan from such plans on which a CDSC was not previously deducted will thereafter be subject to a CDSC without regard to the time such amounts were previously invested. In the case of a 401(k) plan, the CDSC will also be waived upon the redemption of shares purchased with amounts used to repay loans made from the account to the participant and from which a CDSC was previously deducted.

In addition, the CDSC will be waived on redemptions of shares held by Directors of the Fund.

You must notify the Transfer Agent either directly or through Prudential Securities or Prusec, at the time of redemption, that you are entitled to waiver of the CDSC. The waiver will be granted subject to confirmation of your entitlement.

QUANTITY DISCOUNT. The CDSC is reduced on redemptions of Class B shares of the Fund if immediately after a purchase of such shares, the aggregate cost of all Class B shares of the Fund owned by you in a single account exceeds $500,000. For example, if you purchase $100,000 of Class B shares of the Fund and the following year purchase an additional $450,000 of Class B shares of the Fund with the result that the aggregate cost of your Class B shares following the second purchase is $550,000, the quantity discount would be available for the second purchase of $450,000 but not for the first purchase of $100,000. The quantity discount will be imposed at the following rates depending on whether the aggregate cost exceeds $500,000 or $1 million:

<TABLE>
<CAPTION>

YEAR SINCE PURCHASE PAYMENT MADE	CONTINGENT DEFERRED SALES CHARGE AS A PERCENTAGE OF DOLLARS INVESTED OR REDEMPTION PROCEEDS: $500,001 TO $1 MILLION	OVER $1 MILLION
<S>	<C>	<C>
First.........................	3.0%	2.0%
Second........................	2.0%	1.0%
Third.........................	1.0%	0%
Fourth and thereafter.........	0%	0%

</TABLE>

You must notify the Fund's Transfer Agent either directly or through Prudential Securities or Prusec, at the time of redemption, that you are entitled to the reduced CDSC. The reduced CDSC will be granted subject to confirmation of your holdings.

HOW TO EXCHANGE YOUR SHARES

AS A SHAREHOLDER OF THE FUND, YOU HAVE AN EXCHANGE PRIVILEGE WITH CERTAIN OTHER PRUDENTIAL MUTUAL FUNDS (THE EXCHANGE PRIVILEGE), INCLUDING ONE OR MORE SPECIFIED MONEY MARKET FUNDS, SUBJECT TO THE MINIMUM INVESTMENT REQUIREMENTS OF SUCH FUNDS. CLASS A AND CLASS B SHARES OF THE FUND MAY BE EXCHANGED FOR CLASS A AND CLASS B SHARES, RESPECTIVELY, OF ANOTHER FUND ON THE BASIS OF THE RELATIVE NAV. Any applicable CDSC payable upon the redemption of shares exchanged will be that imposed by the fund in which shares were initially purchased and will be calculated from the first day of the month after the initial purchase excluding the time shares were held in a money market fund. Class B shares may not be exchanged into money market funds other than Prudential Special Money Market Fund. An exchange will be treated as a redemption and purchase for tax purposes. See "Shareholder Investment Account--Exchange Privilege" in the Statement of Additional Information.

IN ORDER TO EXCHANGE SHARES BY TELEPHONE, YOU MUST AUTHORIZE TELEPHONE EXCHANGES ON YOUR INITIAL APPLICATION FORM OR BY WRITTEN NOTICE TO THE TRANSFER AGENT AND HOLD SHARES IN NON-CERTIFICATE FORM. Thereafter, you may call the Fund at (800) 225-1852 to execute a telephone exchange of shares, weekdays, except holidays, between the hours of 8:00 A.M. and 6:00 P.M., New York time. For your protection and to prevent fraudulent exchanges, your telephone call will be recorded and you will be asked to provide your personal identification number. A written confirmation of the exchange transaction will be sent to you. All exchanges will be made on the basis of the relative NAV of the two funds next determined after the request is received in good order. The Exchange Privilege is available only in states where the exchange may legally be made.

IF YOU HOLD SHARES THROUGH PRUDENTIAL SECURITIES, YOU MUST EXCHANGE YOUR SHARES BY CONTACTING YOUR PRUDENTIAL SECURITIES FINANCIAL ADVISER.

IF YOU HOLD CERTIFICATES, THE CERTIFICATES, SIGNED IN THE NAME(S) SHOWN ON THE FACE OF THE CERTIFICATES, MUST BE RETURNED IN ORDER FOR THE SHARES TO BE EXCHANGED. SEE "HOW TO SELL YOUR SHARES" ABOVE.

Neither the Fund nor its agents will be liable for any loss, liability or cost which results from acting upon instructions reasonably believed to be genuine under the foregoing procedures.

You may also exchange shares by mail by writing to Prudential Mutual Fund Services, Inc., Attention: Exchange Processing, P.O. Box 15010, New Brunswick, New Jersey 08906-5010.

IN PERIODS OF SEVERE MARKET OR ECONOMIC CONDITIONS THE TELEPHONE EXCHANGE OF SHARES MAY BE DIFFICULT TO IMPLEMENT AND YOU SHOULD MAKE EXCHANGES BY MAIL BY WRITING TO PRUDENTIAL MUTUAL FUND SERVICES, INC., AT THE ADDRESS NOTED ABOVE.

The Exchange Privilege may be modified or terminated at any time on sixty days' notice to shareholders.

SHAREHOLDER SERVICES

In addition to the Exchange Privilege, as a shareholder in the Fund, you can take advantage of the following additional services and privileges:

- AUTOMATIC REINVESTMENT OF DIVIDENDS AND/OR DISTRIBUTIONS WITHOUT A SALES CHARGE. For your convenience, all dividends and distributions are automatically reinvested in full and fractional shares of the Fund at NAV without a sales charge. You may direct the Transfer Agent in writing not less than 5 full business days prior to the record date to have subsequent dividends and/or distributions sent in cash rather than reinvested. If you hold shares through Prudential Securities, you should contact your financial adviser.

- AUTOMATIC SAVINGS ACCUMULATION PLAN (ASAP). Under ASAP you may make regular purchases of the Fund's shares in amounts as little as $100 via an automatic debit to a bank account or Prudential Securities account (including a Command Account). For additional information about this service, you may contact your

Prudential Securities financial adviser, Prusec registered representative or the Transfer Agent directly.

- TAX-DEFERRED RETIREMENT PLANS. Various tax-deferred retirement plans, including a 401(k) plan, self-directed individual retirement accounts and "tax-sheltered accounts" under Section 403(b)(7) of the Internal Revenue Code are available through the Distributor. These plans are for use by both self-employed individuals and corporate employers. These plans permit either self-direction of accounts by participants, or a pooled account arrangement. Information regarding the establishment of these plans, the administration, custodial fees and other details is available from Prudential Securities or the Transfer Agent. If you are considering adopting such a plan, you should consult with your own legal or tax adviser with respect to the establishment and maintenance of such a plan.

- SYSTEMATIC WITHDRAWAL PLAN. A systematic withdrawal plan is available for shareholders having Class A or Class B shares of the Fund which provides for monthly or quarterly checks. Withdrawals of Class B shares may be subject to a CDSC. See "How to Sell Your Shares--Contingent Deferred Sales Charge--Class B Shares" above. See also "Shareholder Investment Account--Systematic Withdrawal Plan" in the Statement of Additional Information."

- REPORTS TO SHAREHOLDERS. The Fund will send to you annual and semi-annual reports and an annual prospectus; the financial statements appearing in annual reports are audited by independent accountants. In order to reduce duplicate mailing and printing expenses, the Fund will provide one annual and semi-annual shareholder report and annual prospectus per household. You may request additional copies of such reports by calling (800) 225-1852 or by writing to the Fund at One Seaport Plaza, New York, New York 10292. In addition, monthly unaudited financial data are available upon request from the Fund.

- SHAREHOLDER INQUIRIES. Inquiries should be addressed to the Fund at One Seaport Plaza, New York, New York 10292, or by telephone, at (800) 225-1852 (toll-free) or, from outside the U.S.A., at (908) 417-7555 (collect).

For additional information regarding the services and privileges described above, see "Shareholder Investment Account" in the Statement of Additional Information.

THE PRUDENTIAL MUTUAL FUND FAMILY

Prudential Mutual Fund Management offers a broad range of mutual funds designed to meet your individual needs. We welcome you to review the investment options available through our family of funds. For more information on the Prudential Mutual Funds, including charges and expenses, contact your Prudential Securities financial adviser or Prusec registered representative or telephone the Funds at (800) 225-1852 for a free prospectus. Read the prospectus carefully before you invest or send money.

TAXABLE BOND FUNDS

Prudential Adjustable Rate Securities Fund, Inc.
Prudential GNMA Fund
Prudential Government Plus Fund
Prudential Government Securities Trust
  Intermediate Term Series
Prudential High Yield Fund
Prudential Structured Maturity Fund
  Income Portfolio
Prudential U.S. Government Fund
The BlackRock Government Income Trust

TAX-EXEMPT BOND FUNDS

Prudential California Municipal Fund
  California Series
  California Income Series
Prudential Municipal Bond Fund
  High Yield Series
  Insured Series
  Modified Term Series
Prudential Municipal Series Fund
  Arizona Series
  Florida Series
  Georgia Series
  Maryland Series
  Massachusetts Series
  Michigan Series
  Minnesota Series
  New Jersey Series
  New York Series
  North Carolina Series
  Ohio Series

Pennsylvania Series
Prudential National Municipals Fund

GLOBAL FUNDS

Prudential Global Fund, Inc.
Prudential Global Genesis Fund
Prudential Global Natural Resources Fund
Prudential Intermediate Global Income Fund, Inc.
Prudential Pacific Growth Fund, Inc.
Prudential Short-Term Global Income Fund, Inc.
  Global Assets Portfolio
  Short-Term Global Income Portfolio
Global Utility Fund, Inc.

EQUITY FUNDS

Prudential Equity Fund
Prudential Equity Income Fund
Prudential FlexiFund
  Conservatively Managed Portfolio
  Strategy Portfolio
Prudential Growth Fund, Inc.
Prudential Growth Opportunity Fund
Prudential IncomeVertible-R- Fund, Inc.
Prudential Multi-Sector Fund, Inc.
Prudential Utility Fund
Nicholas-Applegate Fund, Inc.
  Nicholas-Applegate Growth Equity Fund

MONEY MARKET FUNDS

- -TAXABLE MONEY MARKET FUNDS
Prudential Government Securities Trust
  Money Market Series
  U.S. Treasury Money Market Series
Prudential Special Money Market Fund
  Money Market Series
Prudential MoneyMart Assets
- -TAX-FREE MONEY MARKET FUNDS
Prudential Tax-Free Money Fund
Prudential California Municipal Fund
  California Money Market Series
Prudential Municipal Series Fund
  Connecticut Money Market Series
  Massachusetts Money Market Series
  New Jersey Money Market Series
  New York Money Market Series
- -COMMAND FUNDS
Command Money Fund
Command Government Securities Fund
Command Tax-Free Fund
- -INSTITUTIONAL MONEY MARKET FUNDS
Prudential Institutional Liquidity Portfolio, Inc.
  Institutional Money Market Series

No dealer, sales representative or any other person has been authorized to give any information or to make any representations, other than those contained in this Prospectus, in connection with the offer contained herein, and, if given or made, such other information or representations must not be relied upon as having been authorized by the Fund or the Distributor. This Prospectus does not constitute an offer by the Fund or by the Distributor to sell or a solicitation of any offer to buy any of the securities offered hereby in any jurisdiction to any person to whom it is unlawful to make such offer in such jurisdiction.

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MF102A 440002K

CUSIP No.: Class A: 743915-20-9
Class B: 743915-10-0

PRUDENTIAL
GNMA FUND

[Logo]

PROSPECTUS
February ,
1994

PRUDENTIAL GNMA FUND
STATEMENT OF ADDITIONAL INFORMATION
DATED FEBRUARY 28, 1994

Prudential-Bache GNMA Fund, Inc., doing business as Prudential GNMA Fund (the Fund), is an open-end, diversified management investment company whose investment objective is to achieve a high level of income over the long term consistent with providing reasonable safety in the value of each shareholder's investment. In pursuing this objective, the Fund will invest primarily in mortgage-backed securities guaranteed as to timely payment of principal and interest by the Government National Mortgage Association (GNMA) and other readily marketable fixed-income securities. The Fund will also write covered call and put options on U.S. Government securities and enter into closing purchase and sale transactions with respect to certain of such options. To hedge against changes in interest rates, the Fund may also purchase put options and engage in transactions involving interest rate futures contracts, options on such contracts and interest rate swap contracts. See "Investment Objective and Policies."

The Fund offers two classes of shares which may be purchased at the next determined net asset value per share plus a sales charge which, at the election of the investor, may be imposed (i) at the time of purchase (Class A shares) or (ii) on a deferred basis (Class B shares). These alternatives permit an investor to choose the method of purchasing shares that is most beneficial given the amount of the purchase, the length of time the investor expects to hold the shares and other circumstances.

Each share of Class A and Class B common stock represents an identical legal interest in the investment portfolio of the Fund and has the same rights, except that the Class B shares bear the expenses of a higher distribution fee which will cause the Class B shares to have a higher expense ratio and to pay lower dividends than the Class A shares. Each class will have exclusive voting rights with respect to its distribution plan. Although the legal rights of holders of Class A and Class B shares are identical, the different expenses borne by each class will result in different net asset values and dividends. The two classes also have different exchange privileges.

The Fund's address is One Seaport Plaza, New York, New York 10292, and its telephone number is (800) 225-1852.

This Statement of Additional Information is not a prospectus and should be read in conjunction with the Fund's Prospectus, dated February 28, 1994, a copy of which may be obtained from the Fund upon request.

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MF102B

GENERAL INFORMATION AND HISTORY

The Fund was incorporated in 1982 under the name Chancellor Quality Income Fund, Inc., which was changed to Prudential-Bache Quality Income Fund, Inc. in 1983. On January 15, 1986, the shareholders of the Fund at a Special Meeting of Shareholders approved an amendment to the Fund's Articles of Incorporation, as recommended by the Board of Directors, to change the Fund's name to Prudential-Bache GNMA Fund, Inc. On February 28, 1991, the Board of Directors approved an amendment to the Fund's Articles of Incorporation to change the Fund's name to Prudential GNMA Fund, Inc. and authorized the Fund to do business under the name Prudential GNMA Fund until the next annual or special meeting of shareholders at which time the amendment will be submitted to shareholders for their approval.

INVESTMENT OBJECTIVE AND POLICIES

The Fund's investment objective is to achieve a high level of income over the long term consistent with providing reasonable safety in the value of each shareholder's investment. In pursuing this objective it is expected that, under normal market conditions, the Fund will invest at least 65% of its total assets in securities backed by the Government National Mortgage Association (GNMA). The Fund also intends to invest in other mortgage-backed securities and other readily marketable fixed-income securities which provide attractive yields but which do not involve substantial risk of loss of capital through default, and may engage in the writing of covered put and call options, closing and purchase and sale transactions with respect to such options and interest rate futures and options thereon. For a further description of the Fund's investment objective and policies, see "How the Fund Invests--Investment Objective and Policies" in the Prospectus.

GNMA SECURITIES. The Fund's investments are expected to consist principally of purchases of GNMA securities. A description of their characteristics follows.

GNMA CERTIFICATES. Certificates of the Government National Mortgage Association (GNMA Certificates) are mortgage-backed securities, which evidence an undivided interest in a pool or pools of mortgages. GNMA Certificates differ from bonds in that principal is repaid monthly by the borrower over the term of the loan rather than returned in a lump sum at maturity. GNMA Certificates that the Fund purchases are the "modified pass-through" type. "Modified pass-through" GNMA Certificates entitle the holder to receive timely payment of all interest and principal payments due on the mortgage pool, net of fees paid to the "issuer" and GNMA regardless of whether or not the mortgagor actually makes the payment. The GNMA Certificates will represent a PRO RATA interest in one or more pools of the following types of mortgage loans: (i) fixed rate level payment mortgage loans; (ii) fixed rate graduated payment mortgage loans; (iii) fixed rate growing equity mortgage loans; (iv) fixed rate mortgage loans secured by manufactured (mobile) homes; (v) mortgage loans on multifamily residential properties under construction; (vi) mortgage loans on completed multifamily projects; (vii) fixed rate mortgage loans as to which escrowed funds are used to reduce the borrower's monthly payments during the early years of the mortgage loans ("buydown" mortgage loans); (viii) mortgage loans that provide for adjustments in payments based on periodic changes in interest rates or in other payment terms of the mortgage loans; and (ix) mortgage-backed serial notes. All of these mortgage loans will be FHA Loans or VA Loans and, except as otherwise specified above, will be fully-amortizing loans secured by first liens on one-to-four-family housing units.

GNMA GUARANTEE. The National Housing Act authorizes GNMA to guarantee the timely payment of principal and interest on securities backed by a pool of mortgages insured by the Federal Housing Administration (FHA) or the Farmers' Home Administration (FMHA), or guaranteed by the Veterans Administration (VA). The GNMA guarantee is backed by the full faith and credit of the United States. The GNMA is also empowered to borrow without limitation from the U.S. Treasury if necessary to make any payments required under its guarantee.

LIFE OF GNMA CERTIFICATES. The average life of a GNMA Certificate is likely to be substantially shorter than the original maturity of the mortgages underlying the securities. Prepayments of principal by mortgagors and mortgage foreclosures will usually result in the return of the greater part of principal investment long before the maturity of the mortgages in the pool. Foreclosures impose no risk to principal investment because of the GNMA guarantee, except to the extent that the Fund has purchased the certificates above par in the secondary market.

As prepayment rates of individual mortgage pools vary widely, it is not possible to predict accurately the average life of a particular issue of GNMA Certificates. However, statistics published by the FHA indicate that the average life of single-family dwelling mortgages with 25-to 30-year maturities, the type of mortgages backing the vast majority of GNMA Certificates, is approximately 12 years. Therefore, it is customary to treat GNMA Certificates as 30-year mortgage-backed securities which

prepay fully in the twelfth year. The prepayment experience of the underlying mortgage pool also affects the actual yield of a GNMA Certificate. For example, if the higher-yielding mortgages from the pool are prepaid, the yield on the remaining pool will be reduced.

Mortgage-backed securities are often subject to more rapid repayment than their stated maturity date would indicate as a result of the pass-through of prepayments of principal on the underlying mortgage obligations. During periods of declining interest rates, prepayment of mortgages underlying mortgage-backed securities can be expected to accelerate. Accordingly, the Fund's ability to maintain positions in high-yielding mortgage-backed securities will be affected by reductions in the principal amount of such securities resulting from such prepayments, and its ability to reinvest the returns of principal at comparable yields is subject to generally prevailing interest rates at that time. The Fund's net asset value will vary with changes in the values of the Fund's portfolio securities. Such values will vary with changes in market interest rates generally and the differentials in yields among various kinds of United States Government securities.

COLLATERALIZED MORTGAGE OBLIGATIONS. Certain issuers of mortgage-backed obligations (CMOs), including certain CMOs that have elected to be treated as Real Estate Mortgage Investment Conduits (REMICS), are not considered investment companies pursuant to a Rule recently adopted by the Securities and Exchange Commission (SEC), and the Fund may invest in the securities of such issuers without the limitations imposed by the Investment Company Act of 1940 (ICA) on investments by the Fund in other investment companies. In addition, in reliance on an earlier SEC interpretation, the Fund's investments in certain other qualifying CMOs, which cannot or do not rely on the rule, are also not subject to the limitation of the Investment Company Act on acquiring interests in other investment companies. In order to be able to rely on the SEC's interpretation, these CMOs must be unmanaged, fixed asset issuers, that (a) invest primarily in mortgage-backed securities, (b) do not issue redeemable securities, (c) operate under general exemptive orders exempting them from all provisions of the ICA and (d) are not registered or regulated under the ICA as investment companies. To the extent that the Fund selects CMOs or REMICs that cannot rely on the Rule or do not meet the above requirements, the Fund may not invest more than 10% of its assets in all such entities and may not acquire more than 3% of the voting securities of any single such entity.

LENDING OF PORTFOLIO SECURITIES. The Fund may lend its portfolio securities without limit to broker-dealers, banks or other recognized institutional borrowers of securities, provided that the borrower at all times maintains cash or equivalent collateral or secures a letter of credit in favor of the Fund equal in value to at least 100% of the value of the securities loaned. During the time portfolio securities are on loan, the borrower pays the Fund an amount equivalent to any interest paid on such securities, and the Fund may invest the cash collateral and earn additional income, or it may receive an agreed-upon amount of interest income from the borrower who has delivered equivalent collateral or secured a letter of credit. Loans are subject to termination at the option of the Fund or the borrower. The Fund may pay reasonable administrative and custodial fees in connection with a loan and may pay a negotiated portion of the interest earned on the cash or equivalent collateral to the borrower or placing broker. The Fund does not have the right to vote securities on loan, but would terminate the loan and regain the right to vote if that were considered important with respect to the investment.

REPURCHASE AGREEMENTS. The Fund's repurchase agreements will be collateralized by U.S. Government obligations. The Fund will enter into repurchase transactions only with parties meeting creditworthiness standards approved by the Fund's Board of Directors. The Fund's investment adviser will monitor the creditworthiness of such parties, under the general supervision of the Board of Directors. In the event of a default or bankruptcy by a seller, the Fund will promptly seek to liquidate the collateral. To the extent that the proceeds from any sale of such collateral upon a default in the obligation to repurchase are less than the repurchase price, the Fund will suffer a loss.

The Fund participates in a joint repurchase account with other investment companies managed by Prudential Mutual Fund Management, Inc. (PMF) pursuant to an order of the SEC. On a daily basis, any uninvested cash balances of the Fund may be aggregated with those of such investment companies and invested in one or more repurchase agreements. Each fund participates in the income earned or accrued in the joint account based on the percentage of its investment.

PORTFOLIO TURNOVER. The portfolio turnover rates in 1993 and 1992 were 134% and 33%, respectively. Based on its experience in managing generally similar investment products, the investment adviser expects that, under normal circumstances, if the Fund writes a substantial number of options, and those options are exercised, the Fund's portfolio turnover rate may be as high as or exceed 250%. The portfolio turnover rate is, generally, the percentage computed by dividing the lesser of portfolio purchases or sales, excluding short-term investments, by the average value of the portfolio. While the Fund will pay commissions in connection with its options and futures transactions, U.S. Government securities are generally traded on a "net"

basis with dealers acting as principal for their own accounts without a stated commission. Nevertheless, high portfolio turnover may involve correspondingly greater brokerage commissions and other transaction costs, which will be borne directly by the Fund. See "Portfolio Transactions and Brokerage."

OPTION WRITING AND RELATED RISKS
CHARACTERISTICS

The Fund may write (I.E., sell) covered put and call options on U.S. Government securities which are traded on registered securities exchanges (the Exchanges) or which result from separate, privately negotiated transactions with primary U.S. Government securities dealers recognized by the Board of Governors of the Federal Reserve System (OTC options). A call option gives the purchaser of the option the right to buy, and the writer the obligation to sell, the underlying security at the exercise price during the option period. Conversely, a put option gives the purchaser the right to sell, and the writer the obligation to buy, the underlying security at the exercise price during the option period.

So long as the obligation of the writer of the option continues, the writer is subject to the exercise of the option, either by the assignment of an exercise notice by the broker-dealer through whom the option was sold in the case of an exchange-traded option or directly by notice from the holder in the case of an OTC option. Upon exercise the Fund is required to deliver, in the case of a call, or take delivery of, in the case of a put, the underlying security against payment of the exercise price. This obligation terminates upon expiration of the option, or at such earlier time that the Fund effects a closing purchase transaction, either by purchasing an option covering the same underlying security and having the same exercise price and expiration date (of the same series) as that on which it desires to terminate its obligation or by terminating the option contract through separate negotiation. The effect of such closing purchase is that the writer's position will be cancelled. Once an exchange-traded option has been exercised, the writer may not execute a closing purchase transaction with respect thereto. Effecting closing purchase transactions in OTC options is subject to negotiation between the Fund and the holder of the option.

The principal reason for writing options on a securities portfolio is to attempt to realize, through the receipt of premiums, a greater current return than would be realized on the underlying securities alone. The premium paid by the purchaser of an option will reflect, among other things, the relationship of the exercise price to the market price and volatility of the underlying security, the remaining term of the option, supply and demand and interest rates. In return for the premium, the covered call option writer has given up the opportunity for profit from a price increase in the underlying security above the exercise price so long as the option remains open, but retains the risk of loss should the price of the security decline. Conversely, the put option writer gains a profit, in the form of the premium, so long as the price of the underlying security remains above the exercise price, but assumes an obligation to purchase the underlying security from the buyer of the put option at the exercise price even though the price of the security may fall below the exercise price, at any time during the option period. If an option expires, the writer realizes a gain in the amount of the premium. Such a gain may, in the case of a covered call option, be offset by a decline in the market value of the underlying security during the option period. If a call option is exercised, the writer realizes a gain or loss from the sale of the underlying security. If a put option is exercised, the writer must fulfill its obligation to purchase the underlying security at the exercise price, which will usually exceed the then current market value of the underlying security. The Fund would then incur a loss equal to the difference between the price at which it is required to purchase the underlying security and its market value at the time the option is exercised, less the premium received for writing the option. If the Fund is able to enter into a closing purchase transaction, it will realize a profit or loss from such transaction if the cost of such transaction is less or more than the premium received from writing the option.

Because the Fund may write only covered options, it may at times be unable to write additional options unless it sells a portion of its portfolio holdings to obtain new debt securities against which it can write options. This may result in higher portfolio turnover and correspondingly greater brokerage commissions and other transaction costs.

PURCHASING OPTIONS

The Fund may purchase put options in an effort to protect the value of a security that it owns against a decline in market value, and may also purchase put or call options for the purpose of offsetting previously written put or call options of the same series. For a further description of such transactions see "How the Fund Invests--Hedging and Income Enhancement Strategies--Options Transactions" in the Prospectus.

RISKS AND LIMITATIONS PERTAINING TO OPTIONS TRANSACTIONS

When the Fund enters into options transactions as a hedge against its portfolio of mortgage securities, it intends to use OTC options because there is currently no GNMA option listed on a national securities exchange. There is currently no secondary market for OTC options.

Exchange-traded options are currently available for other U.S. Government securities. An exchange-traded option position may be closed out only on an Exchange that provides a secondary market for an option of the same series. OTC options are not generally terminable at the option of the writer and may be closed out only by negotiation with the holder. There is no assurance that a liquid secondary market on an exchange will exist. In addition, because OTC options are issued in privately negotiated transactions exempt from registration under the Securities Act of 1933, there is no assurance that the Fund will succeed in negotiating a closing out of an OTC option for any particular option at any particular time. In such event, it might not be possible to effect closing transactions in particular options. If the Fund, as a covered call option writer, is unable to effect a closing purchase transaction in the secondary market or otherwise, it will not be able to sell the underlying security until the option expires or it delivers the underlying security upon exercise.

Reasons for the absence of a liquid secondary market on an exchange include the following: (i) insufficient trading interest in certain options; (ii) restrictions on transactions imposed by an Exchange; (iii) trading halts, suspensions or other restrictions imposed with respect to particular classes or series of options or underlying securities; (iv) interruption of the normal operations on an exchange; (v) inadequacy of the facilities of an exchange or a clearing corporation to handle current trading volume; or (vi) a decision by one or more exchanges to discontinue the trading of options (or a particular class or series of options), in which event the secondary market on that exchange (or in that class or series of options) would cease to exist, although outstanding options on that exchange that had been issued by a clearing corporation as a result of trades on that exchange would generally continue to be exercisable in accordance with their terms.

The Fund's ability to write exchange-traded options on U.S. Government securities is subject to limitations established by each of the applicable exchanges governing the maximum number of options in each class which may be written by a single investor or group of investors acting in concert, regardless of whether the options are written on the same or different exchanges or are held or written in one or more accounts or through one or more brokers. Thus, the number of exchange-traded options which the Fund may write may be limited by options written by other investment advisory clients of its investment adviser.

An exchange may order the liquidation of positions found to be in excess of these limits, and it may impose certain other sanctions.

The hours of trading for options on U.S. Government securities may not conform to the hours during which the underlying securities are traded. To the extent that the option markets close before the markets for the underlying securities, significant price and rate movements can take place in the underlying markets that cannot be reflected in the option markets.

SPECIAL CONSIDERATIONS APPLICABLE TO OPTIONS

ON TREASURY BONDS AND NOTES. Because trading interest in Treasury Bonds and Notes tends to center on the most recently auctioned issues, the Exchanges will not indefinitely continue to introduce new series of options with expirations to replace expiring options on particular issues. Instead, the expirations introduced at the commencement of options trading on a particular issue will be allowed to run their course, with the possible addition of a limited number of new expirations as the original ones expire. Options trading on each series of Bonds or Notes will thus be phased out as new options are listed on the more recent issues, and a full range of expiration dates will not ordinarily be available for every series on which options are traded.

ON TREASURY BILLS. Because the deliverable Treasury Bill changes from week to week, writers of Treasury Bill call options cannot provide in advance for their potential exercise settlement obligations by acquiring and holding the underlying security. However, if the Fund holds a long position in Treasury Bills with a principal amount corresponding to the option contract size, the Fund may be hedged from a risk standpoint, although the long position may be in Treasury Bills with maturities varying from those on which the options were written. The Fund will maintain in a segregated account with its custodian Treasury Bills maturing no later than those which would be deliverable in the event of an assignment of an exercise notice to ensure that it can meet its open option obligations.

ON MORTGAGE CERTIFICATES. Options on Mortgage Certificates are not currently traded on any exchange. However, the Fund intends to engage in transactions in OTC options on Mortgage Certificates.

Since the remaining principal balance of Mortgage Certificates declines each month as a result of mortgage principal payments and prepayments, the Fund, as a writer of a covered Mortgage call option holding Mortgage Certificates as "cover" to satisfy its delivery obligation in the event that the option is exercised, may find that its Mortgage Certificates no longer have a sufficient remaining principal balance for this purpose. Should this occur, the Fund will attempt to effect a closing purchase transaction or will purchase additional Mortgage Certificates from the same pool (if obtainable) or replacement Mortgage Certificates in the cash market in order to remain covered.

INTEREST RATE FUTURES AND OPTIONS THEREON

INTEREST RATE FUTURES CONTRACTS. The Fund may purchase and sell interest rate futures contracts (futures contracts) that are traded on U.S. commodities exchanges as a hedge against interest rate related fluctuations in the value of securities which are held in the Fund's portfolio or which the Fund intends to purchase. The Fund will engage in such transactions consistent with the Fund's investment objective. Currently futures contracts are available on several types of fixed income securities, including U.S. Treasury Bonds, U.S. Treasury Notes and on U.S. Treasury Bills and Certificates of Deposit on the International Monetary Market Division of the Chicago Mercantile Exchange. The Fund may also purchase and sell Eurodollar futures and options thereon which are U.S. dollar denominated instruments linked to the London Interbank rate and currently traded on the Chicago Mercantile Exchange.

There are a number of reasons why entering into interest rate futures contracts for hedging purposes can be beneficial to the Fund. First, futures markets may be more liquid than the corresponding cash markets on the underlying securities. Such enhanced liquidity results from the standardization of the futures contracts and the large transaction volumes. Greater liquidity permits a portfolio manager to effect a desired hedge both more quickly and in greater volume than would be possible in the cash market. Second, a desired sale and subsequent purchase can generally be accomplished in the futures market for a fraction of the transaction costs that might be incurred in the cash market.

When a purchase or sale of an interest rate futures contract occurs, a deposit of high quality, liquid securities called "initial margin" is made by both buyer and seller with a custodian or otherwise for the benefit of the broker. Unlike other types of margin, a futures margin account does not involve any loan or borrowing but is merely a good faith deposit that must be maintained in a minimum amount of cash or U.S. Treasury Bills, currently equal to 2% of the contract amount for futures on Treasury Bonds, 1 1/2% of the contract amount for futures on Treasury Notes, 1/10 of 1% of the contract amount for futures on Treasury Bills and 2% for GNMA securities. All futures positions, both long and short, are marked-to-market daily, with cash payments called "variation margin" being made by buyers and sellers to the custodian, and passed through to the sellers and buyers, to reflect daily changes in contract values.

Although most interest rate futures contracts call for making or taking delivery of the underlying securities, these obligations are typically cancelled or closed out before the scheduled settlement date. The closing is accomplished by purchasing (or selling) an identical futures contract to offset a short (or long) position. Such an offsetting transaction cancels the contractual obligations established by the original futures transaction. Other financial futures contracts call for cash settlements rather than delivery of securities.

If the price of an offsetting futures transaction varies from the price of the original futures transaction, the hedger will realize a gain or loss corresponding to the difference. That gain or loss will tend to offset the unrealized loss or gain on the hedged securities position, but may not always or completely do so.

In accordance with current rules of the Commodity Futures Trading Commission (the CFTC), the Fund may not purchase or sell any interest rate futures contracts or options thereon for return enhancement or risk management purposes if, immediately thereafter, the sum of initial margin deposits on the Fund's futures positions and premiums paid for options thereon would exceed 5% of the liquidation value of the Fund's total assets. The Fund may purchase and sell futures contracts and options thereon for bona fide hedging purposes without limitation.

RISKS AND LIMITATIONS INVOLVED IN FUTURES HEDGING. There are a number of risks associated with futures hedging. Changes in the price of a futures contract generally parallel but do not necessarily equal changes in the prices of the securities being hedged. The risk of imperfect correlation increases as the composition of the Fund's securities portfolio diverges from the securities that are the subject of the futures contract. Because the change in price of the futures contract may be more or less than the change in prices of the underlying securities, even a correct forecast of interest rate changes may not result in a successful hedging transaction.

The Fund intends to purchase and sell futures contracts only on exchanges where there appears to be a market in such futures sufficiently active to accommodate the volume of its trading activity. There can be no assurance that a liquid market will always exist for any particular contract at any particular time. Accordingly, there can be no assurance that it will always be possible to close a futures position when such closing is desired and, in the event of adverse price movements, the Fund would continue to be required to make daily cash payments of variation margin. However, in the event futures contracts have been sold to hedge portfolio securities, such securities will not be sold until the offsetting futures contracts can be executed. Similarly, in the event futures have been bought to hedge anticipated securities purchases, such purchases will not be executed until the offsetting futures contracts can be sold.

Successful use of futures contracts by the Fund is also subject to the ability of the investment adviser to predict correctly movements in the direction of interest rates and other factors affecting markets for securities. For example, if the Fund has hedged against the possibility of an increase in interest rates that would adversely affect the price of securities in its portfolio and prices of such securities increase instead, the Fund will lose part or all of the benefit of the increased value of its securities because it will have offsetting losses in its futures positions. In addition, in such situations, if the Fund has insufficient cash to meet daily variation margin requirements, it may have to sell securities to meet such requirements. Such sales of securities may be, but will not necessarily be, at increased prices that reflect the rising market. The Fund may have to sell securities at a time when it is disadvantageous to do so. Where futures are purchased to hedge against a possible increase in the price of securities before the Fund is able to invest its cash in an orderly fashion, it is possible that the market may decline instead; if the Fund then concludes not to invest in securities at that time because of concern as to possible further market decline or for other reasons, the Fund will realize a loss on the futures contract that is not offset by a reduction in the price of the securities purchased.

The selling of futures contracts by the Fund and use of related transactions in options on futures contracts (discussed below) are subject to position limits, which are affected by the activities of the Fund's investment adviser, similar to the option trading limits discussed under "Option Writing and Related

Risks".

The hours of trading of interest rate futures contracts may not conform to the hours during which the Fund may trade U.S. Government securities. To the extent that the futures markets close before the U.S. Government securities markets, significant price and rate movements can take place in the U.S. Government securities markets that cannot be reflected in the futures markets.

Pursuant to Rule 4.5 under the Commodity Exchange Act, investment companies registered under the Investment Company Act, are exempted from the definition of "commodity pool operator" in the Commodity Exchange Act, subject to compliance with certain conditions. The exemption is conditioned upon a requirement that all of the investment company's commodity futures transactions and options thereon constitute BONA FIDE hedging transactions, except that the Fund may purchase and sell futures and options thereon for any other purpose to the extent that the aggregate initial margin and option premiums do not exceed 5% of the liquidation value of the Fund's total assets. With respect to long positions assumed by the Fund, the Fund will segregate with its custodian, or in a margin account with a broker, an amount of cash and other assets permitted by CFTC regulations equal to the market value of the futures contracts and thereby insure that the use of futures contracts is unleveraged. The Fund will use interest rate futures in a manner consistent with these requirements.

OPTIONS ON FUTURES CONTRACTS. The Fund will purchase put options on futures contracts to hedge its portfolio of debt securities against the risk of rising interest rates, and the consequent decline in the prices of U.S. Government securities it owns. The Fund will also write call options on futures contracts as a hedge against a modest decline in prices of debt securities held in the Fund's portfolio. If the futures price at expiration of a written call option is below the exercise price, the Fund will retain the full amount of the option premium, thereby partially hedging against any decline that may have occurred in the Fund's holdings of debt securities. If the futures price when the option is exercised is above the exercise price, however, the Fund will incur a loss, which may be wholly or partially offset by the increase of the value of the security in the Fund's portfolio which was being hedged.

INTEREST RATE TRANSACTIONS

The Fund may enter into interest rate swaps, and will usually enter into interest rate swaps on a net basis, I.E., the two payment streams are netted out, with the Fund receiving or paying, as the case may be, only the net amount of the two payments. The net amount of the excess, if any, of the Fund's obligations over its entitlements with respect to each interest rate swap will be accrued on a daily basis and an amount of cash or liquid high-grade debt securities having an aggregate net asset value at least equal to the accrued excess will be maintained in a segregated account by a custodian that satisfies the requirements of the Investment Company Act. To the extent that the Fund enters into interest rate swaps on other than a net basis,

the amount maintained in a segregated account will be the full amount of the Fund's obligations, if any, with respect to such interest rate swaps, accrued on a daily basis. Inasmuch as segregated accounts are established for these hedging transactions, the investment adviser and the Fund believe such obligations do not constitute senior securities and, accordingly, will not treat them as being subject to its borrowing restrictions. The Fund will not enter into any interest rate swaps unless the short-term debt of the other party thereto is rated in the highest rating category of at least one nationally recognized rating organization at the time of entering into such transaction. If there is a default by the other party to such a transaction, the Fund will have contractual remedies pursuant to the agreement related to the transaction. The swap market has grown substantially in recent years with a large number of banks and investment banking firms acting both as principals and as agents utilizing standardized swap documentation. As a result, the swap market has become relatively liquid.

The use of interest rate swaps is a highly speculative activity which involves investment techniques and risks different from those associated with ordinary portfolio securities transactions. If incorrect in its forecast of market values, interest rates and other applicable factors, the investment performance of the Fund would diminish compared to what it would have been if this investment technique was never used.

The Fund may only enter into interest rate swaps to hedge its portfolio. Interest rate swaps do not involve the delivery of securities or other underlying assets or principal. Accordingly, the risk of loss with respect to interest rates swaps is limited to the net amount of interest payments that the Fund is contractually obligated to make. If the other party to an interest rate swap defaults, the Fund's risk of loss consists of the net amount of interest payments that the Fund is contractually entitled to receive. Since interest rate swaps are individually negotiated, the Fund expects to achieve an acceptable degree of correlation between its rights to receive interest on its portfolio securities and its rights and obligations to receive and pay interest pursuant to interest rate swaps.

INVESTMENT RESTRICTIONS

The following restrictions are fundamental policies, which cannot be changed without the approval of the holders of a majority of the Fund's outstanding voting securities. A "majority of the Fund's outstanding voting securities" means the lesser of (1) 67% of the Fund's shares represented at a meeting at which more than 50% of the outstanding shares are present in person or represented by proxy, or (2) more than 50% of the Fund's outstanding shares.

The Fund may not:

(1) Purchase any security (other than obligations of the U.S. Government, its agencies, or instrumentalities) if as a result with respect to 75% of the Fund's total assets, more than 5% of the Fund's total assets (taken at current value) would then be invested in securities of a single issuer.

(2) Make short sales of securities or purchase securities on margin (but the Fund may obtain such short-term credits as may be necessary for the clearance of transactions). For purposes of this investment restriction, the deposit or payment by the Fund of initial or variation margin in connection with transactions in interest rate futures contracts or related options transactions and collateralization arrangements with respect to exchange-traded and OTC options on debt securities are not considered the purchase of a security on margin.

(3) Concentrate its investments in any one industry (no more than 25% of the Fund's total assets will be invested in any one industry or in the securities of issuers located in any one foreign country); however, there is no limitation as to investments in obligations of the U.S. Government, its agencies or instrumentalities.

(4) Issue senior securities, borrow money or pledge its assets, except that the Fund may borrow up to 20% of the value of its total assets (calculated when the loan is made) for temporary, extraordinary or emergency purposes or for the clearance of transactions. The Fund may pledge up to 20% of the value of its total assets to secure such borrowings. For purposes of this restriction, obligations of the Fund to Directors pursuant to deferred compensation arrangements, the purchase or sale of securities on a when-issued or delayed delivery basis, the purchase and sale of options and futures contracts and collateral arrangements with respect to the purchase and sale of options and futures contracts are not deemed to be the issuance of a senior security or a pledge of assets.

(5) Purchase any security if as a result the Fund would then hold more than 10% of any class of securities of an issuer (taking all debt issues of an issuer as a single class).

(6) Purchase any security if as a result the Fund would then have more than 5% of its total assets (taken at current value) invested in securities of companies (including predecessors) less than three years old.

(7) Purchase securities of any issuer if, to the knowledge of the Fund, any officer or Director of the Fund or of the Manager owns more than 1/2 of 1% of the outstanding securities of such issuer, and such officers and directors who own more than 1/2 of 1% own in the aggregate more than 5% of the outstanding securities of such issuer.

(8) Buy or sell commodities or commodity contracts, or real estate or interests in real estate, except it may purchase and sell securities which are secured by real estate and securities of companies which invest or deal in real estate, interest rate futures contracts and other financial futures contracts and options thereon.

(9) Act as underwriter except to the extent that, in connection with the disposition of portfolio securities, it may be deemed to be an underwriter under certain federal securities laws.

(10) Make investments for the purpose of exercising control or management.

(11) Purchase any security (other than OTC options on U.S. Government securities) restricted as to disposition under federal securities laws. (Since any foreign security acquired by the Fund will be disposed of only in a foreign market, foreign securities are not regarded as restricted.)

(12) Invest in securities of other investment companies, except by purchases in the open market involving only customary brokerage commissions and as a result of which not more than 5% of its total assets (taken at current value) would be invested in such securities, or except as part of a merger,

consolidation or other acquisition.

(13) Invest in interests in oil, gas or other mineral exploration or development programs.

(14) Make loans, except through (i) repurchase agreements (repurchase agreements with a maturity of longer than 7 days together with other illiquid assets being limited to 10% of the Fund's total assets) and (ii) loans of portfolio securities. (The purchase of a portion of an issue of securities distributed publicly, whether or not the purchase is made on the original issuance, is not considered the making of a loan.)

(15) Purchase securities of foreign issuers other than U.S. dollar denominated debt securities rated at least Aa by Moody's or AA by S&P or U.S. dollar denominated obligations of foreign branches of domestic banks or of any bank organized under the laws of Canada, France, Germany, Japan, the Netherlands, Switzerland or the United Kingdom, provided that such bank has, at the time of the Fund's investment, total assets of at least $10 billion or the equivalent.

(16) Purchase or sell puts or calls or combinations thereof, except that the Fund may write covered put and call options on U.S. Government securities, purchase put and call options on U.S. Government securities and purchase and sell interest rate futures contracts and other financial futures contracts and options thereon, and, in connection with the purchase of other securities, it may acquire warrants or other rights to subscribe for securities of companies or parents or subsidiaries of such companies.

Whenever any fundamental investment policy or investment restriction states a maximum percentage of the Fund's assets, it is intended that if the percentage limitation is met at the time the investment is made, a later change in percentage resulting from changing total or net asset values will not be considered a violation of such policy. However, in the event that the Fund's asset coverage for borrowings falls below 300%, the Fund will take prompt action to reduce its borrowings, as required by applicable law.

In order to comply with certain state "blue sky" restrictions, the Fund will not as a matter of operating policy, purchase warrants if as a result the Fund would then have more than 5% of its net assets (determined at the time of investment) invested in warrants. Warrants will be valued at the lower of cost or market and investment in warrants which are not listed on the New York Stock Exchange or American Stock Exchange will be limited to 2% of the Fund's net assets (determined at the time of investment). For the purpose of this limitation, warrants acquired in units or attached to securities are deemed to be without value.

The Directors of the Fund have recommended, subject to shareholder approval, deletion of the Fund's Investment Restriction Number 7 which prohibits the purchase of any security of an issuer if officers and Directors of the Fund or the Manager or Subadviser in the aggregate own more than 5% of the outstanding securities of such issuer and replacement of such restriction with a non-fundamental policy. The Directors have also recommended, subject to shareholder approval, elimination of Investment Restriction Number 5, which prohibits the Fund from purchasing a security if it would then hold more than 10% of any class of securities of such issuer. The Directors have also recommended, subject to shareholder approval, deletion of the Fund's Investment Restriction Number 11 and modification of the Fund's Investment Restriction Number 6 and Number 14 relating to

illiquid securities. These fundamental policies would be replaced with a non-fundamental policy which permits the Fund to invest up to 15% of its net assets in illiquid securities. There can be no assurance that shareholders will approve these changes to the investment restrictions.

DIRECTORS AND OFFICERS

<TABLE>
<CAPTION>

NAME AND ADDRESS	POSITION WITH FUND	PRINCIPAL OCCUPATIONS DURING PAST FIVE YEARS
<S>	<C>	<C>
Edward D. Beach c/o Prudential Mutual Fund Management, Inc. One Seaport Plaza New York, New York	Director	President and Director of BMC Fund, Inc.; formerly, Vice Chairman of Broyhill Furniture Industries, Inc.; Certified Public Accountant; Secretary and Treasurer of Broyhill Family Foundation, Inc.; President, Treasurer and Director of The High Yield Plus Fund, Inc. and The First Financial Fund, Inc.; Director of The Global Government Plus Fund, Inc. and The Global Yield Fund, Inc.

Eugene C. Dorsey c/o Prudential Mutual Fund Management, Inc. One Seaport Plaza New York, New York	Director	Chairman of Independent Sector (national coalition of philanthropic organizations) (since October 1989); formerly President, Chief Executive Officer and Trustee of the Gannett Foundation; former Publisher of four Gannett newspapers and Vice President of Gannett Company; former Chairman of the American Council for the Arts; Director of the Regional Board of Chase Lincoln First Bank of Rochester.
Delayne D. Gold c/o Prudential Mutual Fund Management, Inc. One Seaport Plaza New York, New York	Director	Marketing and Management Consultant.
*Harry A. Jacobs, Jr. One Seaport Plaza New York, New York	Director	Senior Director (since January 1986) of Prudential Securities; formerly Interim Chairman and Chief Executive Officer of Prudential Mutual Fund Management, Inc. (PMF) (June-September 1993); Chairman of the Board of Prudential Securities (1982-1985) and Chairman of the Board and Chief Executive Officer of Bache Group Inc. (1977-1982); Director of the Center for National Policy, The First Australia Fund, Inc., The First Australia Prime Income Fund, Inc., The Global Government Plus Fund, Inc. and The Global Yield Fund, Inc.; Trustee of the Trudeau Institute.
*Lawrence C. McQuade One Seaport Plaza New York, New York	President and Director	Vice Chairman of PMF (since 1988); Managing Director, Investment Banking, of Prudential Securities (1988-1991); Director of Quixote Corporation (since February 1992); Director of BUNZL, PLC (since June 1991); formerly Director of Crazy Eddie Inc. (1987-1990) and Director of Kaiser Tech. Ltd. and Kaiser Aluminum and Chemical Corp. (March 1987-November 1988); formerly Executive Vice President and Director of W.R. Grace & Co.; President and Director of The High Yield Income Fund, Inc., The Global Yield Fund, Inc. and The Global Government Plus Fund, Inc.
Thomas T. Mooney c/o Prudential Mutual Fund Management, Inc. One Seaport Plaza New York, New York	Director	President of the Greater Rochester Metro Chamber of Commerce; former Rochester City Manager;Trustee of Center for Governmental Research, Inc.; Director of Blue Cross of Rochester, Monroe County Water Authority, Rochester Jobs, Inc., Industrial Management Council, Inc., Executive Service Corps of Rochester and Monroe County Industrial Development Corporation; Director of The First Financial Fund, Inc., The Global Government Plus Fund, Inc., The Global Yield Fund, Inc. and The High Yield Plus Fund, Inc.

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<CAPTION>

NAME AND ADDRESS	POSITION WITH FUND	PRINCIPAL OCCUPATIONS DURING PAST FIVE YEARS
<S>	<C>	<C>
Thomas H. O'Brien c/o Prudential Mutual Fund Management, Inc. One Seaport Plaza New York, New York	Director	President, O'Brien Associates (financial and management consultants) (since April 1984); formerly, President of Jamaica Water Securities Corp. (holding company) (February 1989-August 1990), Director (September 1987-April 1991) and Chairman of the Board and Chief Executive Officer (September 1987-February 1989) of Jamaica Water Supply Company; formerly, Director of Trans Canada Pipelines U.S.A. Ltd. (1984-June 1989) and Winthrop University Hospital (November 1976-June 1988); Director of Ridgewood Savings Bank and Yankee Energy System, Inc.; Secretary and Trustee of Hofstra University.
*Richard A. Redeker One Seaport Plaza New York, New York	Director	President, Chief Executive Officer and Director (since October 1993), PMF; Director and Member of the Operating Committee (since October 1993), Prudential Securities Incorporated; Director (since October 1993) of Prudential Securities Group, Inc; formerly Senior Executive Vice President and Director of Kemper Financial Services, Inc. (September 1978 -- September 1993); Director of The Global Government Plus Fund, Inc., and The High Yield Income Fund, Inc.
David W. Drasnin 39 Public Square Wilkes-Barre, Pennsylvania	Vice President	Vice President and Branch Manager of Prudential Securities.
Robert F. Gunia One Seaport Plaza New York, New York	Vice President	Chief Administrative Officer (since July 1990), Director (since January 1989) and Executive Vice President, Treasurer and Chief Financial Officer (since June 1987) of PMF; Senior Vice President (since March 1987) of Prudential Securities; Vice President and Director of The Asia Pacific Fund, Inc. (since May 1989).
S. Jane Rose One Seaport Plaza New York, New York	Secretary	Senior Vice President (since January 1991), Senior Counsel (since June 1987) and First Vice President (June 1987-December 1990) of PMF; Senior Vice President and Senior Counsel (since July 1992) of Prudential Securities; formerly Vice President and Associate General Counsel of Prudential Securities.
Susan C. Cote One Seaport Plaza New York, New York	Treasurer and Principal Financial and Accounting Officer	Senior Vice President (since January 1989) of PMF; Senior Vice President (since January 1992) and Vice President (January 1986-December 1991) of Prudential Securities.
Deborah A. Docs	Assistant	Vice President, Associate General Counsel (since January 1993),

One Seaport Plaza New York, New York	Secretary	Associate Vice President (January 1990-December 1992), Assistant General Counsel (November 1991-December 1992) and Assistant Vice President (January 1989-December 1989) of PMF; Vice President and Associate General Counsel (since January 1993), Associate Vice President (January 1992-December 1992) and Assistant General Counsel (January 1992-January 1993) of Prudential Securities.

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* "Interested" Director, as defined in the Investment Company Act, by reason of his affiliation with Prudential Securities or PMF.
</TABLE>

Directors and officers of the Fund are also trustees, directors and officers of some or all of the other investment companies distributed by Prudential Securities or Prudential Mutual Fund Distributors, Inc. (PMFD).

The officers conduct and supervise the daily business operations of the Fund, while the Directors, in addition to their functions set forth under "Manager" and "Distributor," review such actions and decide on general policy.

The Fund pays each of its Directors who is not an affiliated person of the Manager annual compensation of $7,500, in addition to certain out-of-pocket expenses.

Mr. Beach receives his Director's fee pursuant to a deferred fee agreement with the Fund. Under the terms of the agreement, the Fund accrues daily the amount of such Director's fee in installments which accrue interest at a rate equivalent to the prevailing rate applicable to 90-day U.S. Treasury bills at the beginning of each calendar quarter or, pursuant to an SEC exemptive order, at the daily rate of return of the Fund. Payment of the interest so accrued is also deferred and accruals become payable at the option of the Director. The Fund's obligation to make payments of deferred Director's fees, together with interest thereon, is a general obligation of the Fund.

As of January 31, 1994, the Directors and officers of the Fund, as a group, owned less than 1% of the outstanding shares of common stock of the Fund.

As of February 11, 1994, Prudential Securities was the record holder for other beneficial owners of 400,568 Class A shares (or 2.0% of the outstanding Class A shares) and 7,402,193 Class B shares (or 33.0% of the outstanding Class B shares) of the Fund. In the event of any meetings of shareholders, Prudential Securities will forward, or cause the forwarding of, proxy materials to the beneficial owners for which it is the record holder.

MANAGER

The manager of the Fund is Prudential Mutual Fund Management, Inc. (PMF or the Manager), One Seaport Plaza, New York, New York 10292. PMF serves as manager to all of the other investment companies that, together with the Fund, comprise the "Prudential Mutual Funds." See "How the Fund is Managed--Manager" in the Prospectus. As of January 31, 1994, PMF managed and/or administered open-end and closed-end management investment companies with assets of approximately $51 billion. According to the Investment Company Institute, as of June 30, 1993, the Prudential Mutual Funds were the 10th largest family of mutual funds in the United States.

Pursuant to the Management Agreement with the Fund (the Management Agreement), PMF, subject to the supervision of the Fund's Board of Directors and in conformity with the stated policies of the Fund, manages both the investment operations of the Fund and the composition of the Fund's portfolio, including the purchase, retention, disposition and loan of securities. In connection therewith, PMF is obligated to keep certain books and records of the Fund. PMF also administers the Fund's corporate affairs and, in connection therewith, furnishes the Fund with office facilities, together with those ordinary clerical and bookkeeping services which are not being furnished by State Street Bank and Trust Company, the Fund's custodian, and Prudential Mutual Fund Services, Inc. (PMFS or the Transfer Agent), the Fund's transfer and dividend disbursing agent. The management services of PMF for the Fund are not exclusive under the terms of the Management Agreement and PMF is free to, and does, render management services to others.

For its services, PMF receives, pursuant to the Management Agreement, a fee at an annual rate of .50 of 1% of the Fund's average daily net assets. The fee is computed daily and payable monthly. The Management Agreement also provides that, in the event the expenses of the Fund (including the fees of PMF, but excluding interest, taxes, brokerage commissions, distribution fees and litigation and indemnification expenses and other extraordinary expenses not incurred in the ordinary course of the Fund's business) for any fiscal year exceed the lowest applicable annual expense limitation established and enforced pursuant to the statutes or regulations of any jurisdiction in which the Fund's shares are qualified for offer and sale, the compensation due PMF will be reduced by the amount of such excess. Reductions in excess of the total compensation payable to PMF will be paid by PMF to the Fund. Currently, the Fund believes that the most restrictive expense limitation of state securities commissions is 2 1/2% of the Fund's average daily net assets up to $30 million, 2% of the next $70 million of such assets and 1 1/2% of such assets in excess of $100 million.

In connection with its management of the corporate affairs of the Fund, PMF bears the following expenses:

(a) the salaries and expenses of all of its and the Fund's personnel except the fees and expenses of Directors who are not affiliated persons of PMF or the Fund's investment adviser;

(b) all expenses incurred by PMF or by the Fund in connection with managing the ordinary course of the Fund's business, other than those assumed by the Fund as described below; and

(c) the costs and expenses payable to The Prudential Investment Corporation (PIC) pursuant to the subadvisory agreement between PMF and PIC (the Subadvisory Agreement).

Under the terms of the Management Agreement, the Fund is responsible for the payment of the following expenses: (a) the fees payable to the Manager, (b) the fees and expenses of Directors who are not affiliated persons of the Manager or the Fund's investment adviser, (c) the fees and certain expenses of the Custodian and Transfer and Dividend Disbursing Agent, including the cost of providing records to the Manager in connection with its obligation of maintaining required records of the Fund and of pricing the Fund's shares, (d) the charges and expenses of legal counsel and independent accountants for the Fund, (e) brokerage commissions and any issue or transfer taxes chargeable to the Fund in connection with its securities transactions, (f) all taxes and corporate fees payable by the Fund to governmental agencies, (g) the fees of any trade associations of which the Fund may be a member, (h) the cost of stock certificates representing shares of the Fund, (i) the cost of fidelity and liability insurance, (j) the fees and expenses involved in registering and maintaining registration of the Fund and of its shares with the SEC, registering the Fund as a broker or dealer and qualifying its shares under state securities laws, including the preparation and printing of the Fund's registration statements and prospectuses for such purposes, (k) allocable communications expenses with respect to investor services and all expenses of shareholders' and Directors' meetings and of preparing, printing and mailing reports, proxy statements and prospectuses to shareholders in the amount necessary for distribution to the shareholders, (l) litigation and indemnification expenses and other extraordinary expenses not incurred in the ordinary course of the Fund's business and (m) distribution fees.

The Management Agreement provides that PMF will not be liable for any error of judgment or for any loss suffered by the Fund in connection with the matters to which the Management Agreement relates, except a loss resulting from willful misfeasance, bad faith, gross negligence or reckless disregard of duty. The Management Agreement provides that it will terminate automatically if assigned, and that it may be terminated without penalty by either party upon not more than 60 days' nor less than 30 days' written notice. The Management Agreement will continue in effect for a period of more than two years from the date of execution only so long as such continuance is specifically approved at least annually in conformity with the Investment Company Act. The Management Agreement was last approved by the Board of Directors of the Fund, including all of the Directors who are not parties to the contract or interested persons of any such party as defined in the Investment Company Act, on May 6, 1993 and by shareholders of the Fund on April 29, 1988.

For the fiscal years ended December 31, 1991, 1992 and 1993, PMF received management fees of $1,233,921, $1,509,499 and $1,714,652, respectively.

PMF has entered into the Subadvisory Agreement with PIC (the Subadviser), a wholly-owned subsidiary of The Prudential Insurance Company of America (Prudential). The Subadvisory Agreement provides that PIC furnish investment advisory services in connection with the management of the Fund. In connection therewith, PIC is obligated to keep certain books and records of the Fund. PMF continues to have responsibility for all investment advisory services pursuant to the Management Agreement and supervises PIC's performance of such services.

PIC is reimbursed by PMF for the reasonable costs and expenses incurred by PIC in furnishing those services.

The Subadvisory Agreement was last approved by the Board of Directors, including a majority of the Directors who are not parties to such contract or interested persons of any such parties on May 6, 1993, and by shareholders of the Fund on April 29, 1988.

The Subadvisory Agreement provides that it will terminate in the event of its assignment (as defined in the Investment Company Act) or upon the termination of the Management Agreement. The Subadvisory Agreement may be terminated by the Fund, PMF or PIC upon not more than 60 days', nor less than 30 days', written notice. The Subadvisory Agreement provides that it will continue in effect for a period of more than two years from its execution only so long as such continuance is specifically approved at least annually in accordance with the requirements of the Investment Company Act.

The Manager and the Subadviser are subsidiaries of The Prudential Insurance Company of America (Prudential) which, as of December 31, 1991, was the largest insurance company in the United States and the second largest insurance company in the world. Prudential has been engaged in the insurance business since 1875. In July 1993, INSTITUTIONAL INVESTOR ranked Prudential the third largest institutional money manager of the 300 largest money management organizations in the United States as of December 31, 1992.

DISTRIBUTOR

Prudential Mutual Fund Distributors, Inc., One Seaport Plaza, New York, New York 10292, acts as the distributor of the Class A shares of the Fund. Prudential Securities, One Seaport Plaza, New York, New York 10292, acts as the distributor of the Class B shares of the Fund.

Pursuant to separate Distribution and Service Plans (the Class A Plan and the Class B Plan, collectively, the Plans) adopted by the Fund under Rule 12b-1 under the Investment Company Act and separate distribution agreements (the Distribution Agreements), PMFD and Prudential Securities (collectively, the Distributor) incur the expenses of distributing the Fund's Class A and Class B shares, respectively. See "How the Fund is Managed--Distributor" in the Prospectus.

Prior to January 22, 1990, the Fund offered only one class of shares (the existing Class B shares). On October 19, 1989, the Board of Directors, including a majority of the Directors who are not interested persons of the Fund and who have no direct or indirect financial interest in the operation of the Class A or Class B Plan or in any agreement related to either Plan (the Rule 12b-1 Directors), at a meeting called for the purpose of voting on each Plan, adopted a new plan of distribution for the Class A shares of the Fund (the Class A Plan) and approved an amended and restated plan of distribution with respect to the Class B shares of the Fund (the Class B Plan). On May 6, 1993, the Directors, including a majority of the Rule12b-1 Directors, at a meeting called for the purpose of voting on each Plan, approved the continuance of the Plans and Distribution Agreements and approved modifications of the Fund's Class A and Class B Plans and Distribution Agreements to conform them with recent amendments to the NASD maximum sales charge rule described below. As modified, the Class A Plan provides that (i) up to .25 of 1% of the average daily net assets of the Class A shares may be used to pay for personal service and/or the maintenance of shareholder accounts (service fee) and (ii) total distribution fees (including the service fee of .25 of 1%) may not exceed .30 of 1%. As modified, the Class B Plan provides that (i) up to .25 of 1% of the average daily net assets of the Class B shares may be paid as a service fee and (ii) up to .75 of 1% (not including the service fee) may be used as reimbursement for distribution-related expenses with respect to the Class B shares (asset-based sales charge). Total Class B distribution fees may not exceed .75 of 1%. The Plans were last approved by the Board of Directors, including a majority of the Rule 12b-1 Directors, on May 6, 1993. The Class A Plan was approved by the Class A shareholders on December 19, 1990. The Class B Plan was approved by shareholders of the Fund on January 11, 1990.

CLASS A PLAN. For the fiscal year ended December 31, 1993, PMFD incurred distribution expenses in the aggregate of approximately $15,299 all of which was recovered through the distribution fee paid by the Fund to PMFD under the Class A Plan. This amount was expended on commission credits to Prudential Securities and Pruco Securities Corporation, an affiliated broker-dealer (Prusec) for payments of commissions and account servicing fees to financial advisers.

In addition, for the fiscal year ended December 31, 1993, PMFD received approximately $131,000 in initial sales charges.

CLASS B PLAN. For the fiscal year ended December 31, 1993, the Distributor received $2,495,486 from the Fund under the Class B Plan. It is estimated that the Distributor spent approximately $2,744,800 on behalf of the Fund during such period. It is estimated that of this amount approximately $2,800 or 0.1% was spent on printing and mailing of prospectuses to other than current shareholders; $1,209,000 or 44.1% on compensation to Prusec for commissions to its financial advisers and other expenses, including an allocation on account of overhead and other branch office distribution-related expenses, incurred by it for distribution of Fund shares; ($409,800 or 14.9%) in interest and/or carrying charges; and $1,123,200 or 40.9% on the aggregate of (i) commission credits to Prudential Securities branch offices for payments of commissions to financial advisers ($596,500 or 21.7%) and (ii) an allocation on account of overhead and other branch office distribution-related expenses ($526,700 or 19.2%). The term "overhead and other branch office distribution-related expenses" represents (a) the expenses of operating the Distributor's branch offices in connection with the sale of Fund shares, including lease costs, the salaries and employee benefits of operations and sales support personnel, utility costs, communications costs and the costs of stationery and supplies, (b) the costs of client sales seminars, (c) expenses of mutual fund sales coordinators to promote the sale of Fund shares and (d) other incidental expenses relating to branch promotion of Fund sales.

Prudential Securities also receives the proceeds of contingent deferred sales charges paid by holders of Class B shares upon certain redemptions of Class B shares. See "Shareholder Guide--How to Sell Your Shares--Contingent Deferred Sales Charge--Class B Shares" in the Prospectus. The amount of distribution expenses reimbursable by the Class B shares of the Fund is reduced by the amount of such contingent deferred sales charges. For the fiscal year ended December 31, 1993, Prudential Securities received approximately $504,000 in contingent deferred sales charges.

The Class A and Class B Plans continue in effect from year to year, provided that each such continuance is approved at least annually by a vote of the Board of Directors, including a majority vote of the Rule 12b-1 Directors, cast in person at a meeting called for the purpose of voting on such continuance. The Class A and Class B Plans may each be terminated at any time, without penalty, by the vote of a majority of the Rule 12b-1 Directors or by the vote of the holders of a majority of the outstanding shares of the applicable class on not more than 30 days' written notice to any other party to the Plans. Neither Plan may be amended to increase materially the amounts to be spent for the services described therein without approval by the shareholders of the applicable class, and all material amendments are required to be approved by the Board of Directors in the manner described above. Each Plan will automatically terminate in the event of its assignment. The Fund will not be contractually obligated to pay expenses incurred under either the Class A or Class B Plan if they are terminated or not continued.

Pursuant to each Plan, the Board of Directors will review at least quarterly a written report of the distribution expenses incurred on behalf of the Class A and Class B shares of the Fund by PMFD and Prudential Securities, respectively. The report includes an itemization of the distribution expenses and the purposes of such expenditures. In addition, as long as the Plans remain in effect, the selection and nomination of Directors who are not interested persons of the Fund shall be committed to the Directors who are not interested persons of the Fund.

Pursuant to each Distribution Agreement, the Fund has agreed to indemnify PMFD and Prudential Securities to the extent permitted by applicable law against certain liabilities under the Securities Act of 1933, as amended. Each Distribution Agreement was last approved by the Board of Directors, including a majority of the Rule 12b-1 Directors, on May 6, 1993.

NASD MAXIMUM SALES CHARGE RULE._Pursuant to rules of the National Association of Securities Dealers, Inc., the Distributor is required to limit aggregate initial sales charges, deferred sales charges and asset-based sales charges to 6.25% of total gross sales of each class of shares. In the case of Class B shares, interest charges on unreimbursed distribution expenses equal to the prime rate plus one percent per annum may be added to the 6.25% limitation.

Sales from the reinvestment of dividends and distributions are not included in the calculation of the 6.25% limitation. The annual asset-based sales charge on Class B shares of the Fund may not exceed .75 of 1%. The 6.25% limitation applies to each class of the Fund rather than on a per shareholder basis. If aggregate sales charges were to exceed 6.25% of total gross sales of either class, all sales charges on shares of that class would be suspended.

PORTFOLIO TRANSACTIONS AND BROKERAGE

The Manager is responsible for decisions to buy and sell securities and futures contracts for the Fund, the selection of brokers, dealers and futures commission merchants to effect the transactions and the negotiation of brokerage commissions, if any. For purposes of this section, the term "Manager" includes the "Subadviser". Fixed-income securities are generally traded on a "net" basis with dealers acting as principal for their own accounts without a stated commission, although the price of the security usually includes a profit to the dealer. In underwritten offerings, securities are purchased at a fixed price which includes an amount of compensation to the underwriter, generally referred to as the underwriter's concession or discount. On occasion, certain money market instruments may be purchased directly from an issuer, in which case no commissions or discounts are paid. The Fund will not deal with Prudential Securities in any transaction in which Prudential Securities acts as principal. Purchases and sales of securities or futures contracts on a securities exchange or board of trade will be effected through brokers or futures commission merchants who charge a commission for their services. Orders may be directed to any broker or futures commission merchant including, to the extent and in the manner permitted by applicable law, Prudential Securities and its affiliates.

In placing orders for portfolio securities of the Fund, the Manager is required to give primary consideration to obtaining the most favorable price and efficient execution. This means that the Manager will seek to execute each transaction at a price and commission, if any, which provide the most favorable total cost or proceeds reasonably attainable in the circumstances. While the Manager generally seeks reasonably competitive spreads or commissions, the Fund will not necessarily be paying the lowest spread or commission available. Within the framework of the policy of obtaining the most favorable price and efficient execution, the Manager will consider research and investment services provided by brokers, dealers or futures commission merchants who effect or are parties to portfolio transactions of the Fund, the Manager or the Manager's other clients. Such research and investment services are those which brokerage houses customarily provide to institutional investors and include statistical and economic data and research reports on particular companies and industries. Such services are used by the Manager in connection with all of its investment activities, and some of such services obtained in connection with the execution of transactions for the Fund may be used in managing other investment accounts. Conversely, brokers, dealers or futures commission merchants furnishing such services may be selected for the execution of transactions of such other accounts, whose aggregate assets are far larger than the Fund, and the services furnished by such brokers, dealers or futures commission merchant may be used by the Manager in

providing investment management for the Fund. Commission rates are established pursuant to negotiations with the broker, dealer or futures commission merchant based on the quality and quantity of execution services provided by the broker, dealer or futures commission merchant in the light of generally prevailing rates. The Manager's policy is to pay higher commissions to brokers, dealers and futures commission merchants, other than Prudential Securities, for particular transactions than might be charged if a different broker, dealer or futures commission merchant had been selected, on occasions when, in the Manager's opinion, this policy furthers the objective of obtaining best price and execution. In addition, the Manager is authorized to pay higher commissions on brokerage transactions for the Fund to brokers, dealers and futures commission merchants other than Prudential Securities in order to secure research and investment services described above, subject to the primary consideration of obtaining the most favorable price and efficient execution in the circumstances and subject to review by the Fund's Board of Directors from time to time as to the extent and continuation of this practice. The allocation of orders among brokers, dealers and futures commission merchants and the commission rates paid are reviewed periodically.

Subject to the above considerations, the Manager may use Prudential Securities as a broker or futures commission merchant for the Fund. In order for Prudential Securities to effect any portfolio transactions for the Fund, the commissions, fees or other remuneration received by Prudential Securities must be reasonable and fair compared to the commissions, fees or other remuneration paid to other brokers or futures commission merchants in connection with comparable transactions involving similar securities or futures being purchased or sold on an exchange or board of trade during a comparable period of time. This standard would allow Prudential Securities to receive no more than the remuneration which would be expected to be received by an unaffiliated broker or futures commission merchant in a commensurate arm's-length transaction. Furthermore, the Board of Directors of the Fund, including a majority of the Directors who are not "interested" Directors, has adopted procedures which are reasonably designed to provide that any commissions, fees or other remuneration paid to Prudential Securities are consistent with the foregoing standard. Brokerage transactions with Prudential Securities are also subject to such fiduciary standards as may be imposed upon Prudential Securities by applicable law. During the years ended December 31, 1993, 1992 and 1991, no brokerage commissions were paid by the Fund to Prudential Securities.

PURCHASE AND REDEMPTION OF FUND SHARES

Shares of the Fund may be purchased at a price equal to the next determined net asset value per share, plus a sales charge which, at the election of the investor, may be imposed either (i) at the time of purchase (the initial sales charge alternative), or (ii) on a deferred basis (the deferred sales charge alternative). See "Shareholder Guide--How to Buy Shares of the Fund" in the Prospectus.

The Fund issues two classes of shares: Class A shares are sold to investors choosing the initial sales charge alternative and Class B shares are sold to investors choosing the deferred sales charge alternative. The two classes of shares represent an interest in the same portfolio of investments of the Fund and have the same rights, except that each class bears the separate expenses of its Rule 12b-1 distribution plan and has exclusive voting rights with respect to such plan. See "Distributor." The classes also have separate exchange privileges. See "Shareholder Investment Account--Exchange Privilege."

SPECIMEN PRICE MAKE-UP

Under the current distribution arrangements between the Fund and the Distributor, Class A shares of the Fund are sold at a maximum sales charge of 4.5% and Class B shares of the Fund are sold at net asset value*. At December 31, 1993, the maximum offering price of the Fund's shares was as follows:

<TABLE>

CLASS A	
Net asset value and redemption price per Class A share..................	$ 14.75
Maximum sales charge (4.5% of offering price)...........................	.69
Offering price to public..	$ 15.44
CLASS B	
Net asset value, offering and redemption price per Class B share*........	$ 14.71

<FN>
- ------------
* Class B shares are subject to a contingent deferred sales charge on certain redemptions. See "Shareholder Guide--How to Sell Your Shares--Contingent Deferred Sales Charge--Class B Shares" in the Prospectus.

</TABLE>

REDUCTION AND WAIVER OF INITIAL SALES CHARGES--CLASS A SHARES

RIGHTS OF ACCUMULATION. Reduced sales charges are also available through Rights of Accumulation, under which an investor or an eligible group of related investors, as described below under "Combined Purchase and Cumulative Purchase Privilege," may aggregate the value of their existing holdings of the Class A shares of the Fund and Class A shares of other Prudential Mutual Funds to determine the reduced sales charge. However, the value of shares held directly with the Transfer Agent and through Prudential Securities will not be aggregated to determine the reduced sales charge. All shares must be held either directly with the Transfer Agent or through Prudential Securities. The value of existing holdings for purposes of determining the reduced sales charge is calculated using the maximum offering price (net asset value plus maximum sales charge) as of the previous business day. See "How the Fund Values its Shares" in the Prospectus. The Distributor must be notified at the time of purchase that the investor is entitled to a reduced sales charge. The reduced sales charges will be granted subject to confirmation of the investor's holdings. Rights of accumulation are not available to individual participants in the retirement and group plans described below under "Retirement and Group Plans."

LETTER OF INTENT. Reduced sales charges are available to investors (or an eligible group of related investors) who enter into a written Letter of Intent providing for the purchase, within a thirteen-month period, of Class A shares of the Fund and Class A shares of other Prudential Mutual Funds. All Class A shares of the Fund and Class A shares of other Prudential Mutual Funds which were previously purchased and are still owned are also included in determining the applicable reduction. However, the value of shares held directly with the Transfer Agent and through Prudential Securities will not be aggregated to determine the reduced sales charge. All shares must be held either directly with the Transfer Agent or through Prudential Securities. The Distributor must be notified at the time of purchase that the investor is entitled to a reduced sales charge. The reduced sales charge will be granted subject to confirmation of the investor's holdings. Letters of Intent are not available to individual participants in the retirement and group plans described below under "Retirement and Group Plans."

A Letter of Intent permits a purchaser to establish a total investment goal to be achieved by any number of investments over a thirteen-month period. Each investment made during the period will receive the reduced sales charge applicable to the amount represented by the goal, as if it were a single investment. Escrowed Class A shares totaling 5% of the dollar amount of the Letter of Intent will be held by the Transfer Agent in the name of the purchaser. The effective date of a Letter of Intent may be back-dated up to 90 days, in order that any investments made during this 90-day period, valued at the purchaser's cost, can be applied to the fulfillment of the Letter of Intent goal.

The Letter of Intent does not obligate the investor to purchase, nor the Fund to sell, the indicated amount. In the event the Letter of Intent goal is not achieved within the thirteen-month period, the purchaser is required to pay the difference between the sales charge otherwise applicable to the purchases made during this period and sales charges actually paid. Such payment may be made directly to the Distributor or, if not paid, the Distributor will liquidate sufficient escrowed shares to obtain such difference. If the goal is exceeded in an amount which qualifies for a lower sales charge, a price adjustment is made by refunding to the purchaser the amount of excess sales charge, if any, paid during the thirteen-month period. Investors electing to purchase Class A shares of the Fund pursuant to a Letter of Intent should carefully read such Letter of Intent.

RETIREMENT AND GROUP PLANS. Class A shares are offered at net asset value to participants in certain retirement, deferred compensation, affinity group and group savings plans, provided the plan has existing assets of at least $10 million or 2,500 eligible employees or members. The term "existing assets" includes transferable cash, shares of Prudential Mutual Funds held at the Transfer Agent and guaranteed investment contracts maturing within three years. The retirement and group plans eligible for this waiver of the initial sales charge include, but are not limited to, pension, profit-sharing or stock bonus plans qualified or non-qualified within the meaning of Section 401 of the Internal Revenue Code of 1986, as amended (the Internal Revenue Code), deferred compensation and annuity plans within the meaning of Section 403(b)(7) and 457 of the Internal Revenue Code, certain affinity group plans such as plans of credit unions and trade associations and certain group savings plans.

COMBINED PURCHASE AND CUMULATIVE PURCHASE PRIVILEGE. If an investor or eligible group of related investors purchases Class A shares of the Fund concurrently with Class A shares of other Prudential Mutual Funds, the purchases may be combined to take advantage of the reduced sales charges applicable to larger purchases. See the table of breakpoints under "Shareholder Guide--Alternative Purchase Plan" in the Prospectus.

An eligible group of related Fund investors includes any combination of the following:

(a) an individual;

(b) the individual's spouse, their children and their parents;

(c) the individual's Individual Retirement Account (IRA);

(d) any company controlled by the individual (a person, entity or group that holds 25% or more of the outstanding voting securities of a company will be deemed to control the company, and a partnership will be deemed to be controlled by each of its general partners);

(e) a trust created by the individual, the beneficiaries of which are the individual, his or her spouse, parents or children;

(f) a Uniform Gifts to Minors Act/Uniform Transfers to Minors Act account created by the individual or the individual's spouse; and

(g) one or more employee benefit plans of a company controlled by an individual.

In addition, an eligible group of related Fund investors may include an employer (or group of related employers) and one or more qualified retirement plans of such employer or employers (an employer controlling, controlled by or under common control with another employer is deemed related to that employer).

The Distributor must be notified at the time of purchase that the investor is entitled to a reduced sales charge. The reduced sales charge will be granted subject to confirmation of the investor's holdings. The Combined Purchase and Cumulative Purchase Privilege does not apply to individual participants in the retirement and group plans described above under "Retirement and Group Plans."

SHAREHOLDER INVESTMENT ACCOUNT

Upon the initial purchase of Class A or Class B shares of the Fund, a Shareholder Investment Account is established for each investor under which a record of the shares held is maintained by the Transfer Agent. If a stock certificate is desired, it must be requested in writing for each transaction. Certificates are issued only for full shares and may be redeposited in the Account at any time. There is no charge to the investor for issuance of a certificate. Whenever a transaction takes place in the Shareholder Investment Account, the shareholder will be mailed a statement showing the transaction and the status of the Account. The Fund makes available to the shareholders the following privileges and plans.

AUTOMATIC REINVESTMENT OF DIVIDENDS AND/OR DISTRIBUTIONS

For the convenience of investors, all dividends and distributions are automatically reinvested in full and fractional shares of the Fund of the Class on which it was paid at net asset value. An investor may direct the Transfer Agent in writing not less than 5 full business days prior to the record date to have subsequent dividends and/or distributions sent in cash rather than reinvested. In the case of recently purchased shares for which registration instructions have not been received on the record date, cash payment will be made directly to the dealer. Any shareholder who receives a cash payment representing a dividend or distribution may reinvest such distribution at net asset value by returning the check or the proceeds to the Transfer Agent within 30 days after the payment date. Such investment will be made at the net asset value per share next determined after receipt of the check or proceeds by the Transfer Agent.

EXCHANGE PRIVILEGE

The Fund makes available to its Class A and Class B shareholders the privilege of exchanging their shares of the Fund for shares of certain other Prudential Mutual Funds, including one or more specified money market funds, subject in each case to the minimum investment requirements of such funds. Shares of such other Prudential Mutual Funds may also be exchanged for Class A and Class B shares, respectively, of the Fund. All exchanges are made on the basis of relative net asset value next determined after receipt of an order in proper form. An exchange will be treated as a redemption and purchase for tax purposes. Shares may be exchanged for shares of another fund only if shares of such fund may legally be sold under applicable state laws. For retirement and group plans having a limited menu of Prudential Mutual Funds, the Exchange Privilege is available for those funds eligible for investment in the particular program.

It is contemplated that the exchange privilege may be applicable to new mutual funds whose shares may be distributed by the Distributor.

CLASS A. Shareholders of the Fund may exchange their Class A shares for

Class A shares of certain other Prudential Mutual Funds, shares of Prudential Government Securities Trust (Intermediate Term Series) and shares of the money market funds

specified below. No fee or sales load will be imposed upon the exchange. Shareholders of money market funds who acquired such shares upon exchange of Class A shares may use the Exchange Privilege only to acquire Class A shares of the Prudential Mutual Funds participating in the Exchange Privilege.

The following money market funds participate in the Class A Exchange Privilege:

- Prudential California Municipal Fund
  - (California Money Market Series)
- Prudential Government Securities Trust
  - (Money Market Series)
  - (U.S. Treasury Money Market Series)
- Prudential Municipal Series Fund
  - (Connecticut Money Market Series)
  - (Massachusetts Money Market Series)
  - (New Jersey Money Market Series)
  - (New York Money Market Series)
- Prudential MoneyMart Assets
- Prudential Tax-Free Money Fund

CLASS B. Shareholders of the Fund may exchange their Class B shares for Class B shares of certain other Prudential Mutual Funds and shares of Prudential Special Money Market Fund, a money market fund. If Class B shares of the Fund are exchanged for Class B shares of other Prudential Mutual Funds, no contingent deferred sales charge will be payable upon such exchange of Class B shares, but a contingent deferred sales charge will be payable upon the redemption of the Class B shares acquired as a result of an exchange. The applicable sales charge will be that imposed by the fund in which shares were initially purchased and the purchase date will be deemed to be the first day of the month after the initial purchase, rather than the date of the exchange.

Class B shares of the Fund may also be exchanged for shares of an eligible money market fund without imposition of any contingent deferred sales charge at the time of exchange. Upon subsequent redemption from such money market fund or after re-exchange into the Fund, such shares will be subject to the Class B contingent deferred sales charge calculated by excluding the time such shares were held in the money market fund. In order to minimize the period of time in which shares are subject to a contingent deferred sales charge, shares exchanged out of the money market fund will be exchanged on the basis of their remaining holding periods, with the longest remaining holding periods being transferred first. In measuring the time period shares are held in a money market fund and "tolled" for purposes of calculating the CDSC holding period, exchanges are deemed to have been made on the last day of the month. Thus, if shares are exchanged into the Fund from a money market fund during the month (and are held in the Fund at the end of month), the entire month will be included in the CDSC holding period. Conversely, if shares are exchanged into a money market fund prior to the last day of the month (and are held in the money market fund on the last day of the month), the entire month will be excluded from the CDSC holding period.

At any time after acquiring shares of other funds participating in the Class B exchange privilege the shareholder may again exchange those shares (and any reinvested dividends and distributions) for Class B shares of the Fund without subjecting such shares to any contingent deferred sales charge. Shares of any fund participating in the Class B exchange privilege that were acquired through reinvestment of dividends or distributions may be exchanged for Class B shares of other funds without being subject to any contingent deferred sales charge.

Additional details about the Exchange Privilege and prospectuses for each of the Prudential Mutual Funds are available from the Fund's Transfer Agent, Prudential Securities or Prusec. The Exchange Privilege may be modified, terminated or suspended on sixty days' notice, and any fund, including the Fund, or the Distributor, has the right to reject any exchange application relating to such fund's shares.

DOLLAR COST AVERAGING

Dollar cost averaging is a method of accumulating shares by investing a fixed amount of dollars in shares at set intervals. An investor buys more shares when the price is low and fewer shares when the price is high. The average cost per share is lower than it would be if a constant number of shares were bought at set intervals.

Dollar cost averaging may be used, for example, to plan for retirement, to save for a major expenditure, such as the purchase of a home, or to finance a college education. The cost of a year's education at a four-year college today averages

around $14,000 at a private college and around $4,800 at a public university. Assuming these costs increase at a rate of 7% a year, as has been projected, for the freshman class of 2007, the cost of four years at a private college could reach $163,000 and over $97,000 at a public university.(1)

The following chart shows how much you would need in monthly investments to achieve specified lump sums to finance your investment goals.(2)

PERIOD OF MONTHLY INVESTMENTS:	$100,000	$150,000	$200,000	$250,000
25 Years............................	$ 110	$ 165	$ 220	$ 275
20 Years............................	176	264	352	440
15 Years............................	296	444	592	740
10 Years............................	555	833	1,110	1,388
5 Years.............................	1,371	2,057	2,742	3,428

See "Automatic Savings Accumulation Plan."

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(1) Source information concerning the costs of education at public universities is available from The College Board Annual Survey of Colleges, 1992. Information about the costs of private colleges is from the Digest of Education Statistics, 1992; The National Center for Educational Statistics; and the U.S. Department of Education. Average costs for private institutions include tuition, fees, room and board.

(2) The chart assumes an effective rate of return of 8% (assuming monthly compounding). This example is for illustrative purposes only and is not intended to reflect the performance of an investment in shares of the Fund. The investment return and principal value of an investment will fluctuate so that an investor's shares when redeemed may be worth more or less than their original cost.

AUTOMATIC SAVINGS ACCUMULATION PLAN (ASAP)

Under ASAP, an investor may arrange to have a fixed amount automatically invested in Class A or Class B shares of the Fund monthly by authorizing his or her bank account or Prudential Securities account (including a Command Account) to be debited to invest specified dollar amounts in shares of the Fund. The investor's bank must be a member of the Automatic Clearing House System. Stock certificates are not issued to ASAP participants.

Further information about this program and an application form can be obtained from the Transfer Agent, Prudential Securities or Prusec.

SYSTEMATIC WITHDRAWAL PLAN

A systematic withdrawal plan is available for shareholders having Class A or Class B shares of the Fund held through Prudential Securities or the Transfer Agent. Such withdrawal plan provides for monthly or quarterly checks in any amount, except as provided below, up to the value of the shares in the shareholder's account. Withdrawals of Class B shares may be subject to a CDSC. See "Shareholder Guide--How to Sell Your Shares--Contingent Deferred Sales Charge--Class B Shares" in the Prospectus.

In the case of shares held through the Transfer Agent (i) a $10,000 minimum account value applies, (ii) withdrawals may not be for less than $100 and (iii) the shareholder must elect to have all dividends and/or distributions automatically reinvested in additional full and fractional shares at net asset value on shares held under this plan. See "Automatic Reinvestment of Dividends and/or Distributions."

Prudential Securities and the Transfer Agent act as agents for the shareholder in redeeming sufficient full and fractional shares to provide the amount of the periodic withdrawal payment. The systematic withdrawal plan may be terminated at any time, and the Distributor reserves the right to initiate a fee of up to $5 per withdrawal, upon 30 days' written notice to the shareholder.

Withdrawal payments should not generally be considered as dividends, yield or income. If periodic withdrawals continuously exceed reinvested dividends and distributions, the shareholder's original investment will be correspondingly reduced and ultimately exhausted.

Furthermore, each withdrawal constitutes a redemption of shares, and any gain or loss realized must generally be recognized for federal income tax purposes. In addition, withdrawals made concurrently with purchases of additional shares are inadvisable because of the sales charge applicable to (i) the purchase of Class A shares and (ii) the withdrawal of Class B shares.

Each shareholder should consult his or her own tax adviser with regard to the tax consequences of the plan, particularly if used in connection with a retirement plan.

TAX-DEFERRED RETIREMENT PLANS

Various tax-deferred retirement plans, including a 401(k) Plan, self-directed individual retirement accounts and "tax sheltered accounts" under Section 403(b)(7) of the Internal Revenue Code are available through the Distributor. These plans are for use by both self-employed individuals and corporate employers. These plans permit either self-direction of accounts by participants, or a pooled account arrangement. Information regarding the establishment of these plans, the administration, custodial fees and other details are available from the Transfer Agent or Prudential Securities.

Investors who are considering the adoption of such a plan should consult with their own legal counsel or tax adviser with respect to the establishment and maintenance of any such plan.

TAX-DEFERRED RETIREMENT ACCOUNTS

INDIVIDUAL RETIREMENT ACCOUNTS. An individual retirement account (IRA) permits the deferral of federal income tax on income earned in the account until the earnings are withdrawn. The following chart represents a comparison of the earnings in a personal savings account with those in an IRA, assuming a $2,000 annual contribution, an 8% rate of return and a 39.6% federal income tax bracket and shows how much more retirement income can accumulate within an IRA as opposed to a taxable individual savings account.

TAX-DEFERRED COMPOUNDING(1)

<TABLE>
<CAPTION>

CONTRIBUTIONS MADE OVER:	PERSONAL SAVINGS	IRA
<S>	<C>	<C>
10 years	$ 26,165	$ 31,291
15 years	44,675	58,649
20 years	68,109	98,846
25 years	97,780	157,909
30 years	135,346	244,692

<FN>
- ------------
(1) The chart is for illustrative purposes only and does not represent the performance of the Fund or any specific investment. It shows taxable versus tax-deferred compounding for the periods and on the terms indicated. Earnings in the IRA account will be subject to tax when withdrawn from the account.
</TABLE>

NET ASSET VALUE

The net asset value per share is the net worth of the Fund (assets including securities at value minus liabilities) divided by the number of shares outstanding. The securities owned by the Fund are traded on national securities exchanges as well as in the over-the-counter market. Currently, the value of portfolio securities, including GNMA securities, is determined by reference to quotations received from a pricing service as of 2:30 and 3:00 P.M., New York time. In addition to market prices, the pricing service considers such factors as maturities, yields, call features, and developments relating to specific securities in arriving at valuations for normal institutional size trading units of securities.

Short-term securities which mature in more than 60 days are valued at current market quotations. Short-term securities which mature in 60 days or less are valued at amortized cost, if their term to maturity from date of purchase was 60 days or less, or by amortizing their value on the 61st day prior to maturity, if their term to maturity from date of purchase exceeded 60 days, unless such valuation is determined not to represent fair value by the Board of Directors.

Exchange-traded options on U.S. Government securities are valued at their last sale price as of the close of options trading on the applicable exchanges, which is currently 4:10 P.M., New York time. If there is no sale on the applicable options exchange on a given day, options are valued at the average of the quoted bid and asked prices as of the close of the applicable exchange. Futures contracts are marked to market daily, and options thereon are valued at their last sale price, as of the close of the applicable commodities exchanges, which is currently 4:15 P.M., New York time. Securities or other assets for which market quotations are not readily available (including OTC options) will be valued at their fair value as determined in good faith by the Manager under procedures established by the Fund's Board of Directors.

The Fund will compute its net asset value once daily at 4:15 P.M., New York time, on each day the New York Stock Exchange is open for trading except on days on which no orders to purchase, sell or redeem Fund shares have been received or days on which changes in the value of the Fund's portfolio securities do not affect the net asset value. The New York Stock Exchange is closed on the following holidays: New Year's Day, Presidents' Day, Good Friday, Memorial Day, Independence Day, Labor Day, Thanksgiving Day and Christmas Day.

In the event that the New York Stock Exchange or the national securities exchanges on which stock options are traded adopt different trading hours on either a permanent or temporary basis, the Board of Directors of the Fund will reconsider the time at which net asset value is computed. In addition, the Fund may compute its net asset value as of any time permitted pursuant to any exemption, order or statement of the SEC or its staff.

The net asset value of Class B shares will generally be lower than the net asset value of Class A shares as a result of the larger distribution fee with respect to Class B shares. It is expected, however, that the net asset value per share of the two classes will tend to converge immediately after the recording of dividends which will differ by approximately the amount of the distribution expense accrual differential between the classes.

DIVIDENDS AND DISTRIBUTIONS

The Fund declares dividends daily based on actual net investment income determined in accordance with generally accepted accounting principles. A portion of such dividends may also include projected net investment income. Such dividends will be payable monthly. The Fund expects to make distributions of net capital gains, if any, at least annually. In determining the amount of capital gains to be distributed, any capital loss carryforwards from prior years will be offset against capital gains. For federal income tax purposes, the Fund has a capital loss carryforward as of December 31, 1993 of approximately $11,324,000 of which $5,602,500 expires in 1996, $3,073,700 expires in 1997 and $2,647,800 expires in 1998. Accordingly, no capital gains distribution is expected to be paid to shareholders until net capital gains have been realized in excess of such carryforwards. Distributions will be paid in additional Fund shares based on net asset value, unless the shareholder elects in writing not less than five full business days prior to the record date to receive such distributions in cash.

The per share dividends on Class B shares will be lower than the per share dividends on Class A shares as a result of the higher distribution fee applicable with respect to the Class B shares. Distributions of capital gains will be in the same amount to Class A and Class B shares. See "Net Asset Value."

TAXES

The Fund has elected to qualify and intends to remain qualified as a regulated investment company under Subchapter M of the Internal Revenue Code of 1986, as amended. Under Subchapter M, the Fund is not subject to federal income taxes on the taxable income it distributes to shareholders, provided it distributes to shareholders each year at least 90% of its net investment income and net short-term capital gains. In addition, Subchapter M permits net long-term capital gains of the Fund (I.E., the excess of net long-term capital gains over net short-term capital losses) to be treated as long-term capital gains of the shareholders, regardless of how long shares in the Fund are held.

Qualification as a regulated investment company under the Internal Revenue Code requires, among other things, that (a) at least 90% of the Fund's annual gross income, be derived from interest, proceeds from loans of securities, dividends and gains from the sale or other disposition of securities or foreign currencies, or other income (including, but not limited to, gains from options, futures or forward contracts) derived with respect to its business of investing in such securities or currencies; (b) the Fund derives less than 30% of its annual gross income from gains from the sale or other disposition of securities or options thereon held for less than three months; and (c) the Fund diversify its holdings so that, at the end of each fiscal quarter, (i) at least 50% of the market value of the Fund's assets is represented by cash, U.S. Government securities and other securities limited in

respect of any one issuer to an amount not greater than 5% of the market value of the Fund's assets and 10% of the outstanding voting securities of such issuer, and (ii) not more than 25% of the value of the Fund's assets is invested in the securities of any one issuer (other than U.S. Government securities). The Fund generally will be subject to a nondeductible excise tax of 4% to the extent that it does not meet certain minimum distribution requirements as of the end of each calendar year. The Fund intends to make timely distributions of the Fund's income in compliance with these requirements. As a result, it is anticipated that the Fund will not be subject to the excise tax.

The "straddle" provisions of the Internal Revenue Code may also affect the taxation of the Fund's transactions in options on securities, and limit the deductibility of any loss from the disposition of a position to the extent of the unrealized gain on any offsetting position. Further, any position in the straddle (E.G., a put option acquired by the Fund) may affect the holding period of the offsetting position for purposes of the 30% of gross income test described above, and accordingly the Fund's ability to enter into straddles and dispose of the offsetting positions may be limited.

Any loss realized on a sale, redemption or exchange of shares of the Fund by a shareholder will be disallowed to the extent the shares are replaced within a 61-day period (beginning 30 days before the disposition of shares). Shares purchased pursuant to the reinvestment of a dividend will constitute a replacement of shares.

A shareholder who acquires shares of the Fund and sells or otherwise disposes of such shares within 90 days of acquisition may not be allowed to include certain sales charges incurred in acquiring such shares for purposes of calculating gain or loss realized upon a sale or exchange of shares of the Fund.

The Fund has obtained a written letter of determination from the Pennsylvania Department of Revenue that, as a registered foreign corporation "doing business" in Pennsylvania, the Fund is subject to the Pennsylvania foreign franchise tax. Accordingly, it is believed that Fund shares are exempt from Pennsylvania personal property taxes. The Fund anticipates that it will continue such business activities but reserves the right to suspend them at any time, resulting in the termination of the exemption.

The Fund may be subject to state or local tax in certain other states where it is deemed to be doing business. Further, in those states which have income tax laws, the tax treatment of the Fund and of shareholders of the Fund with respect to distributions by the Fund may differ from federal tax treatment. Distributions to shareholders may be subject to additional state and local taxes. Shareholders are urged to consult their own tax advisers regarding specific questions as to federal, state or local taxes.

PERFORMANCE INFORMATION

YIELD. The Fund may from time to time advertise its yield as calculated over a 30-day period. YIELD IS CALCULATED SEPARATELY FOR CLASS A AND CLASS B SHARES. The yield will be computed by dividing the Fund's net investment income per share earned during this 30-day period by the maximum offering price per share on the last day of this period. Yield is calculated according to the following formula:

$$\text{YIELD} = 2\left[\left(\frac{a - b}{cd} + 1\right)^{6} - 1\right]$$

(YIELD = 2[((a - b)/cd +1) to the power of 6 - 1])

Where: a = dividends and interest earned during the period.
b = expenses accrued for the period (net of reimbursements).
c = the average daily number of shares outstanding during the period that were entitled to receive dividends.
d = the maximum offering price per share on the last day of the

period.

The Fund's 30-day yields for the 30 days ended December 31, 1993 for the Fund's Class A and Class B shares were 3.33% and 2.89%, respectively.

Yield fluctuates and an annualized yield quotation is not a representation by the Fund as to what an investment in the Fund will actually yield for any given period.

AVERAGE ANNUAL TOTAL RETURN. The Fund may also advertise its average annual total return. Average annual total return is determined separately for Class A and Class B shares. See "How the Fund Calculates Performance" in the Prospectus.

Average Annual total return is computed according to the following formula:

P(1+T)to the power of n = ERV

Where: P = a hypothetical initial payment of $1000.
T = average annual total return.
n = number of years.

ERV = ending redeemable value of a hypothetical $1000 payment made at the beginning of the 1-, 5-or 10-year periods (or fractional portion thereof).

Average annual total return takes into account any applicable initial or contingent deferred sales charges but does not take into account any federal or state income taxes that may be payable upon redemption.

The average annual total return with respect to the Class A shares for the one year and three and three-and-eleven-twelfth year periods ended December 31, 1993 was 0.24% and 7.11%, respectively. The average annual total return for the Class B shares of the Fund for the one-, five-and ten-year periods ended on December 31, 1993 was (0.71%), 8.39% and 8.93%, respectively.

AGGREGATE TOTAL RETURN. The Fund may also advertise its aggregate total return. Aggregate total return is determined separately for Class A and Class B shares. See "How the Fund Calculates Performance" in the Prospectus.

Aggregate total return represents the cumulative change in the value of an investment in the Fund and is computed by the following formula:

$$\frac{ERV - P}{P}$$

Where: P = a hypothetical initial payment of $1000.
T = aggregate total return

ERV = ending redeemable value of a hypothetical $1000 payment made at the beginning of the 1-, 5-or 10-year periods (or fractional portion thereof).

Aggregate total return does not take into account any federal or state income taxes that may be payable upon redemption or any applicable initial or contingent deferred sales charges.

The Fund's aggregate total return for Class A shares for the one year and three and three-and-eleven-twelfths year periods ended on December 31, 1993 was 4.97% and 37.29%, respectively. The aggregate total return for Class B shares for the one-, five-and ten-year periods ended on December 31, 1993 was 4.29%, 50.63% and 135.37% respectively.

From time to time, the performance of the Fund may be measured against various indices. Set forth below is a chart which compares the performance of different types of investments over the long-term and the rate of inflation.(1)

[GRAPHIC]

(1) Source: Ibbotson Associates, "Stocks, Bonds, Bills and Inflation--1993 Yearbook," (annually updates the work of Roger G. Ibbotson and Rex A. Sinquefield). Common stock returns are based on the Standard & Poor's 500 Stock Index, a market-weighted, unmanaged index of 500 common stocks in a variety of industry sectors. It is a commonly used indicator of broad stock price movements. This chart is for illustrative purposes only, and is not intended to represent the performance of any particular investment or fund.

CUSTODIAN, TRANSFER AND DIVIDEND DISBURSING AGENT
AND INDEPENDENT ACCOUNTANTS

State Street Bank and Trust Company, One Heritage Drive, North Quincy, Massachusetts 02171, serves as Custodian for the Fund's portfolio securities and cash and in that capacity maintains certain financial and accounting books and records pursuant to an agreement with the Fund. See "How the Fund is Managed--Custodian and Transfer and Dividend Disbursing Agent" in the Propectus.

Prudential Mutual Fund Services, Inc. (PMFS), Raritan Plaza One, Edison, New Jersey 08837, serves as the Transfer and Dividend Disbursing Agent of the Fund. PMFS is a wholly-owned subsidiary of PMF. PMFS provides customary transfer agency services to the Fund, including the handling of shareholder communications, the processing of shareholder transactions, the maintenance of shareholder account records, the payment of dividends and distributions, and related functions. For these services, PMFS receives an annual fee per shareholder account, a new account set-up fee for each manually established account and a monthly inactive zero balance account fee per shareholder account. PMFS is also reimbursed for its out-of-pocket expenses, including, but not limited to, postage, stationery, printing, allocable communications expenses and other costs. For the fiscal year ended December 31, 1993, the Fund incurred fees of $409,900 for the services of PMFS.

Price Waterhouse, 1177 Avenue of the Americas, New York, New York 10036 serves as the Fund's independent accountants and in that capacity audits the Fund's annual financial statements.

<TABLE>
<CAPTION>

Principal Amount (000)	Description	Value (Note 1)
<C>	<S>	<C>
	LONG-TERM INVESTMENTS - 92.7%	
	U.S. GOVERNMENT AGENCY MORTGAGE PASS-THROUGH OBLIGATIONS - 90.2%	
	Federal National Mortgage Association,	
$ 5,022	6.00%, 12/1/99 - 11/25/00	$ 5,072,372
24,214	7.00%, 10/25/23	24,562,024
18,500	11.00%, 6/1/23.	20,766,250
	Government National Mortgage Association,	
35,000+	5.50%, 6/15/23.	35,989,853
50,000+	6.50%, 6/15/23.	49,531,000
9,000	7.00%, 11/15/23.	9,143,370
50,000+	7.50%, 6/15/23.	51,828,000
25,000+	8.00%, 6/15/23.	26,320,215
31	8.50%, 9/15/21.	32,791
50,697	9.50%, 3/15/16 - 3/15/19.	54,879,058
3,496	11.00%, 3/15/10 - 7/15/20	3,977,614
12,282	11.50%, 3/15/10 - 8/15/18	14,124,108
1,354	12.00%, 12/15/12 - 6/15/15	1,567,600
	Total U.S. Government Agency Mortgage Pass-Through Obligations (cost $297,831,058)	297,794,255
	COLLATERALIZED MORTGAGE OBLIGATION - 2.5%	

	Greenwich Capital Acceptance, Inc.,	
125,000	2.25%, 1/25/24, ARM/IO (cost $8,916,482)	8,281,250
	Total long-term investments (cost $306,747,540)	306,075,505
	SHORT-TERM INVESTMENTS - 64.5%	
	COMMERCIAL PAPER - 54.2%	
	Associates Corp. of North America,	
16,581	3.37%, 1/10/94.	16,567,030
	Bankers Trust Corp.,	
15,000	3.35%, 1/10/94.	14,987,437
	Ciesco, Inc.,	
15,000	3.35%, 1/10/94.	14,987,437
	Falcon Asset Securitization Corp.,	
16,581	3.42%, 1/12/94.	16,563,673
	General Electric Capital Corp.,	
16,685	3.18%, 1/14/94.	16,665,840
	Household Finance Corp.,	
16,581	3.40%, 1/10/94.	16,566,906
	John Hancock Capital Corp.,	
15,735	3.35%, 1/3/94	15,732,072
	Paccar Financial Corp.,	
5,000	3.19%, 1/7/94	4,997,341
	Sonoco Products Co.,	
4,000	3.40%, 1/4/94	3,998,867
	Transamerica Financial Corp.,	
13,000	3.19%, 1/10/94.	12,989,633
11,755	3.40%, 1/7/94	11,748,339
	UBS Finance Delaware, Inc.,	
16,600	3.18%, 1/14/94.	16,580,938
	United States Leasing International,	
10,638	3.20%, 1/14/94.	10,625,707
5,943	3.35%, 1/10/94.	5,938,023
	Total Commercial Paper (cost $178,949,243)	178,949,243
	REPURCHASE AGREEMENT - 10.3%	
	Joint Repurchase Agreement Account,	
34,178	3.15%, 1/3/94 (Note 5) (cost $34,178,000).	34,178,000
	Total short-term investments (cost $213,127,243)	213,127,243

</TABLE>

See Notes to Financial Statements.

PRUDENTIAL GNMA FUND

<TABLE>
<CAPTION>

Principal Amount (000)	Description	Value (Note 1)
<C>	<S>	<C>

TOTAL INVESTMENTS - 157.2% (cost $519,874,783; Note 4)	$519,202,748
Liabilities in excess of other assets - (57.2%)	(188,939,379)
NET ASSETS - 100%	$330,263,369

<FN>

ARM/IO - Adjustable Rate Mortgage - Interest Only.
+Indicates a delayed-delivery security.
</TABLE>

The industry classification breakdown shown as percentages of net assets for the commercial paper held as of December 31, 1993 was as follows:

<TABLE>

<S>	<C>
Personal Credit Institutions	17.5%
Asset-Backed Securities	9.6
Short-Term Business Credit	6.6
Commercial Banks	5.0
Computer Rental & Leasing	5.0
Life Insurance	4.8
Bank Holding Companies	4.5
Paperboard Mills	1.2
	54.2%

</TABLE>

See Notes to Financial Statements.

PRUDENTIAL GNMA FUND
Statement of Assets and Liabilities

<TABLE>
<CAPTION>

<S>	<C> DECEMBER 31, 1993
ASSETS	
Investments, at value (cost $519,874,783)	$519,202,748
Cash	19,564
Receivable for investments sold	4,431,472
Interest receivable	956,496
Receivable for Fund shares sold	923,775
Deferred expenses and other assets	8,603
Total assets	525,542,658
LIABILITIES	
Payable for investments purchased	193,720,477
Payable for Fund shares reacquired	916,946
Accrued expenses	240,183
Due to Distributors	206,348
Due to Manager	141,261
Dividends payable	54,074
Total liabilities	195,279,289
NET ASSETS	$330,263,369
Net assets were comprised of:	
Common stock, at par	$ 224,533
Paid-in capital in excess of par	340,993,821
	341,218,354
Undistributed net investment income	1,041,122
Accumulated net realized loss on investments	(11,324,072)
Net unrealized depreciation on investments	(672,035)

Net assets, December 31, 1993	$330,263,369
Class A:	
Net asset value and redemption price per share ($10,862,748 divided by 736,618 shares of common stock issued and outstanding)	$14.75
Maximum sales charge (4.5% of offering price)	.69
Maximum offering price to public	$15.44
Class B:	
Net asset value, offering price and redemption price per share ($319,400,621 divided by 21,716,727 shares of common stock issued and outstanding).	$14.71

</TABLE>

See Notes to Financial Statements.

PRUDENTIAL GNMA FUND
Statement of Operations

<TABLE>
<CAPTION>

<S>	<C> YEAR ENDED DECEMBER 31,1993
INVESTMENT INCOME	
Income	
Interest	$25,452,568
Expenses	
Distribution fee--Class A	15,299
Distribution fee--Class B	2,495,486
Management fee	1,714,652
Transfer agent's fees and expenses	587,000
Custodian's fees and expenses	317,000
Registration fees	65,000
Reports to shareholders	51,000
Audit fee	50,000
Franchise taxes	50,000
Directors' fees	45,000
Legal fees	23,000
Miscellaneous	15,244
Total expenses	5,428,681
Net investment income	20,023,887
REALIZED AND UNREALIZED GAIN (LOSS) ON INVESTMENTS	
Net realized gain on investment transactions	3,445,442
Net change in unrealized appreciation/depreciation of investments	(9,007,572)
Net loss on investments	(5,562,130)
NET INCREASE IN NET ASSETS RESULTING FROM OPERATIONS	$14,461,757

</TABLE>

PRUDENTIAL GNMA FUND
Statement of Changes in Net Assets

<TABLE>
<CAPTION>

INCREASE (DECREASE) IN NET ASSETS	YEAR ENDED DECEMBER 31, 1993	1992
<S>	<C>	<C>
Operations		
Net investment income	$20,023,887	$20,141,176
Net realized gain on investments	3,445,442	1,322,775
Net change in unrealized appreciation/depreciation of investments	(9,007,572)	(4,131,439)
Net increase in net assets resulting from operations	14,461,757	17,332,512
Dividends and distributions (Note 1)		
Dividends to shareholders from net investment income		
Class A	(646,676)	(474,172)
Class B	(19,377,211)	(19,667,004)
	(20,023,887)	(20,141,176)
Dividends to shareholders in excess of net investment income		
Class A	(66,983)	(33,981)
Class B	(2,007,109)	(1,409,434)
	(2,074,092)	(1,443,415)
Fund share transactions (Note 6)		
Proceeds from shares sold	67,747,553	111,084,170
Net asset value of shares issued in reinvestment of dividends and distributions	13,613,736	13,509,145
Cost of shares reacquired	(78,475,417)	(64,257,029)
Net increase in net assets from Fund share transactions	2,885,872	60,336,286
Total increase (decrease)	(4,750,350)	56,084,207
NET ASSETS		
Beginning of year	335,013,719	278,929,512
End of year	$330,263,369	$335,013,719

</TABLE>

See Notes to Financial Statements.

PRUDENTIAL GNMA FUND
Notes to Financial Statements

Prudential-Bache GNMA Fund, Inc., doing business as Prudential GNMA Fund (the "Fund"), is registered under the Investment Company Act of 1940 as a diversified, open-end management investment company. The investment objective of the Fund is to achieve a high level of income over the long-term consistent with providing reasonable safety by investing primarily in mortgage-backed securities guaranteed as to timely payment of principal and interest by the Government National Mortgage Association (GNMA) and other readily marketable fixed-income securities. The ability of issuers of debt securities, other than those issued or guaranteed by the U.S. Government, held by the Fund to meet their obligations may be affected by economic developments in a specific industry or region.

NOTE 1. ACCOUNTING POLICIES The following is a summary of significant accounting policies followed by the Fund in the preparation of its financial statements.

SECURITY VALUATION: The Fund values portfolio securities on the basis of prices provided by dealers or by a pricing service which uses information such as market values, maturities, yields, call features and developments relating to specific securities in determining values.

Short-term securities which mature in more than 60 days are valued at current market quotations. Short-term securities which mature in 60 days or less are valued at amortized cost which approximate market value.

In connection with transactions in repurchase agreements with U.S. financial institutions, it is the Fund's policy that its custodian takes possession of the underlying collateral securities, the value of which exceeds the principal amount of the repurchase transaction, including accrued interest. If the seller defaults and the value of the collateral declines or if bankruptcy proceedings are commenced with respect to the seller of the security, realization of the collateral by the Fund may be delayed or limited.

SECURITIES TRANSACTIONS AND INVESTMENT INCOME: Securities transactions are recorded on the trade date. Since certain mortgage-backed securities, such as GNMAs, only settle on one day each month, there can be occasions when, pending settlement, there may be substantial short-term securities in the portfolio available to fund the purchases of these mortgage-backed securities. Realized gains and losses on sales of investments are calculated on the identified cost basis. Interest income is recorded on the accrual basis. The Fund amortizes original issue discount paid on purchases of portfolio securities as adjustments to interest income.

Net investment income (other than distribution fees) and unrealized and realized gains or losses are allocated daily to each class of shares based upon the relative proportion of net assets of each class at the beginning of the day.

DOLLAR ROLLS: The Fund enters into mortgage dollar rolls in which the Fund sells mortgage securities for delivery in the current month, realizing a gain or loss, and simultaneously contracts to repurchase somewhat similar (same type, coupon and maturity) securities on a specified future date. During the roll period the Fund forgoes principal and interest paid on the securities. The Fund is compensated by the interest earned on the cash proceeds of the initial sale and by the lower repurchase price at the future date. The difference between the sale proceeds and the lower repurchase price is taken into income. The Fund maintains a segregated account, the dollar value of which is equal to its obligations, in respect of dollar rolls.

FEDERAL INCOME TAXES: It is the Fund's policy to continue to meet the requirements of the Internal Revenue Code applicable to regulated investment companies and to distribute all of its taxable net income and net capital gains, if any, to its shareholders. Therefore, no federal income tax provision is required.

EQUALIZATION: The Fund follows the accounting practice known as equalization by which a portion of the proceeds from sales and costs of reacquisitions of Fund shares, equivalent on a per share basis to the amount of distributable net investment income on the date of the transaction, is credited or charged to undistributed net investment income. As a result, undistributed net investment income per share is unaffected by sales or reacquisitions of the Fund's shares.

DIVIDENDS AND DISTRIBUTIONS: Dividends from net investment income are declared daily and paid monthly. The Fund will distribute at least annually any net capital gains in excess of loss carryforwards. Dividends and distributions are recorded on the ex-dividend date.

Income distributions and capital gain distributions are determined in accordance with income tax regulations which may differ from generally accepted accounting principles.

RECLASSIFICATION OF CAPITAL ACCOUNTS: Effective January 1, 1993, the Fund began accounting and reporting for distributions to shareholders in accordance with Statement of Position 93-2: Determination, Disclosure, and Financial

Statement Presentation of Income, Capital Gain, and Return of Capital Distributions by Investment Companies. As a result of this statement, the Fund changed the classification of distributions to shareholders to better disclose the differences between financial statement amounts and distributions determined in accordance with income tax regulations. The effect caused by adopting this statement was to decrease paid-in capital by $1,931,563 increase undistributed net investment income by $1,034,987 and decrease accumulated net realized loss on investments by $896,576 compared to amounts previously reported through December 31, 1992. During the year ended December 31, 1993, the Fund reclassed $2,067,957 of dividends in excess of net investment income to paid-in capital from undistributed net investment income. Net investment income, net realized gains and net assets were not affected by this change.

NOTE 2. AGREEMENTS The Fund has a management agreement with Prudential Mutual Fund Management, Inc. ("PMF"). Pursuant to this agreement, PMF has responsibility for all investment advisory services and supervises the subadviser's performance of such services. PMF has entered into a subadvisory agreement with The Prudential Investment Corporation ("PIC"); PIC furnishes investment advisory services in connection with the management of the Fund. PMF pays for the cost of the subadviser's services, the compensation of officers of the Fund, occupancy and certain clerical and bookkeeping costs of the Fund. The Fund bears all other costs and expenses.

The management fee paid PMF is computed daily and payable monthly, at an annual rate of .50 of 1% of the Fund's average daily net assets.

The Fund has distribution agreements with Prudential Mutual Fund Distributors, Inc. ("PMFD"), which acts as the distributor of the Class A shares of the Fund, and with Prudential Securities Incorporated ("PSI"), which acts as distributor of the Class B shares of the Fund (collectively the "Distributors"). To reimburse the Distributors for their expenses incurred in distributing the Fund's Class A and Class B shares, the Fund, pursuant to plans of distribution, pays the Distributors a reimbursement accrued daily and payable monthly.

Pursuant to the Class A Plan, the Fund reimburses PMFD for its expenses with respect to Class A shares at an annual rate of up to .30 of 1% of the average daily net assets of the Class A shares. Such expenses under the Class A Plan were .15 of 1% of the average daily net assets of the Class A shares for the year ended December 31, 1993. PMFD pays various broker-dealers, including PSI and Pruco Securities Corporation ("Prusec"), affiliated broker-dealers, for account servicing fees and other expenses incurred by such broker-dealers.

Pursuant to the Class B Plan, the Fund reimburses PSI for its distribution-related expenses with respect to Class B shares at an annual rate of up to .75 of 1% of the average daily net assets of the Class B shares.

The Class B distribution expenses include commission credits for payments of commissions and account servicing fees to financial advisers and an allocation for overhead and other distribution-related expenses, interest and/or carrying charges, the cost of printing and mailing prospectuses to potential investors and of advertising incurred in connection with the distribution of shares.

The Distributors recover the distribution expenses and service fees incurred through the receipt of reimbursement payments from the Fund under the plans and the receipt of initial sales charges (Class A only) and contingent deferred sales charges (Class B only) from shareholders.

PMFD has advised the Fund that it has received approximately $131,000 in front-end sales charges resulting from sales of Class A shares during the year ended December 31, 1993. From these fees, PMFD paid such sales charges to dealers (PSI and Prusec) which in turn paid commissions to salespersons.

With respect to the Class B Plan, at any given time, the amount of expenses incurred by PSI in distributing the Fund's shares and not recovered through the imposition of contingent deferred sales charges in connection with certain redemptions of shares may exceed the total reimbursement made by the Fund pursuant to the Class B Plan. PSI advised the Fund that for the year ended December 31, 1993, it received approximately $504,000 in contingent deferred sales charges imposed upon certain redemptions by investors. PSI, as distributor, has also advised the Fund that at December 31, 1993, the amount of distribution expenses incurred by PSI and not yet reimbursed by the Fund or recovered through contingent deferred sales charges approximated $11,763,000. This amount may be recovered through future payments under the Class B plan or contingent deferred sales charges.

In the event of termination or noncontinuation of the Class B Plan, the Fund would not be contractually obligated to pay PSI, as distributor, for any expenses not previously reimbursed or recovered through contingent deferred sales charges.

PMFD is a wholly-owned subsidiary of PMF; PSI, PMF and PIC are indirect, wholly-owned subsidiaries of The Prudential Insurance Company of America.

NOTE 3. OTHER TRANSACTIONS WITH AFFILIATES Prudential Mutual Fund Services, Inc. ("PMFS"), a wholly-owned subsidiary of PMF, serves as the Fund's transfer agent and during the year ended December 31, 1993, the Fund incurred fees of approximately $409,900 for the services of PMFS. As of December 31, 1993, approximately $33,100 of such fees were due to PMFS. Transfer agent fees and expenses in the Statement of Operations include certain out-of-pocket expenses paid to non-affiliates.

NOTE 4. PORTFOLIO SECURITIES Purchases and sales of investment securities, other than short-term investments and dollar rolls, for the year ended December 31, 1993 aggregated $528,536,800 and $443,302,625, respectively.

The cost basis of investments for federal income tax purposes is substantially the same as the basis for financial reporting purposes and, accordingly, as of December 31, 1993 net unrealized depreciation of investments for federal income tax purposes was $672,035 (gross unrealized appreciation--$453,570; gross unrealized depreciation--$1,125,605).

The Fund had a capital loss carryforward as of December 31, 1993 of approximately $11,324,000 of which $5,602,500 expires in 1996, $3,073,700 expires in 1997 and $2,647,800 expires in 1998. Such carryforward is after utilization of approximately $3,445,500 to offset the Fund's net taxable gains realized and recognized in the year ended December 31, 1993. No capital gains distribution is expected to be paid to shareholders until net gains have been realized in excess of such carryforward.

NOTE 5. JOINT REPURCHASE AGREEMENT ACCOUNT The Fund, along with other affiliated registered investment companies, transfers uninvested cash balances into a single joint account, the daily aggregate balance of which is invested in one or more repurchase agreements collateralized by U.S. Treasury or Federal agency obligations. As of December 31, 1993, the Fund has a 2.86% undivided interest in the joint account. The undivided interest for the Fund represents $34,178,000 in the principal amount. As of such date, each repurchase agreement in the joint account and the collateral therefor were as follows:

Bear, Stearns & Co. Inc., 3.18%, in the principal amount of $323,000,000, repurchase price $323,085,595, due 1/3/94; collateralized by $200,000,000 U.S. Treasury Notes, 3.875%, due 3/31/95, $5,745,000 U.S. Treasury Notes, 4.25% due, 7/31/95, $85,000 U.S. Treasury Notes, 7.375%, due 5/15/96, $30,000,000 U.S. Treasury Notes, 5.625%, due 1/31/98 and $80,030,000 U.S. Treasury Notes, 7.50%, due 11/15/01; approximate aggregate value including accrued interest--$329,564,341.

Kidder, Peabody & Co. Inc., 3.20%, in the principal amount of $375,000,000, repurchase price $375,100,000, due 1/3/94; collateralized by $200,000,000 U.S. Treasury Bonds, 11.625%, due 11/15/04, $38,000,000 U.S. Treasury Bonds, 12.75%, due 11/15/10, $11,730,000 U.S. Treasury Notes, 7.25%, due 11/15/96, $90,000 U.S. Treasury Bonds, 9.00%, due 2/15/94 and $15,000,000 U.S. Treasury Notes, 7.375%, due 5/15/96; approximate aggregate value including accrued interest--$382,608,562.

Goldman, Sachs & Co., 3.10%, in the principal amount of $399,000,000, repurchase price $399,103,075, due 1/3/94; collateralized by $363,720,000 U.S. Treasury Bonds, 7.50%, due 11/15/16; approximate value including accrued interest--$408,104,889.

Barclays de Zoete Wedd, Inc., 3.10%, in the principal amount of $100,000,000, repurchase price $100,025,883, due 1/3/94; collateralized by $32,000,000 U.S. Treasury Notes, 7.50%, due 11/15/01, $7,305,000 U.S. Treasury Notes, $8.50%, due 2/15/00 and $49,000,000 U.S. Treasury Notes, 8.875%, due 11/15/98; approximate aggregate value including accrued interest--$102,043,014.

NOTE 6. CAPITAL The Fund offers both Class A and Class B shares. Class A shares are sold with a front-end sales charge of up to 4.5%. Class B shares are sold with a contingent deferred sales charge which declines from 5% to zero depending on the period of time the shares are held. Both classes of shares have equal rights as to earnings, assets and voting privileges except that each class bears different distribution expenses and has exclusive voting rights with respect to its distribution plan. There are 500 million shares of common stock, $.01 par value per share, divided into two classes, designated Class A and Class B common stock, each of which consists of 250 million authorized shares.

Transactions in shares of common stock were as follows:

<TABLE>
<CAPTION>

Class A	SHARES	AMOUNT
Year ended December 31, 1993:		
Shares sold.	324,094	$4,896,635
Shares issued in reinvestment of dividends and distributions	24,707	372,441
Shares reacquired.	(212,210)	(3,195,829)
Net increase in shares outstanding	136,591	$2,073,247

Year ended December 31, 1992:		
Shares sold.	447,396	$6,752,448
Shares issued in reinvestment of dividends and distributions	16,374	246,638
Shares reacquired.	(273,385)	(4,137,123)
Net increase in shares outstanding	190,385	$2,861,963

</TABLE>

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Class B	SHARES	AMOUNT
<S>	<C>	<C>
Year ended December 31, 1993:		
Shares sold.	4,168,502	$ 62,850,918
Shares issued in reinvestment of dividends and distributions	880,221	13,241,295
Shares reacquired.	(5,009,649)	(75,279,588)
Net increase in shares outstanding	39,074	$ 812,625
Year ended December 31, 1992:		
Shares sold.	6,932,240	$104,331,722
Shares issued in reinvestment of dividends and distributions	883,250	13,262,507
Shares reacquired.	(3,997,465)	(60,119,906)
Net increase in shares outstanding	3,818,025	$ 57,474,323

</TABLE>

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	CLASS A				CLASS B				
	YEAR ENDED DECEMBER 31,			JANUARY 22,* 1990 THROUGH DECEMBER 31,	YEAR ENDED DECEMBER 31,				
PER SHARE OPERATING PEFORMANCE:	1993	1992	1991	1990	1993	1992	1991	1990	1989
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
PER SHARE OPERATING PERFORMANCE:									
Net asset value, beginning of period	$ 15.07	$15.30	$14.84	$14.75	$ 15.04	$ 15.27	$ 14.81	$ 14.86	$ 14.29
INCOME FROM INVESTMENT OPERATIONS									
Net investment income.	.95	1.10	1.14	1.17	.87	1.02	1.06	1.15	1.19
Net realized and unrealized gain (loss) on investment transactions	(.21)	(.15)	.61	.13	(.23)	(.16)	.60	(.01)	.59
Total from investment operations	.74	.95	1.75	1.30	.64	.86	1.66	1.14	1.78

LESS DISTRIBUTIONS

Dividends to shareholders from

net investment income	(.95)	(1.10)	(1.14)	(1.17)	(.87)	(1.02)	(1.06)	(1.15)	(1.19)
Dividends to shareholders in excess of net investment income	(.11)	(.08)	(.15)	(.04)	(.10)	(.07)	(.14)	(.04)	(.02)
Total distributions	(1.06)	(1.18)	(1.29)	(1.21)	(.97)	(1.09)	(1.20)	(1.19)	(1.21)
Net asset value, end of period	$ 14.75	$15.07	$15.30	$14.84	$ 14.71	$ 15.04	$ 15.27	$ 14.81	$ 14.86
TOTAL RETURN@:	4.97%	6.42%	12.48%	9.27%	4.29%	5.80%	11.82%	8.10%	12.93%
RATIOS TO AVERAGE NET ASSETS:									
Net assets, end of period (000)	$10,863	$9,045	$6,268	$1,604	$319,401	$325,969	$272,661	$226,605	$221,938
Average net assets (000)	$10,199	$6,651	$3,035	$756	$332,731	$295,255	$243,749	$218,749	$223,251
Ratios to average net assets:									
Expenses, including distribution fees	1.00%	1.00%	1.11%	1.15%+	1.60%	1.60%	1.71%	1.74%	1.56%
Expenses, excluding distribution fees	.85%	.85%	.96%	.99%+	.85%	.85%	.96%	.99%	.98%
Net investment income	6.42%	7.26%	7.81%	9.16%+	5.82%	6.66%	7.21%	7.96%	8.16%
Portfolio turnover	134%	33%	118%	481%	134%	33%	118%	481%	200%

<FN>
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*Commencement of offering of Class A shares.
+Annualized.
@Total return does not consider the effects of sales loads. Total return is calculated assuming a purchase of shares on the first day and a sale on the last day of each period reported and includes reinvestment of dividends and distributions. Total returns for periods of less than a full year are not annualized.

</TABLE>

See Notes to FInancial Statements

REPORT OF INDEPENDENT ACCOUNTANTS

To the Shareholders and Board of Directors of
Prudential GNMA Fund

In our opinion, the accompanying statement of assets and liabilities, including the portfolio of investments, and the related statements of operations and of changes in net assets and the financial highlights present fairly, in all material respects, the financial position of Prudential GNMA Fund (the "Fund") at December 31, 1993, and the results of its operations for the year then ended, the changes in its net assets for each of the two years in the period then ended and the financial highlights for each of the five years in the period then ended, in conformity with generally accepted accounting principles. These financial statements and financial highlights (hereafter referred to as "financial statements") are the responsibility of the Fund's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these financial statements in accordance with generally accepted auditing standards which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits, which included confirmation of securities at December 31, 1993 by correspondence with the custodian and brokers, and the application of alternative auditing procedures where confirmations from brokers were not received, provide a reasonable basis for the opinion expressed above.

PRICE WATERHOUSE

1177 Avenue of the Americas
New York, New York
February 9, 1994

TAX INFORMATION

We are required by Massachusetts and Oregon to inform you that dividends which have been derived from interest on federal obligations are not taxable to shareholders. Please be advised that 10.69% of the dividends paid by the Fund qualify for each of these states' tax exclusion.

We wish to advise you that the corporate dividends received deduction for the Fund is zero. Only funds that invest in U.S. equity securities are entitled to pass-through a corporate dividends received deduction.

APPENDIX A
DESCRIPTION OF CORPORATE BOND RATINGS

MOODY'S INVESTORS SERVICE, INC.'S CORPORATE BOND RATINGS:

Aaa--Bonds which are rated Aaa are judged to be the best quality. They carry the smallest degree of investment risk and are generally referred to as "gilt-edge." Interest payments are protected by a large or by an exceptionally stable margin, and principal is secure. While the various protective elements are likely to change, such changes as can be visualized are most unlikely to impair the fundamentally strong position of such issues.

Aa--Bonds which are rated Aa are judged to be of high quality by all standards. Together with the Aaa group they comprise what are generally known as high grade bonds. They are rated lower than the best bonds because margins of protection may not be as large as in Aaa securities or fluctuation of protective elements may be of greater amplitude or there may be other elements present which make the long-term risks appear somewhat larger than in Aaa securities.

A--Bonds which are rated A possess many favorable investment attributes and are to be considered as upper medium grade obligations. Factors giving security to principal and interest are considered adequate but elements may be present which suggest a susceptibility to impairment sometime in the future.

Moody's applies numerical modifiers 1,2 and 3 in the Aa and A rating categories. The modifier 1 indicates that the security ranks at a higher end of the rating category, the modifier 2 indicates a mid-range rating and the modifier 3 indicates that the issue ranks at the lower end of the rating category.

STANDARD & POOR'S CORPORATION'S CORPORATE BOND RATINGS:

AAA--Bonds rated AAA have the highest rating assigned by Standard & Poor's to a debt obligation and indicate an extremely strong capacity to pay interest and repay principal.

AA--Bonds rated AA have a very strong capacity to pay interest and repay principal and differ from the highest rate issues only to a small degree.

A--Bonds rated A have a strong capacity to pay interest and repay principal although they are somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions than bonds in higher rated categories.

PART C
OTHER INFORMATION

ITEM 24. FINANCIAL STATEMENTS AND EXHIBITS.

(A) FINANCIAL STATEMENTS:

(1) Financial Statements included in the Prospectus constituting Part A of this Registration Statement:

Financial Highlights.

(2) Financial statements included in the Statement of Additional Information constituting Part B of this Registration Statement:

Portfolio of Investments at December 31, 1993.

Statement of Assets and Liabilities at December 31, 1993.

Statement of Operations for the year ended December 31, 1993.

Statement of Changes in Net Assets for the years ended December 31, 1993 and 1992.

Notes to Financial Statements.

Financial Highlights.

Report of Independent Accountants.

(B) EXHIBITS:

1. (a) Articles of Incorporation, as amended, incorporated by reference to Exhibit 1 to Post-Effective Amendment No. 6 to Registration Statement on Form N-1A (File No. 2-76061).

   (b) Amendment to Articles of Incorporation, incorporated by reference to Exhibit 1 to Post-Effective Amendment No. 10 to the Registration Statement on Form N-1A (File No. 2-76061).

   (c) Amendment of Articles of Incorporation, incorporated by reference to Exhibit No. 1(c) to Post-Effective Amendment No 13 to the Registration Statement on Form N-1A (File No. 2-76061).

2. (a) By-Laws of the Registrant, as amended, incorporated by reference to Exhibit 2 to the Post-Effective Amendment No. 9 to the Registration Statement on Form N-1A (File No. 2-76061).

   (b) Amendment to By-Laws, incorporated by reference to Exhibit No. 2 to Post-Effective Amendment No. 12 to the Registration Statement on Form N-1A (File No. 2-76061).

4. (a) Specimen stock certificate for Class B shares issued by the Registrant, incorporated by reference to Exhibit 4 to Post-Effective Amendment No. 9 to the Registration Statement on Form N-1A (File No. 2-76061).

   (b) Specimen stock certificate for Class A shares issued by the Registrant, incorporated by reference to Exhibit 4(b) to Post-Effective Amendment No. 13 to the Registration Statement on Form N-1A (File No. 2-76061).

   (c) Instruments Defining Rights of Shareholders.*

5. (a) Management Agreement between the Registrant and Prudential Mutual Fund Management, Inc., incorporated by reference to Exhibit 5(a) to Post-Effective Amendment No. 10 to the Registration Statement on Form N-1A (File No. 2-76061).

   (b) Subadvisory Agreement between Prudential Mutual Fund Management, Inc. and The Prudential Investment Corporation, incorporated by reference to Exhibit 5(b) to Post-Effective Amendment No. 10 to the Registration Statement on Form N-1A (File No. 2-76061).

6. (a) Distribution Agreement, as amended, between the Registrant and Prudential-Bache Securities Inc., incorporated by reference to Exhibit 6(a) to Post-Effective Amendment No. 5 to the Registration Statement on Form N-1A (File No. 2-76061).

   (b) Distribution Agreement between the Registrant and Prudential Mutual Fund Distributors, Inc. for Class A Shares, incorporated by reference to Exhibit 6(b) to Post-Effective Amendment No. 13 to the Registration Statement on Form N-1A (File No. 2-76061).

   (c) Amended and Restated Distribution Agreement between the Registrant and Prudential-Bache Securities Inc. for Class B Shares, incorporated by reference to Exhibit 6(c) to Post-Effective Amendment No. 13 to the Registration Statement on Form N-1A (File No. 2-76061).

   (d) Selected Dealers Agreement, incorporated by reference to Exhibit 6(d) to the Registration Statement on Form N-1A (File No. 2-76061).

   (e)_Amended and Restated Distribution Agreement with respect to

Class A shares between the Registrant and Prudential Mutual Fund Distributors, Inc.*

(f) Amended and Restated Distribution Agreement with respect to Class B shares between the Registrant and Prudential Securities Incorporated.*

8. Custodian Agreement between the Registrant and State Street Bank and Trust Company.

9. Transfer Agency and Service Agreement between the Registrant and Prudential Mutual Fund Services, Inc., incorporated by reference to Exhibit 8(b) to Post-Effective Amendment No. 9 to the Registration Statement on Form N-1A (File No. 2-76061).

10. (a) Opinion of Sullivan & Cromwell, incorporated by reference to Exhibit 10 to Pre-Effective Amendment No. 1 to the Registration Statement on Form N-1A (File No. 2-76061).

(b) Opinion of Sullivan & Cromwell.*

11. Consent of Independent Accountants.*

13. Purchase Agreement, incorporated by reference to Exhibit 13 to Pre-Effective Amendment No. 1 to the Registration Statement on Form N-1A (File No. 2-76061).

15. (a) Plan of Distribution, incorporated by reference to Exhibit 15(a) to Post-Effective Amendment No. 5 to the Registration Statement on Form N-1A (File No. 2-76061).

(b) Plan of Distribution for Class A Shares, incorporated by reference to Exhibit 15(b) to Post-Effective Amendment No. 13 to the Registration Statement on Form N-1A (File No. 2-76061).

(c) Amended and Restated Plan of Distribution for Class B Shares, incorporated by reference to Exhibit 15(c) to Post-Effective Amendment No. 13 to the Registration Statement on Form N-1A (File No. 2-76061).

(d) Distribution and Service Plan between the Registrant (Class A Shares) and Prudential Mutual Fund Distributors, Inc.*

(e) Distribution and Service Plan between the Registrant (Class B Shares) and Prudential Securities Incorporated.*

16. (a) Schedule of Computation of Performance Quotations for Class B shares, incorporated by reference to Exhibit 16 to Post-Effective Amendment No. 10 to the Registration Statement on Form N-1A (File No. 2-76061).

(b) Schedule of Computation of Performance Quotations for Class A shares, incorporated by reference to Exhibit 16(b) to Post-Effective Amendment No. 14 to the Registration Statement on Form N-1A (File No. 2-76061).

(c) Schedule of Calculation of Aggregate Total Return for Class A and Class B shares incorporated by reference to Exhibit 16(c) to Post-Effective Amendment No. 15 to the Registration Statement on Form N-1A (File No. 2-76061.)

Other Exhibits

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*Filed herewith.

ITEM 25. PERSONS CONTROLLED BY OR UNDER COMMON CONTROL WITH REGISTRANT.

None.

ITEM 26. NUMBER OF HOLDERS OF SECURITIES.

As of January 31, 1994, there were 943 and 26,356, record holders of Class A and Class B shares of common stock, $.01 par value per share, issued by the Registrant, respectively.

ITEM 27. INDEMNIFICATION.

As permitted by Section 17(h) and (i) of the Investment Company Act of 1940 (the 1940 Act) and pursuant to Article VI of the Fund's By-Laws (Exhibit 2 to the Registration Statement), officers, directors, employees and agents of the Registrant will not be liable to the Registrant, any stockholder, officer, director, employee, agent or other person for any action or failure to act, except for bad faith, willful misfeasance, gross negligence or reckless disregard of duties, and those individuals may be indemnified against liabilities in connection with the Registrant, subject to the same exceptions. Section 2-418 of Maryland General Corporation Law permits indemnification of directors who acted in good faith and reasonably believed that the conduct was in the best interests of the Registrant. As permitted by Section 17(i) of the 1940 Act, pursuant to Section 10 of the Distribution Agreement (Exhibit 6 to the Registration Statement), the Distributor of the Registrant may be indemnified against liabilities which it may incur, except liabilities arising from bad faith, gross negligence, willful misfeasance or reckless disregard of duties.

Insofar as indemnification for liabilities arising under the Securities Act of 1933 (Securities Act) may be permitted to directors, officers and controlling persons of the Registrant pursuant to the foregoing provisions or otherwise, the Registrant has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the 1940 Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the Registrant of expenses incurred or paid by a director, officer, or controlling person of the Registrant in connection with the successful defense of any action, suit or proceeding) is asserted against the Registrant by such director, officer or controlling person in connection with the shares being registered, the Registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the 1940 Act and will be governed by the final adjudication of such issue.

The Registrant has purchased an insurance policy insuring its officers and directors against liabilities, and certain costs of defending claims against such officers and directors, to the extent such officers and directors are not found to have committed conduct constituting willful misfeasance, bad faith, gross negligence or reckless disregard in the performance of their duties. The insurance policy also insures the Registrant against the cost of indemnification payments to officers and directors under certain circumstances.

Section 9 of the Management Agreement (Exhibit 5(a) to the Registration Statement) and Section 4 of the Subadvisory Agreement (Exhibit 5(b) to the Registration Statement) limit the liability of Prudential Mutual Fund Management, Inc. (PMF) and The Prudential Investment Corporation (PIC), respectively, to liabilities arising from willful misfeasance, bad faith or gross negligence in the performance of their respective duties or from reckless disregard by them of their respective obligations and duties under the agreements.

The Registrant hereby undertakes that it will apply the indemnification provisions of its By-Laws and the Distribution Agreement in a manner consistent with Release No. 11330 of the Securities and Exchange Commission under the 1940 Act so long as the interpretation of Section 17(h) and 17(i) of such Act remain in effect and are consistently applied.

ITEM 28. BUSINESS AND OTHER CONNECTIONS OF INVESTMENT ADVISER.

(a) Prudential Mutual Fund Management, Inc.

See "How the Fund is Managed" in the Prospectus constituting Part A of this Registration Statement and "Manager" in the Statement of Additional Information constituting Part B of this Registration Statement.

The business and other connections of the officers of PMF are listed in Schedules A and D of Form ADV of PMF as currently on file with the Securities and Exchange Commission, the text of which is hereby incorporated by reference (File No. 801-31104, filed on November 13, 1987).

The business and other connections of PMF's directors and principal executive officers are set forth below. Except as otherwise indicated, the address of each person is One Seaport Plaza, New York, NY 10292.

NAME AND ADDRESS	POSITION WITH PMF	PRINCIPAL OCCUPATIONS
Maureen Behning-Doyle	Executive Vice President	Executive Vice President, PMF; Senior Vice President, Prudential Securities Incorporated (Prudential Securities)
John D. Brookmeyer, Jr. Two Gateway Center Newark, NJ 07102	Director	Senior Vice President, PIC; Senior Vice President, The Prudential Insurance Company of America (Prudential)
Susan C. Cote	Senior Vice President	Senior Vice President, PMF; Senior Vice President, Prudential Securities
Fred A. Fiandaca Raritan Plaza One Edison, NJ 08847	Executive Vice President, Chief Operating Officer and Director	Executive Vice President, Chief Operating Officer and Director, PMF; Chairman, Chief Executive Officer and Director, Prudential Mutual Fund Services, Inc.
Stephen P. Fisher	Senior Vice President	Senior Vice President, PMF; Senior Vice President, Prudential Securities
Frank W. Giordano	Executive Vice President, General Counsel and Secretary	Executive Vice President, General Counsel and Secretary, PMF; Executive Vice President, Prudential Securities

NAME AND ADDRESS	POSITION WITH PMF	PRINCIPAL OCCUPATIONS
Robert F. Gunia	Executive Vice President, Chief Administrative Officer, Chief Financial Officer, Treasurer and Director	Executive Vice President, Chief Administrative Officer, Chief Financial Officer, Treasurer and Director, PMF; Senior Vice President, Prudential Securities
Eugene B. Heimberg Prudential Plaza Newark, NJ 07101	Director	Senior Vice President, Prudential
Lawrence C. McQuade	Vice Chairman	Vice Chairman, PMF
Leland B. Paton	Director	Executive Vice President and Director, Prudential Securities; Director, Prudential Securities Group (PSG)
Richard A. Redeker	President, Chief Executive Officer and Director	President, Chief Executive Officer and Director, PMF; Executive Vice President, Director and Member of Operating Committee, Prudential Securities; Director, PSG
S. Jane Rose	Senior Vice President, Senior Counsel and Assistant Secretary	Senior Vice President, Senior Counsel and Assistant Secretary, PMF; Senior Vice President and Senior Counsel, Prudential Securities
Donald G. Southwell 213 Washington Street Newark, NJ 07102	Director	Senior Vice President, Prudential; Director, PSG

(b) Prudential Investment Corporation (PIC)

See "How the Fund is Managed--Subadviser" in the Prospectus constituting Part A of this Registration Statement and "Subadviser" in the Statement of Additional Information constituting Part B of this Registration Statement.

The business and other connections of PIC's directors and executive officers are as set forth below. Except as otherwise indicated, the address of each person is Prudential Plaza, Newark, NJ 07101.

<TABLE>
<CAPTION>

NAME AND ADDRESS	POSITION WITH PIC	PRINCIPAL OCCUPATIONS
<S>	<C>	<C>
Martin A. Berkowitz	Senior Vice President, Chief Financial Officer and Chief Compliance Officer	Senior Vice President, Chief Financial Officer and Chief Compliance Officer, PIC; Vice President, Prudential
William M. Bethke Two Gateway Center Newark, NJ 07102	Senior Vice President	Senior Vice President, Prudential

</TABLE>

<TABLE>
<CAPTION>

NAME AND ADDRESS	POSITION WITH PIC	PRINCIPAL OCCUPATIONS
<S>	<C>	<C>
John D. Brookmeyer, Jr. Two Gateway Center Newark, NJ 07102	Senior Vice President	Senior Vice President, Prudential; Senior Vice President, PIC
Eugene B. Heimberg	Senior Vice President and Director	Senior Vice President, Prudential
Garnett L. Keith, Jr.	President and Director	Vice Chairman and Director, Prudential
William P. Link Four Gateway Center Newark, NJ 07102	Executive Vice President	Executive Vice President, Prudential
Robert E. Riley 500 Boylston Avenue Boston, MA 02109	Executive Vice President	Executive Vice President, Prudential; Director PSG
James W. Stevens Four Gateway Center Newark, NJ 07102	Executive Vice President	Executive Vice President, Prudential; Director, PSG
Robert C. Winters	Director	Chairman of the Board and Chief Executive Officer, Prudential; Chairman of the Board and Director, PSG
Claude J. Zinngrabe, Jr.	Executive Vice President Acquisitions and Sales Group	Vice President, Prudential

</TABLE>

ITEM 29. PRINCIPAL UNDERWRITERS.
(A)(I) PRUDENTIAL SECURITIES INCORPORATED.

Prudential Securities is distributor for Prudential Government Securities Trust (Intermediate Term Series) and for Class B shares of Prudential Adjustable Rate Securities, Inc., The BlackRock Government Income Trust, Prudential California Municipal Fund (California Series and California Income Series), Prudential Equity Fund, Inc., Prudential Equity Income Fund, Prudential FlexiFund, Prudential Global Fund, Inc., Prudential-Bache Global Genesis Fund, Inc. (d/b/a Prudential Global Genesis Fund), Prudential-Bache Global Natural Resources Fund, Inc. (d/b/a Prudential Global Natural Resources Fund), Prudential-Bache GNMA Fund, Inc. (d/b/a Prudential GNMA Fund), Prudential-Bache Government Plus Fund, Inc. (d/b/a Prudential Government Plus Fund), Prudential Growth Fund, Inc., Prudential-Bache Growth Opportunity Fund, Inc. (d/b/a Prudential Growth Opportunity Fund), Prudential-Bache High Yield Fund, Inc. (d/b/a Prudential High Yield Fund), Prudential IncomeVertible (R) Fund, Inc., Prudential Intermediate Global Income Fund, Inc., Prudential Multi-Sector Fund, Inc., Prudential Municipal Bond Fund, Prudential Municipal Series Fund (except Connecticut Money Market Series, Massachusetts Money Market Series, New York Money Market Series, New Jersey Money Market Series and Florida Series), Prudential-Bache National Municipals Fund, Inc. (d/b/a Prudential National Municipals Fund), Prudential Pacific Growth Fund, Inc., Prudential Short-Term Global Income Fund, Inc., Prudential U.S. Government Fund, Prudential-Bache Utility Fund, Inc. (d/b/a Prudential Utility Fund), Global Utility Fund, Inc. and Nicholas-Applegate Fund, Inc. (Nicholas-Applegate Growth Equity Fund) and

The Target Portfolio Trust. Prudential Securities is also a depositor for the following unit investment trusts:

The Corporate Income Fund
Corporate Investment Trust Fund

Equity Income Fund
Government Securities Income Fund
International Bond Fund
Municipal Investment Trust
Prudential Equity Trust Shares
National Equity Trust
Prudential Unit Trusts
Government Securities Equity Trust
National Municipal Trust

(II) PRUDENTIAL MUTUAL FUND DISTRIBUTORS, INC.

Prudential Mutual Fund Distributors, Inc. is distributor for Command Government Fund, Command Money Fund, Command Tax-Free Fund, Prudential California Municipal Fund (California Money Market Series and Class A shares of the California Series and California Income Series), Prudential Government Securities Trust (Money Market Series and U.S. Treasury Money Market Series), Prudential-Bache MoneyMart Assets (d/b/a Prudential MoneyMart Assets), Prudential Municipal Series Fund (Connecticut Money Market Series, Massachusetts Money Market Series, New York Money Market Series and New Jersey Money Market Series), Prudential Institutional Liquidity Portfolio, Inc., Prudential-Bache Special Money Market Fund, Inc. (d/b/a Prudential Special Money Market Fund), Prudential-Bache Structured Maturity Fund, Inc. (d/b/a Prudential Structured Maturity Fund), Prudential-Bache Tax-Free Money Fund, Inc. (d/b/a Prudential Tax-Free Money Fund), and for Class A shares of Prudential Adjustable Rate Securities Fund, Inc., The BlackRock Government Income Trust, Prudential California Municipal Fund (California Series and California Income Series), Prudential Equity Fund, Inc., Prudential Equity Income Fund, Prudential FlexiFund, Prudential Global Fund, Inc., Prudential-Bache Global Genesis Fund, Inc. (d/b/a Prudential Global Genesis Fund), Prudential-Bache Global Natural Resources Fund, Inc. (d/b/a Prudential Global Natural Resources Fund), Prudential-Bache GNMA Fund, Inc. (d/b/a Prudential GNMA Fund), Prudential-Bache Government Plus Fund, Inc. (d/b/a Prudential Government Plus Fund), Prudential Growth Fund, Inc., Prudential-Bache Growth Opportunity Fund, Inc. (d/b/a Prudential Growth Opportunity Fund), Prudential-Bache High Yield Fund, Inc. (d/b/a Prudential High Yield Fund), Prudential IncomeVertible(R) Fund, Inc., Prudential Intermediate Global Income Fund, Inc., Prudential Multi-Sector Fund, Inc., Prudential Municipal Bond Fund, Prudential Municipal Series Fund (Arizona Series, Florida Series, Georgia Series, Maryland Series, Massachusetts Series, Michigan Series, Minnesota Series, New Jersey Series, North Carolina Series, Ohio Series and Pennsylvania Series), Prudential-Bache National Municipals Fund, Inc. (d/b/a Prudential National Municipals Fund), Prudential Pacific Growth Fund, Inc., Prudential Short-Term Global Income Fund, Inc., Prudential U.S. Government Fund and Prudential-Bache Utility Fund, Inc. (d/b/a Prudential Utility Fund), Global Utility Fund, Inc., and Nicholas-Applegate Fund, Inc. (Nicholas-Applegate Growth Equity Fund) and The Target Portfolio Trust.

(b)(i) Information concerning the directors and officers of Prudential Securities Incorporated is set forth below.

<TABLE>
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NAME(1)	POSITIONS AND OFFICES WITH UNDERWRITER	POSITIONS AND OFFICES WITH REGISTRANT
Alan D. Hogan.........	Executive Vice President, Chief Administrative Officer and Director	None

<FN>

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(1) The address of each person named is One Seaport Plaza, New York, NY 10292 unless otherwise indicated.
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<TABLE>

NAME(1)	POSITIONS AND OFFICES WITH UNDERWRITER	POSITIONS AND OFFICES WITH REGISTRANT
Howard A. Knight......	Executive Vice President, Director, Corporate Strategy and New Business Development	None
George A. Murray......	Executive Vice President and Director	None
John P. Murray........	Executive Vice President and Director of Risk Management	None
Leland B. Paton.......	Executive Vice President and Director	None
Richard A. Redeker....	Director	Director
Hardwick Simmons......	Chief Executive Officer, President and Director	None
Lee Spencer...........	Interim General Counsel	None

(ii) Prudential Mutual Fund Distributors, Inc.

NAME(1)	POSITIONS AND OFFICES WITH UNDERWRITER	POSITIONS AND OFFICES WITH REGISTRANT
Joanne Accurso-Soto...	Vice President	None
Dennis Annarumma......	Vice President, Assistant Treasurer and Assistant Comptroller	None
Phyllis J. Berman.....	Vice President	None
Fred A. Fiandaca...... Raritan Plaza One Edison, NJ 08847	President, Chief Executive Officer and Director	None
Stephen P. Fisher.....	Vice President	None
Frank W. Giordano.....	Executive Vice President, General Counsel, Secretary and Director	None
Robert F. Gunia.......	Executive Vice President, Treasurer, Comptroller and Director	Vice President
Andrew J. Varley......	Vice President	None
Anita L. Whelan.......	Vice President and Assistant Secretary	None

(1) The address of each person named is One Seaport Plaza, New York, NY 10292 unless otherwise indicated.

(c) Registrant has no principal underwriter who is not an affiliated person of the Registrant.

ITEM 30. LOCATION OF ACCOUNTS AND RECORDS.

All accounts, books and other documents required to be maintained by Section 31(a) of the 1940 Act and the Rules thereunder are maintained at the offices of State Street Bank and Trust Company, One Heritage Drive, North Quincy, Massachusetts 02171, The Prudential Investment Corporation, Prudential Plaza, 745 Broad Street, Newark, New Jersey, the Registrant, One Seaport Plaza, New York, New York, and Prudential Mutual Fund Services, Inc., Raritan Plaza One, Edison, New Jersey. Documents required by Rules 31a-1(b)(5), (6), (7), (9), (10) and (11) and 31a-1(f) will be kept at Two Gateway Center, documents required by Rules 31a-1(b)(4) and (11) and 31a-1(d) at One Seaport Plaza and the remaining accounts, books and other documents required by such other pertinent provisions of Section 31(a) and the Rules promulgated thereunder will be kept by State Street Bank and Trust Company and Prudential Mutual Fund Services, Inc.

ITEM 31. MANAGEMENT SERVICES.

Other than as set forth under the captions "How the Fund is Managed--Manager" and "How the Fund is Managed--Distributor" in the Prospectus and the captions "Manager" and "Distributor" in the Statement of Additional Information, constituting Parts A and B, respectively, of this Registration Statement, Registrant is not a party to any management-related service contract.

ITEM 32. UNDERTAKINGS.

The Registrant hereby undertakes to furnish each person to whom a Prospectus is delivered with a copy of Registrants' latest annual report to shareholders upon request and without charge.

SIGNATURES

Pursuant to the requirements of the Securities Act of 1933 and the Investment Company Act of 1940, the Registrant certifies that it meets all of the requirements for effectiveness of this Post-Effective Amendment to the Registration Statement pursuant to Rule 485(b) under the Securities Act of 1933 and has duly caused this Post-Effective Amendment to the Registration Statement to be signed on its behalf by the undersigned thereunto duly authorized, in the City of New York, and State of New York, on the 28 day of February, 1994.

PRUDENTIAL-BACHE GNMA FUND, INC.

(doing business as Prudential GNMA Fund)

/s/ Lawrence C. McQuade

(LAWRENCE C. MCQUADE, PRESIDENT)

Pursuant to the requirements of the Securities Act of 1933, this Post-Effective Amendment to the Registration Statement has been signed below by the following persons in the capacities and on the dates indicated.

<TABLE>
<CAPTION>

SIGNATURE	TITLE	DATE
<S>	<C>	<C>
/s/ Lawrence C. McQuade LAWRENCE C. MCQUADE	President and Director	February 28, 1994
/s/ Edward D. Beach EDWARD D. BEACH	Director	February 28, 1994
/s/ Eugene C. Dorsey EUGENE C. DORSEY	Director	February 28, 1994
/s/ Delayne D. Gold DELAYNE D. GOLD	Director	February 28, 1994
/s/ Harry A. Jacobs HARRY A. JACOBS, JR.	Director	February 28, 1994
/s/ Thomas T. Mooney THOMAS T. MOONEY	Director	February 28, 1994
/s/ Thomas H. O'Brien THOMAS H. O'BRIEN	Director	February 28, 1994
/s/ Richard A. Redeker RICHARD A. REDEKER	Director	February 28, 1994
NANCY HAYS TEETERS	Director	
/s/ Susan C. Cote SUSAN C. COTE	Principal Financial and Accounting Officer	February 28, 1994

</TABLE>

EXHIBIT INDEX

1. (a) Articles of Incorporation of Registrant.*

(b) Amendment to Articles of Incorporation.*

(c) Amendment to Articles of Incorporation*

2. (a) By-Laws of the Registrant, as amended.*

(b) Amendment to By-Laws.*

4. (a) Specimen stock certificate for Class B Shares issued by the Registrant.*

(b) Specimen stock certificate for Class A Shares issued by the Registrant.*

(c) Instruments Defining Rights of Shareholders.**

5. (a) Management Agreement between the Registrant and Prudential Mutual Fund Management, Inc.*

(b) Subadvisory Agreement between Prudential Mutual Fund Management, Inc. and The Prudential Investment Corporation.*

6. (a) Distribution Agreement, as amended, between the Registrant and Prudential-Bache Securities Inc.*

(b) Distribution Agreement between the Registrant and Prudential Mutual Fund Distributors, Inc. for Class A Shares.*

(c) Amended and Restated Distribution Agreement between the Registrant and Prudential-Bache Securities Inc. for Class B Shares.*

(d) Selected Dealers Agreement*

(e)_Amended and Restated Distribution Agreement with respect to Class A shares between the Registrant and Prudential Mutual Fund Distributors, Inc.**

(f)_Amended and Restated Distribution Agreement with respect to Class B shares between the Registrant and Prudential Securities Incorporated.**

8. Custodian Agreement between the Registrant and State Street Bank and Trust Company.*

9. Transfer Agency and Service Agreement between the Registrant and Prudential Mutual Fund Services, Inc.*

10. (a) Opinion of Sullivan & Cromwell.*

(b) Opinion of Sullivan & Cromwell.**

11. Consent of Independent Accountants.**

13. Purchase Agreement.*

15. (a) Plan of Distribution.*

(b) Plan of Distribution for Class A shares.*

(c) Amended and Restated Plan of Distribution for Class B shares.*

(d) Distribution and Service Plan between the Registrant (Class A shares) and Prudential Mutual Fund Distributors, Inc.**

(e) Distribution and Service Plan between the Registrant (Class B shares) and Prudential Securities Incorporated.**

16. (a) Schedule of Computation of Performance Quotations for Class B shares.*

(b) Schedule of Computation of Performance Quotations for Class A shares.*

(c) Schedule of Calculation of Aggregate Total Return for Class A and Class B shares.*

Other Exhibits
Power of Attorney for:

Edward D. Beach*
Eugene C. Dorsey*
Delayne D. Gold*
Harry A. Jacobs, Jr.*
Lawrence C. McQuade*
Thomas T. Mooney*
Thomas H. O'Brien*

- --------------
*Previously filed.
**Filed herewith.

INSTRUMENTS DEFINING RIGHTS OF SHAREHOLDERS

The following is a list of the provisions of the Articles of Incorporation, as amended, and By-Laws of Prudential GNMA Fund, setting forth the rights of shareholders.

I. Relevant Provisions of Articles of Incorporation:

ARTICLE V - Common Stock
ARTICLE VII - Miscellaneous
ARTICLE VIII - Amendments

II. Relevant Provisions of By-Laws:

ARTICLE I - Stockholders
ARTICLE IV - Capital Stock
ARTICLE VII - Indemnification
ARTICLE IX - Amendment of By-Laws

PRUDENTIAL GNMA FUND

Distribution Agreement
(CLASS A SHARES)

Agreement, dated as of January 22, 1990 and amended and restated as of July 1, 1993, between Prudential-Bache GNMA Fund, Inc., doing business as Prudential GNMA Fund, a Maryland Corporation (the Fund) and Prudential Mutual Fund Distributors, Inc., a Delaware Corporation (the Distributor).

WITNESSETH

WHEREAS, the Fund is registered under the Investment Company Act of 1940, as amended (the Investment Company Act), as a diversified, open-end, management investment company and it is in the interest of the Fund to offer its Class A shares for sale continuously;

WHEREAS, the Distributor is a broker-dealer registered under the Securities Exchange Act of 1934, as amended, and is engaged in the business of selling shares of registered investment companies either directly or through other broker-dealers;

WHEREAS, the Fund and the Distributor wish to enter into an agreement with each other, with respect to the continuous offering of the Fund's Class A shares from and after the date hereof in order to promote the growth of the Fund and facilitate the distribution of its Class A shares; and

WHEREAS, the Fund has adopted a distribution and service plan pursuant to Rule 12b-1 under the Investment Company Act (the Plan) authorizing payments by the Fund to the Distributor with respect to the distribution of Class A shares of the Fund and the maintenance of Class A shareholder accounts.

NOW, THEREFORE, the parties agree as follows:

Section 1. APPOINTMENT OF THE DISTRIBUTOR

The Fund hereby appoints the Distributor as the principal underwriter and distributor of the Class A shares of the Fund to sell Class A shares to the public and the Distributor hereby accepts such appointment and agrees to act hereunder. The Fund hereby agrees during the term of this Agreement to sell Class A shares of the Fund to the Distributor on the terms and conditions set forth below.

Section 2. EXCLUSIVE NATURE OF DUTIES

The Distributor shall be the exclusive representative of the Fund to act as principal underwriter and distributor of the Fund's Class A shares, except that:

2.1 The exclusive rights granted to the Distributor to purchase Class A shares from the Fund shall not apply to Class A shares of the Fund issued in connection with the merger or consolidation of any other investment company or personal holding company with the Fund or the acquisition by purchase or otherwise of all (or substantially all) the assets or the outstanding shares of any such company by the Fund.

2.2 Such exclusive rights shall not apply to Class A shares issued by the Fund pursuant to reinvestment of dividends or capital gains distributions.

2.3 Such exclusive rights shall not apply to Class A shares issued by the Fund pursuant to the reinstatement privilege afforded redeeming shareholders.

2.4 Such exclusive rights shall not apply to purchases made through the Fund's transfer and dividend disbursing agent in the manner set forth in the currently effective Prospectus of the Fund. The term "Prospectus" shall mean the Prospectus and Statement of Additional Information included as part of the Fund's Registration Statement, as such Prospectus and Statement of Additional Information may be amended or supplemented from time to time, and the term "Registration Statement" shall mean the Registration Statement filed by the Fund with the Securities and Exchange Commission and effective under the Securities Act of 1933, as amended (Securities Act), and the Investment Company Act, as such Registration Statement is amended from time to time.

Section 3. PURCHASE OF CLASS A SHARES FROM THE FUND

3.1 The Distributor shall have the right to buy from the Fund the Class A shares needed, but not more than the Class A shares needed (except for clerical errors in transmission) to fill unconditional orders for Class A shares placed with the Distributor by investors or registered and qualified securities dealers and other financial institutions (selected dealers). The price which the Distributor shall pay for the Class A shares so purchased from the Fund shall be the net asset value, determined as set forth in the Prospectus.

3.2 The Class A shares are to be resold by the Distributor or selected dealers, as described in Section 6.4 hereof, to investors at the offering price as set forth in the Prospectus.

3.3 The Fund shall have the right to suspend the sale of its Class A shares at times when redemption is suspended pursuant to the conditions in Section 4.3 hereof or at such other times as may be determined by the Board of

Directors. The Fund shall also have the right to suspend the sale of its Class A shares if a banking moratorium shall have been declared by federal or New York authorities.

3.4 The Fund, or any agent of the Fund designated in writing by the Fund, shall be promptly advised of all purchase orders for Class A shares received by the Distributor. Any order may be rejected by the Fund; provided, however, that the Fund will not arbitrarily or without reasonable cause refuse to accept or confirm orders for the purchase of Class A shares. The Fund (or its agent) will confirm orders upon their receipt, will make appropriate book entries and upon receipt by the Fund (or its agent) of payment therefor, will deliver deposit receipts for such Class A shares pursuant to the instructions of the Distributor. Payment shall be made to the Fund in New York Clearing House funds or federal funds. The Distributor agrees to cause such payment and such instructions to be delivered promptly to the Fund (or its agent).

Section 4. REPURCHASE OR REDEMPTION OF CLASS A SHARES BY THE FUND

4.1 Any of the outstanding Class A shares may be tendered for redemption at any time, and the Fund agrees to repurchase or redeem the Class A shares so tendered in accordance with its Articles of Incorporation as amended from time to time, and in accordance with the applicable provisions of the Prospectus. The price to be paid to redeem or repurchase the Class A shares shall be equal to the net asset value determined as set forth in the Prospectus. All payments by the Fund hereunder shall be made in the manner set forth in Section 4.2 below.

4.2 The Fund shall pay the total amount of the redemption price as defined in the above paragraph pursuant to the instructions of the Distributor on or before the seventh calendar day subsequent to its having received the notice of redemption in proper form. The proceeds of any redemption of Class A shares shall be paid by the Fund to or for the account of the redeeming shareholder, in each case in accordance with applicable provisions of the Prospectus.

4.3 Redemption of Class A shares or payment may be suspended at times when the New York Stock Exchange is closed for other than customary weekends and holidays, when trading on said Exchange is restricted, when an emergency exists as a result of which disposal by the Fund of securities owned by it is not reasonably practicable or it is not reasonably practicable for the Fund fairly to determine the value of its net assets, or during any other period when the Securities and Exchange Commission, by order, so permits.

Section 5. DUTIES OF THE FUND

5.1 Subject to the possible suspension of the sale of Class A shares as provided herein, the Fund agrees to sell its Class A shares so long as it has Class A shares available.

5.2 The Fund shall furnish the Distributor copies of all information, financial statements and other papers which the Distributor may reasonably request for use in connection with the distribution of Class A shares, and this shall include one certified copy, upon request by the Distributor, of all financial statements prepared for the Fund by independent public accountants. The Fund shall make available to the Distributor such number of copies of its Prospectus and annual and interim reports as the Distributor shall reasonably request.

5.3 The Fund shall take, from time to time, but subject to the necessary approval of the Board of Directors and the shareholders, all necessary action to fix the number of authorized Class A shares and such steps as may be necessary to register the same under the Securities Act, to the end that there will be available for sale such number of Class A shares as the Distributor reasonably may expect to sell. The Fund agrees to file from time to time such amendments, reports and other documents as may be necessary in order that there will be no untrue statement of a material fact in the Registration Statement, or necessary in order that there will be no omission to state a material fact in the Registration Statement which omission would make the statements therein misleading.

5.4 The Fund shall use its best efforts to qualify and maintain the qualification of any appropriate number of its Class A shares for sales under the securities laws of such states as the Distributor and the Fund may approve; provided that the Fund shall not be required to amend its Articles of Incorporation or By-Laws to comply with the laws of any state, to maintain an office in any state, to change the terms of the offering of its Class A shares in any state from the terms set forth in its Registration Statement, to qualify as a foreign corporation in any state or to consent to service of process in any state other than with respect to claims arising out of the offering of its Class A shares. Any such qualification may be withheld, terminated or withdrawn by the Fund at any time in its discretion. As provided in Section 9.1 hereof, the expense of qualification and maintenance of qualification shall be borne by the Fund. The Distributor shall furnish such information and other material relating to its affairs and activities as may be required by the Fund in connection with such qualifications.

Section 6. DUTIES OF THE DISTRIBUTOR

6.1 The Distributor shall devote reasonable time and effort to effect sales of Class A shares of the Fund, but shall not be obligated to sell any specific number of Class A shares. Sales of the Class A shares shall be on the terms described in the Prospectus. The Distributor may enter into like arrangements with other investment companies. The Distributor shall compensate the selected dealers as set forth in the Prospectus.

6.2 In selling the Class A shares, the Distributor shall use its best efforts in all respects duly to conform with the requirements of all federal and state laws relating to the sale of such securities. Neither the Distributor nor any selected dealer nor any other person is authorized by the Fund to give any information or to make any representations, other than those contained in the Registration Statement or Prospectus and any sales literature approved by appropriate officers of the Fund.

6.3 The Distributor shall adopt and follow procedures for the confirmation of sales to investors and selected dealers, the collection of amounts payable by investors and selected dealers on such sales and the cancellation of unsettled transactions, as may be necessary to comply with the requirements of the National Association of Securities Dealers, Inc. (NASD).

6.4 The Distributor shall have the right to enter into selected dealer agreements with registered and qualified securities dealers and other financial institutions of its choice for the sale of Class A shares, provided that the Fund shall approve the forms of such agreements. Within the United States, the Distributor shall offer and sell Class A shares only to such selected dealers as are members in good standing of the NASD. Class A shares sold to selected dealers shall be for resale by such dealers only at the offering price determined as set forth in the Prospectus.

Section 7. PAYMENTS TO THE DISTRIBUTOR

The Distributor shall receive and may retain any portion of any front-end sales charge which is imposed on sales of Class A shares and not reallocated to selected dealers as set forth in the Prospectus, subject to the limitations of Article III, Section 26 of the NASD Rules of Fair Practice. Payment of these amounts to the Distributor is not contingent upon the adoption or continuation of the Plan.

Section 8. REIMBURSEMENT OF THE DISTRIBUTOR UNDER THE PLAN

8.1 The Fund shall reimburse the Distributor for costs incurred by it in performing its duties under the Distribution and Service Plan and this Agreement including amounts paid on a reimbursement basis to Prudential Securities Incorporated (Prudential Securities) and Pruco Securities Corporation (Prusec), affiliates of the Distributor, under the selected dealer agreements between the Distributor and Prudential Securities and Prusec, respectively, amounts paid to other securities dealers or financial institutions under selected dealer agreements between the Distributor and such dealers and institutions and amounts paid for personal service and/or the maintenance of shareholder accounts.

Amounts reimbursable under the Plan shall be accrued daily and paid monthly or at such other intervals as the Board of Directors may determine but shall not be paid at a rate that exceeds .30 of 1%, which amount includes a service fee of up to .25 of 1%, per annum of the average daily net assets of the Class A shares of the Fund. Payment of the distribution and service fee shall be subject to the limitations of Article III, Section 26 of the NASD Rules of Fair Practice.

8.2 So long as the Plan or any amendment thereto is in effect, the Distributor shall inform the Board of Directors of the commissions and account servicing fees to be paid by the Distributor to account executives of the Distributor and to broker-dealers and financial institutions which have dealer agreements with the Distributor. So long as the Plan (or any amendment thereto) is in effect, at the request of the Board of Directors or any agent or representative of the Fund, the Distributor shall provide such additional information as may reasonably be requested concerning the activities of the Distributor hereunder and the costs incurred in performing such activities.

8.3 Costs of the Distributor subject to reimbursement hereunder are costs of performing distribution activities with respect to the Class A shares of the Fund and may include, among others:

(a) amounts paid to Prudential Securities in reimbursement of costs incurred by Prudential Securities in performing services under a selected dealer agreement between Prudential Securities and the Distributor for sale of Class A shares of the Fund, including sales commissions and trailer commissions paid to, or on account of, account executives and indirect and overhead costs associated with distribution activities, including central office and branch expenses;

(b) amounts paid to Prusec in reimbursement of costs incurred by Prusec in performing services under a selected dealer agreement between Prusec and the Distributor for sale of Class A shares of the Fund, including sales commissions and trailer commissions paid to, or on account of, agents and indirect and overhead costs associated with distribution activities;

(c) sales commissions and trailer commissions paid to, or on account of, broker-dealers and financial institutions (other than Prudential Securities and Prusec) which have entered into selected dealer agreements with the

Distributor with respect to Class A shares of the Fund;

(d) amounts paid to, or an account of, account executives of Prudential Securities, Prusec, or of other broker-dealers or financial institutions for personal service and/or the maintenance of shareholder accounts; and

(e) advertising for the Fund in various forms through any available medium, including the cost of printing and mailing Fund Prospectuses, and periodic financial reports and sales literature to persons other than current shareholders of the Fund.

Indirect and overhead costs referred to in clauses (a) and (b) of the foregoing sentence include (i) lease expenses, (ii) salaries and benefits of personnel including operations and sales support personnel, (iii) utility expenses, (iv) communications expenses, (v) sales promotion expenses, (vi) expenses of postage, stationery and supplies and (vii) general overhead.

Section 9. ALLOCATION OF EXPENSES

9.1 The Fund shall bear all costs and expenses of the continuous offering of its Class A shares, including fees and disbursements of its counsel and auditors, in connection with the preparation and filing of any required Registration Statements and/or Prospectuses under the Investment Company Act or the Securities Act, and preparing and mailing annual and periodic reports and proxy materials to shareholders (including but not limited to the expense of setting in type any such Registration Statements, Prospectuses, annual or periodic reports or proxy materials). The Fund shall also bear the cost of expenses of qualification of the Class A shares for sale, and, if necessary or advisable in connection therewith, of qualifying the Fund as a broker or dealer, in such states of the United States or other jurisdictions as shall be selected by the Fund and the Distributor pursuant to Section 5.4 hereof and the cost and expense payable to each such state for continuing qualification therein until the Fund decides to discontinue such qualification pursuant to Section 5.4 hereof. As set forth in Section 8 above, the Fund shall also bear the expenses it assumes pursuant to the Plan with respect to Class A shares, so long as the Plan is in effect.

9.2 If the Plan is terminated or discontinued, the costs previously incurred by the Distributor in performing the duties set forth in Section 6 hereof shall be borne by the Distributor and will not be subject to reimbursement by the Fund.

Section 10. INDEMNIFICATION

10.1 The Fund agrees to indemnify, defend and hold the Distributor, its officers and directors and any person who controls the Distributor within the meaning of Section 15 of the Securities Act, free and harmless from and against any and all claims, demands, liabilities and expenses (including the cost of investigating or defending such claims, demands or liabilities and any counsel fees incurred in connection therewith) which the Distributor, its officers, directors or any such controlling person may incur under the Securities Act, or under common law or otherwise, arising out of or based upon any untrue statement of a material fact contained in the Registration Statement or Prospectus or arising out of or based upon any alleged omission to state a material fact required to be stated in either thereof or necessary to make the statements in either thereof not misleading, except insofar as such claims, demands, liabilities or expenses arise out of or are based upon any such untrue statement or omission or alleged untrue statement or omission made in reliance upon and in conformity with information furnished in writing by the Distributor to the Fund for use in the Registration Statement or Prospectus; provided, however, that this indemnity agreement shall not inure to the benefit of any such officer, director, trustee or controlling person unless a court of competent jurisdiction shall determine in a final decision on the merits, that the person to be indemnified was not liable by reason of willful misfeasance, bad faith or gross negligence in the performance of its duties, or by reason of its reckless disregard of its obligations under this Agreement (disabling conduct), or, in the absence of such a decision, a reasonable determination, based upon a review of the facts, that the indemnified person was not liable by reason of disabling conduct, by (a) a vote of a majority of a quorum of directors or trustees who are neither "interested persons" of the Fund as defined in Section 2(a)(19) of the Investment Company Act nor parties to the proceeding, or (b) an independent legal counsel in a written opinion. The Fund's agreement to indemnify the Distributor, its officers and directors or trustees and any such controlling person as aforesaid is expressly conditioned upon the Fund's being promptly notified of any action brought against the Distributor, its officers or directors or trustees, or any such controlling person, such notification to be given by letter or telegram addressed to the Fund at its principal business office. The Fund agrees promptly to notify the Distributor of the commencement of any litigation or proceedings against it or any of its officers or directors in connection with the issue and sale of any Class A shares.

10.2 The Distributor agrees to indemnify, defend and hold the Fund, its officers and Directors and any person who controls the Fund, if any, within the meaning of Section 15 of the Securities Act, free and harmless from and against any and all claims, demands, liabilities and expenses (including the cost of investigating or defending against such claims, demands or liabilities and any counsel fees incurred in connection therewith)

which the Fund, its officers and Directors or any such controlling person may incur under the Securities Act or under common law or otherwise, but only to the extent that such liability or expense incurred by the Fund, its Directors or officers or such controlling person resulting from such claims or demands shall arise out of or be based upon any alleged untrue statement of a material fact contained in information furnished in writing by the Distributor to the Fund for use in the Registration Statement or Prospectus or shall arise out of or be based upon any alleged omission to state a material fact in connection with such information required to be stated in the Registration Statement or Prospectus or necessary to make such information not misleading. The Distributor's agreement to indemnify the Fund, its officers and Directors and any such controlling person as aforesaid, is expressly conditioned upon the Distributor's being promptly notified of any action brought against the Fund, its officers and Directors or any such controlling person, such notification being given to the Distributor at its principal business office.

Section 11. DURATION AND TERMINATION OF THIS AGREEMENT

11.1 This Agreement shall become effective as of the date first above written and shall remain in force for two years from the date hereof and thereafter, but only so long as such continuance is specifically approved at least annually by (a) the Board of Directors of the Fund, or by the vote of a majority of the outstanding voting securities of the Class A shares of the Fund, and (b) by the vote of a majority of those Directors who are not parties to this Agreement or interested persons of any such parties and who have no direct or indirect financial interest in this Agreement or in the operation of the Fund's Plan or in any agreement related thereto (Rule 12b-1 Directors), cast in person at a meeting called for the purpose of voting upon such approval.

11.2 This Agreement may be terminated at any time, without the payment of any penalty, by a majority of the Rule 12b-1 Directors or by vote of a majority of the outstanding voting securities of the Class A shares of the Fund, or by the Distributor, on sixty (60) days' written notice to the other party. This Agreement shall automatically terminate in the event of its assignment.

11.3 The terms "affiliated person," "assignment," "interested person" and "vote of a majority of the outstanding voting securities", when used in this Agreement, shall have the respective meanings specified in the Investment Company Act.

Section 12. AMENDMENTS TO THIS AGREEMENT

This Agreement may be amended by the parties only if such amendment is specifically approved by (a) the Board of Directors of the Fund, or by the vote of a majority of the outstanding voting securities of the Class A shares of the Fund, and (b) by the vote of a majority of the Rule 12b-1 Directors cast in person at a meeting called for the purpose of voting on such amendment.

Section 13. GOVERNING LAW

The provisions of this Agreement shall be construed and interpreted in accordance with the laws of the State of New York as at the time in effect and the applicable provisions of the Investment Company Act. To the extent that the applicable law of the State of New York, or any of the provisions herein, conflict with the applicable provisions of the Investment Company Act, the latter shall control.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the day and year above written.

Prudential Mutual Fund
Distributors, Inc.

By: /s/ Robert F. Gunia
____
Robert F. Gunia
Executive Vice President,
Treasurer, Comptroller

Prudential GNMA Fund

By: /s/ Lawrence C. McQuade
____
Lawrence C. McQuade
President

PRUDENTIAL GNMA FUND

Distribution Agreement
(CLASS B SHARES)

Agreement, dated January 22, 1990 and amended and restated as of July 1, 1993, between Prudential-Bache GNMA Fund, Inc., doing business as Prudential GNMA Fund, a Maryland Corporation (the Fund) and Prudential Securities Incorporated, a Delaware Corporation (the Distributor).

WITNESSETH

WHEREAS, the Fund is registered under the Investment Company Act of 1940, as amended (the Investment Company Act), as a diversified, open-end, management investment company and it is in the interest of the Fund to offer its Class B shares for sale continuously;

WHEREAS, the Distributor is a broker-dealer registered under the Securities Exchange Act of 1934, as amended, and is engaged in the business of selling shares of registered investment companies either directly or through other broker-dealers;

WHEREAS, the Fund and the Distributor wish to enter into an agreement with each other, with respect to the continuous offering of the Fund's Class B shares from and after the date hereof in order to promote the growth of the Fund and facilitate the distribution of its Class B shares; and

WHEREAS, the Fund has adopted a distribution and service plan pursuant to Rule 12b-1 under the Investment Company Act (the Plan) authorizing payments by the Fund to the Distributor with respect to the distribution of Class B shares of the Fund and the maintenance of Class B shareholder accounts.

NOW, THEREFORE, the parties agree as follows:

Section 1. APPOINTMENT OF THE DISTRIBUTOR

The Fund hereby appoints the Distributor as the principal underwriter and distributor of the Class B shares of the Fund to sell Class B shares to the public and the Distributor hereby accepts such appointment and agrees to act hereunder. The Fund hereby agrees during the term of this Agreement to sell Class B shares of the Fund to the Distributor on the terms and conditions set forth below.

Section 2. EXCLUSIVE NATURE OF DUTIES

The Distributor shall be the exclusive representative of the Fund to act as principal underwriter and distributor of the Fund's Class B shares, except that:

2.1 The exclusive rights granted to the Distributor to purchase Class B shares from the Fund shall not apply to Class B shares of the Fund issued in connection with the merger or consolidation of any other investment company or personal holding company with the Fund or the acquisition by purchase or otherwise of all (or substantially all) the assets or the outstanding shares of any such company by the Fund.

2.2 Such exclusive rights shall not apply to Class B shares issued by the Fund pursuant to reinvestment of dividends or capital gains distributions.

2.3 Such exclusive rights shall not apply to Class B shares issued by the Fund pursuant to the reinstatement privilege afforded redeeming shareholders.

2.4 Such exclusive rights shall not apply to purchases made through the Fund's transfer and dividend disbursing agent in the manner set forth in the currently effective Prospectus of the Fund. The term "Prospectus" shall mean the Prospectus and Statement of Additional Information included as part of the Fund's Registration Statement, as such Prospectus and Statement of Additional Information may be amended or supplemented from time to time, and the term "Registration Statement" shall mean the Registration Statement filed by the Fund with the Securities and Exchange Commission and effective under the Securities Act of 1933, as amended (the Securities Act), and the Investment Company Act, as such Registration Statement is amended from time to time.

Section 3. PURCHASE OF CLASS B SHARES FROM THE FUND

3.1 The Distributor shall have the right to buy from the Fund the Class B shares needed, but not more than the Class B shares needed (except for clerical errors in transmission) to fill unconditional orders for Class B shares placed with the Distributor by investors or registered and qualified securities dealers and other financial institutions (selected dealers). The price which the Distributor shall pay for the Class B shares so purchased from the Fund shall be the net asset value, determined as set forth in the Prospectus.

3.2 The Class B shares are to be resold by the Distributor or selected dealers, as described in Section 6.4 hereof, to investors at the offering price as set forth in the Prospectus.

3.3 The Fund shall have the right to suspend the sale of its Class B shares at times when redemption is suspended pursuant to the conditions in

Section 4.3 hereof or at such other times as may be determined by the Board of Directors. The Fund shall also have the right to suspend the sale of its Class B shares if a banking moratorium shall have been declared by federal or New York authorities.

3.4 The Fund, or any agent of the Fund designated in writing by the Fund, shall be promptly advised of all purchase orders for Class B shares received by the Distributor. Any order may be rejected by the Fund; provided, however, that the Fund will not arbitrarily or without reasonable cause refuse to accept or confirm orders for the purchase of Class B shares. The Fund (or its agent) will confirm orders upon their receipt, will make appropriate book entries and upon receipt by the Fund (or its agent) of payment therefor, will deliver deposit receipts for such Class B shares pursuant to the instructions of the Distributor. Payment shall be made to the Fund in New York Clearing House funds or federal funds. The Distributor agrees to cause such payment and such instructions to be delivered promptly to the Fund (or its agent).

Section 4. REPURCHASE OR REDEMPTION OF CLASS B SHARES BY THE FUND

4.1 Any of the outstanding Class B shares may be tendered for redemption at any time, and the Fund agrees to repurchase or redeem the Class B shares so tendered in accordance with its Articles of Incorporation as amended from time to time, and in accordance with the applicable provisions of the Prospectus. The price to be paid to redeem or repurchase the Class B shares shall be equal to the net asset value determined as set forth in the Prospectus. All payments by the Fund hereunder shall be made in the manner set forth in Section 4.2 below.

4.2 The Fund shall pay the total amount of the redemption price as defined in the above paragraph pursuant to the instructions of the Distributor on or before the seventh day subsequent to its having received the notice of redemption in proper form. The proceeds of any redemption of Class B shares shall be paid by the Fund as follows: (a) any applicable contingent deferred sales charge shall be paid to the Distributor and (b) the balance shall be paid to or for the account of the redeeming shareholder, in each case in accordance with applicable provisions of the Prospectus.

4.3 Redemption of Class B shares or payment may be suspended at times when the New York Stock Exchange is closed for other than customary weekends and holidays, when trading on said Exchange is restricted, when an emergency exists as a result of which disposal by the Fund of securities owned by it is not reasonably practicable

or it is not reasonably practicable for the Fund fairly to determine the value of its net assets, or during any other period when the Securities and Exchange Commission, by order, so permits.

Section 5. DUTIES OF THE FUND

5.1 Subject to the possible suspension of the sale of Class B shares as provided herein, the Fund agrees to sell its Class B shares so long as it has Class B shares available.

5.2 The Fund shall furnish the Distributor copies of all information, financial statements and other papers which the Distributor may reasonably request for use in connection with the distribution of Class B shares, and this shall include one certified copy, upon request by the Distributor, of all financial statements prepared for the Fund by independent public accountants. The Fund shall make available to the Distributor such number of copies of its Prospectus and annual and interim reports as the Distributor shall reasonably request.

5.3 The Fund shall take, from time to time, but subject to the necessary approval of the Board of Directors and the shareholders, all necessary action to fix the number of authorized Class B shares and such steps as may be necessary to register the same under the Securities Act, to the end that there will be available for sale such number of Class B shares as the Distributor reasonably may expect to sell. The Fund agrees to file from time to time such amendments, reports and other documents as may be necessary in order that there will be no untrue statement of a material fact in the Registration Statement, or necessary in order that there will be no omission to state a material fact in the Registration Statement which omission would make the statements therein misleading.

5.4 The Fund shall use its best efforts to qualify and maintain the qualification of any appropriate number of its Class B shares for sales under the securities laws of such states as the Distributor and the Fund may approve; provided that the Fund shall not be required to amend its Articles of Incorporation or By-Laws to comply with the laws of any state, to maintain an office in any state, to change the terms of the offering of its Class B shares in any state from the terms set forth in its Registration Statement, to qualify as a foreign corporation in any state or to consent to service of process in any state other than with respect to claims arising out of the offering of its Class B shares. Any such qualification may be withheld, terminated or withdrawn by the Fund at any time in its discretion. As provided in Section 9.1 hereof, the expense of qualification and maintenance of qualification shall be borne by the Fund. The Distributor shall furnish such information and other material relating to its affairs and activities as may be required by the Fund in connection with such qualifications.

Section 6. DUTIES OF THE DISTRIBUTOR

6.1 The Distributor shall devote reasonable time and effort to effect sales of Class B shares of the Fund, but shall not be obligated to sell any specific number of Class B shares. Sales of the Class B shares shall be on the terms described in the Prospectus. The Distributor may enter into like arrangements with other investment companies. The Distributor shall compensate the selected dealers as set forth in the Prospectus.

6.2 In selling the Class B shares, the Distributor shall use its best efforts in all respects duly to conform with the requirements of all federal and state laws relating to the sale of such securities. Neither the Distributor nor any selected dealer nor any other person is authorized by the Fund to give any information or to make any representations, other than those contained in the Registration Statement or Prospectus and any sales literature approved by appropriate officers of the Fund.

6.3 The Distributor shall adopt and follow procedures for the confirmation of sales to investors and selected dealers, the collection of amounts payable by investors and selected dealers on such sales and the cancellation of unsettled transactions, as may be necessary to comply with the requirements of the National Association of Securities Dealers, Inc. (NASD).

6.4 The Distributor shall have the right to enter into selected dealer agreements with registered and qualified securities dealers and other financial institutions of its choice for the sale of Class B shares, provided that the Fund shall approve the forms of such agreements. Within the United States, the Distributor shall offer and sell Class B shares only to such selected dealers as are members in good standing of the NASD. Class B shares sold to selected dealers shall be for resale by such dealers only at the offering price determined as set forth in the Prospectus.

Section 7. PAYMENTS TO THE DISTRIBUTOR

The Distributor shall receive and may retain any contingent deferred sales charge which is imposed with respect to repurchases and redemptions of Class B shares as set forth in the Prospectus, subject to the limitations of Article III, Section 26 of the NASD Rules of Fair Practice. Payment of these amounts to the Distributor is not contingent upon the adoption or continuation of the Plan.

Section 8. REIMBURSEMENT OF THE DISTRIBUTOR UNDER THE PLAN

8.1 The Fund shall reimburse the Distributor for all costs incurred by it in performing its duties under the Distribution and Service Plan and this Agreement including amounts paid on a reimbursement basis to Pruco Securities Corporation (Prusec), an affiliate of the Distributor, under the selected dealer agreement between the Distributor and Prusec, amounts paid to other securities dealers or financial institutions under selected dealer agreements between the Distributor and such dealers and institutions and amounts paid for personal service and/or the maintenance of shareholder accounts. Reimbursement shall only be made to the extent that payments by investors pursuant to Section 7 hereof are not sufficient to cover such costs. Amounts reimbursable under the Plan shall be accrued daily and paid monthly or at such other intervals as the Board of Directors may determine but shall not be paid at a rate that exceeds .75 of 1% including an asset-based sales charge of up to .75 of 1% and a service fee of up to .25 of 1% per annum of the average daily net assets of the Class B shares of the Fund. Amounts reimbursable under the Plan that are not paid because they exceed .75 of 1% per annum of the average daily net assets of the Class B shares (Carry Forward Amounts) shall be carried forward and paid by the Fund as permitted within such payment limitation so long as the Plan, including any amendments thereto, is in effect, subject to the limitations of Article III, Section 26 of the NASD Rules of Fair Practice.

8.2 So long as the Plan or any amendment thereto is in effect, the Distributor shall inform the Board of Directors of the commissions (including trailer commissions) and account servicing fees to be paid by the Distributor to account executives of the Distributor and to broker-dealers and financial institutions which have selected dealer agreements with the Distributor. So long as the Plan (or any amendment thereto) is in effect, at the request of the Board of Directors or any agent or representative of the Fund, the Distributor shall provide such additional information as may reasonably be requested concerning the activities of the Distributor hereunder and the costs incurred in performing such activities.

8.3 Costs of the Distributor subject to reimbursement hereunder are all costs of performing distribution activities with respect to the Class B shares of the Fund and include, among others:

(a) sales commissions (including trailer commissions) paid to, or on account of, account executives of the Distributor;

(b) indirect and overhead costs of the Distributor associated with performance of distribution activities, including central office and branch expenses;

(c) amounts paid to Prusec in reimbursement of all costs incurred by Prusec in performing services under a selected dealer agreement between Prusec and the Distributor for sale of Class B shares of the Fund, including sales commissions and trailer commissions paid to, or on account of, agents and indirect and overhead costs associated with distribution activities;

(d) sales commissions (including trailer commissions) paid to, or on account of, broker-dealers and financial institutions (other than Prusec) which have entered into selected dealer agreements with the Distributor with respect to Class B shares of the Fund;

(e) amounts paid to, or an account of, account executives of the Distributor or of other broker-dealers or financial institutions for personal service and/or the maintenance of shareholder accounts;

(f) advertising for the Fund in various forms through any available medium, including the cost of printing and mailing Fund Prospectuses, and periodic financial reports and sales literature to persons other than current shareholders of the Fund;

(g) to the extent permitted by applicable law, interest on unreimbursed Carry Forward Amounts as defined in Section 8.1 at a rate equal to that paid by Prudential Securities for bank borrowings as such rate may vary from day to day, not to exceed that permitted under Article III, Section 26, of the NASD Rules of Fair Practice; and

(h) to the extent permitted by applicable law, unreimbursed distribution expenses incurred with respect to the sale of Class B shares that have been exchanged into the Fund.

Indirect and overhead costs referred to in clauses (b) and (c) of the foregoing sentence include (i) lease expenses, (ii) salaries and benefits of personnel including operations and sales support personnel, (iii) utility expenses, (iv) communications expenses, (v) sales promotion expenses, (vi) expenses of postage, stationery and supplies and (vii) general overhead.

Section 9. ALLOCATION OF EXPENSES

9.1 The Fund shall bear all costs and expenses of the continuous offering of its Class B shares, including fees and disbursements of its counsel and auditors, in connection with the preparation and filing of any required Registration Statements and/or Prospectuses under the Investment Company Act or the Securities Act, and preparing and mailing annual and periodic reports and proxy materials to shareholders (including but not limited to the expense of setting in type any such Registration Statements, Prospectuses, annual or periodic reports or proxy materials). The Fund shall also bear the cost of expenses of qualification of the Class B shares for sale, and, if necessary or advisable in connection therewith, of qualifying the Fund as a broker or dealer, in such states of the United States or other jurisdictions as shall be selected by the Fund and the Distributor pursuant to Section 5.4 hereof and the cost and expense payable to each such state for continuing qualification therein until the Fund decides to discontinue such qualification pursuant to Section 5.4 hereof. As set forth in Section 8 above, the Fund shall also bear the expenses it assumes pursuant to the Plan with respect to Class B shares, so long as the Plan is in effect.

9.2 Although the Fund is not liable for unreimbursed distribution expenses, in the event of termination of the Plan, the Board of Directors of the Fund may consider the appropriateness of having the Class B shares of the Fund reimburse the Distributor for the then outstanding balance of all unreimbursed distribution expenses plus interest thereon to the extent permitted by applicable law from the date of this Agreement.

Section 10. INDEMNIFICATION

10.1 The Fund agrees to indemnify, defend and hold the Distributor, its officers and Directors and any person who controls the Distributor within the meaning of Section 15 of the Securities Act, free and harmless from and against any and all claims, demands, liabilities and expenses (including the cost of investigating or defending such claims, demands or liabilities and any counsel fees incurred in connection therewith) which the Distributor, its officers, Directors or any such controlling person may incur under the Securities Act, or under common law or otherwise, arising out of or based upon any untrue statement of a material fact contained in the Registration Statement or Prospectus or arising out of or based upon any alleged omission to state a material fact required to be stated in either thereof or necessary to make the statements in either thereof not misleading, except insofar as such claims, demands, liabilities or expenses arise out of or are based upon any such untrue statement or omission or alleged untrue statement or omission made in reliance upon and in conformity with information furnished in writing by the Distributor to the Fund for use in the Registration Statement or Prospectus; provided, however, that this indemnity agreement shall not inure to the benefit of any such officer, Director or controlling person unless a court of competent jurisdiction shall determine in a final decision on the merits, that the person to be indemnified was not liable by reason of willful misfeasance, bad faith or gross negligence in the performance of its duties, or by reason of its reckless disregard of its obligations under this Agreement (disabling conduct), or, in the absence of such a decision, a reasonable determination, based upon a review of the facts, that the indemnified person was not liable by reason of disabling conduct, by (a) a vote of a majority of a quorum of Directors who are neither "interested persons" of the Fund as defined in Section 2(a)(19) of the Investment Company Act nor parties to the proceeding, or (b) an independent legal counsel in a written opinion. The Fund's agreement to indemnify the Distributor, its officers and Directors and any such controlling person as aforesaid is expressly conditioned upon the Fund's being promptly notified of any action brought against the Distributor, its officers or Directors, or any such controlling person, such notification to be given in writing addressed to the Fund at its principal business office. The Fund agrees promptly to notify the Distributor of the commencement of any litigation or proceedings against it or any of its officers or Directors in connection with the issue and sale of any Class B shares.

10.2 The Distributor agrees to indemnify, defend and hold the Fund, its officers and Directors and any person who controls the Fund, if any, within the meaning of Section 15 of the Securities Act, free and harmless from and against any and all claims, demands, liabilities and expenses (including the cost of investigating or defending against such claims, demands or liabilities and any counsel fees incurred in connection therewith) which the Fund, its officers and Directors or any such controlling person may incur under the Securities Act or under common law or otherwise, but only to the extent that such liability or expense incurred by the Fund, its Directors or officers or such controlling person resulting from such claims or demands shall arise out of or be based upon any alleged untrue statement of a material fact contained in information furnished in writing by the Distributor to the Fund for use in the Registration Statement or Prospectus or shall arise out of or be based upon any alleged omission to state a material fact in connection with such information required to be stated in the Registration Statement or Prospectus or necessary to make such information not misleading. The Distributor's agreement to indemnify the Fund, its officers and Directors and any such controlling person as aforesaid, is expressly conditioned upon the Distributor's being promptly notified of any action brought against the Fund, its officers and Directors or any such controlling person, such notification to be given to the Distributor in writing at its principal business office.

Section 11. DURATION AND TERMINATION OF THIS AGREEMENT

11.1 This Agreement shall become effective as of the date first above written and shall remain in force for two years from the date hereof and thereafter, but only so long as such continuance is specifically approved at least annually by (a) the Board of Directors of the Fund, or by the vote of a majority of the outstanding voting securities of the Class B shares of the Fund, and (b) by the vote of a majority of those Directors who are not parties to this Agreement or interested persons of any such parties and who have no direct or indirect financial interest in this Agreement or in the operation of the Fund's Plan or in any agreement related thereto (Rule 12b-1 Directors), cast in person at a meeting called for the purpose of voting upon such approval.

11.2 This Agreement may be terminated at any time, without the payment of any penalty, by a majority of the Rule 12b-1 Directors or by vote of a majority of the outstanding voting securities of the Class B shares of the Fund, or by the Distributor, on sixty (60) days' written notice to the other party. This Agreement shall automatically terminate in the event of its assignment.

11.3 The terms "affiliated person," "assignment," "interested person" and "vote of a majority of the outstanding voting securities," when used in this Agreement, shall have the respective meanings specified in the Investment Company Act.

Section 12. AMENDMENTS TO THIS AGREEMENT

This Agreement may be amended by the parties only if such amendment is specifically approved by (a) the Board of Directors of the Fund, or by the vote of a majority of the outstanding voting securities of the Class B shares of the Fund, and (b) by the vote of a majority of the Rule 12b-1 Board of Directors cast in person at a meeting called for the purpose of voting on such amendment.

Section 13. GOVERNING LAW

The provisions of this Agreement shall be construed and interpreted in accordance with the laws of the State of New York as at the time in effect and the applicable provisions of the Investment Company Act. To the extent that the applicable law of the State of New York, or any of the provisions herein, conflict with the applicable provisions of the Investment Company Act, the latter shall control.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the day and year above written.

Prudential Securities
Incorporated

By: /s/ Robert F. Gunia
____
Robert F. Gunia
Executive Vice President,
Treasurer, Comptroller

Prudential GNMA Fund

By: /s/ Lawrence C. McQuade
____
Lawrence C. McQuade
President

Exhibit 10(B)

SULLIVAN & CROMWELL

NEW YORK TELEPHONE: (212) 558-4000
TELEX: 62694 (INTERNATIONAL) 127816 (DOMESTIC)
CABLE ADDRESS: LADYCOURT, NEW YORK
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125 BROAD STREET, NEW YORK 10004-2498

250 PARK AVENUE, NEW YORK 10177-0021
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44 SOUTH FLOWER STREET, LOS ANGELES 90071-2901
8, PLACE VENDOME, 75001 PARIS
ST. OLAVE'S HOUSE, 9a IRONMONGER LANE, LONDON EC2V 8EY
101 COLLINS STREET, MELBOURNE 3000
2-1, MARUNOUCHI I-CHOME, CHIYODA-KU, TOKYO 100
GLOUCESTER TOWER, 11 PEDDER STREET, HONG KONG

February 24, 1994

Prudential-Bache GNMA Fund, Inc.,
One Seaport Plaza,
New York, New York 10292.

Dear Sirs:

You have requested our opinion in connection with your filing of Post-Effective Amendment No.17 to the Registration Statement on Form N-1A under the Securities Act of 1933 and your registration in connection therewith of 695,593 shares of your Common Stock, $.01 par value (the "Shares") pursuant to Rule 24e-2 under the Investment Company Act of 1940.

As your counsel, we are familiar with your organization and corporate status and the validity of your Common Stock.

We advise you that, in our opinion, the Shares, when duly issued and sold, for not less than the par value thereof, will be duly authorized and validly issued, fully paid and nonassessable.

The foregoing opinion is limited to the Federal laws of the United States and the General Corporation Laws of the State of Maryland, and we are expressing no opinion as to the effect by the laws of any other jurisdiction.

We have relied as to certain matters on information obtained from public officials, your officers and other sources believed by us to be responsible.

We consent to the filing of this opinion with the Securities and Exchange Commission in connection with the notice referred to above. In giving such consent, we do not thereby admit that we come within the category of persons whose consent is required under Section 7 of the Securities Act of 1933.

Very truly yours,

/s/ Sullivan & Cromwell

Sullivan & Cromwell

CONSENT OF INDEPENDENT ACCOUNTANTS

We hereby consent to the use in the Statement of Additional Information constituting part of this Post-Effective Amendment No. 17 to the registration statement on Form N-1A (the "Registration Statement") of our report dated February 9, 1994, relating to the financial statements and financial highlights of Prudential GNMA Fund, which appears in such Statement of Additional Information, and to the incorporation by reference of our report into the Prospectus which constitutes part of this Registration Statement. We also consent to the reference to us under the heading "Custodian, Transfer and Dividend Disbursing Agent and Independent Accountants" in such Statement of Additional Information and to the reference to us under the heading "Financial Highlights" in such Prospectus.

/s/ Price Waterhouse
PRICE WATERHOUSE

1177 Avenue of the Americas
New York, NY 10036
February 24, 1994

PRUDENTIAL GNMA FUND

Distribution and Service Plan
(CLASS A SHARES)

INTRODUCTION

The Distribution and Service Plan (the Plan) set forth below which is designed to conform to the requirements of Rule 12b-1 under the Investment Company Act of 1940 (the Investment Company Act) and Article III, Section 26 of the Rules of Fair Practice of the National Association of Securities Dealers, Inc. (NASD) has been adopted by Prudential-Bache GNMA Fund, Inc., doing business as Prudential GNMA Fund, (the Fund) and by Prudential Mutual Fund Distributors, Inc., the Fund's distributor (the Distributor).

The Fund has entered into a distribution agreement (the Distribution Agreement) pursuant to which the Fund will employ the Distributor to distribute Class A shares issued by the Fund (Class A shares). Under the Distribution Agreement, the Distributor will be entitled to receive payments from investors of front-end sales charges with respect to the sale of Class A shares. Under the Plan, the Fund intends to reimburse the Distributor for costs incurred by the Distributor in distributing Class A shares of the Fund and to pay the Distributor a service fee for the maintenance of Class A shareholder accounts.

A majority of the Board of Directors of the Fund, including a majority of those Directors who are not "interested persons" of the Fund (as defined in the Investment Company Act) and who have no direct or indirect financial interest in the operation of this Plan or any agreements related to it (the Rule 12b-1 Directors), have determined by votes cast in person at a meeting called for the purpose of voting on this Plan that there is a reasonable likelihood that adoption of this Plan will benefit the Fund and its shareholders. Expenditures under this Plan by the Fund for Distribution Activities (defined below) are primarily intended to result in the sale of Class A shares of the Fund within the meaning of paragraph (a)(2) of Rule 12b-1 promulgated under the Investment Company Act.

The purpose of the Plan is to create incentives to the Distributor and/or other qualified broker-dealers and their account executives to provide distribution assistance to their customers who are investors in the Fund, to defray the costs and expenses associated with the preparation, printing and distribution of prospectuses and sales literature and other promotional and distribution activities and to provide for the servicing and maintenance of shareholder accounts.

THE PLAN

The material aspects of the Plan are as follows:

1. DISTRIBUTION ACTIVITIES

The Fund shall engage the Distributor to distribute Class A shares of the Fund and to service shareholder accounts using all of the facilities of the distribution networks of Prudential Securities Incorporated (Prudential Securities) and Pruco Securities Corporation (Prusec), including sales personnel and branch office and central support systems, and also using such

other qualified broker-dealers and financial institutions as the Distributor may select. Services provided and activities undertaken to distribute Class A shares of the Fund are referred to herein as "Distribution Activities."

2. PAYMENT OF SERVICE FEE

The Fund shall reimburse the Distributor for costs incurred by it in providing personal service and/or maintaining shareholder accounts at a rate not to exceed .25 of 1% per annum of the average daily net assets of the Class A shares (service fee). The Fund shall calculate and accrue daily amounts reimbursable by the Class A shares of the Fund hereunder and shall pay such amounts monthly or at such other intervals as the Board of Directors may determine. Costs of the Distributor subject to reimbursement hereunder include account servicing fees and indirect and overhead costs associated with providing personal service and/or maintaining shareholder accounts.

3. PAYMENT FOR DISTRIBUTION ACTIVITIES

The Fund shall reimburse the Distributor for costs incurred by it in performing Distribution Activities at a rate which, together with the service fee (described in Section 2 hereof), shall not exceed .30% per annum of the average daily net assets of the Class A shares of the Fund. The Fund shall calculate and accrue daily amounts reimbursable by the Class A shares of the Fund hereunder and shall pay such amounts monthly or at such other intervals as the Board of Directors may determine.

Amounts paid to the Distributor by the Class A shares of the Fund will not be used to pay the distribution expenses incurred with respect to the Class B shares of the Fund except that distribution expenses attributable to the Fund as a whole will be allocated to the Class A shares according to the ratio of the sales of Class A shares to the total sales of the Fund's shares over the Fund's fiscal year or such other allocation method approved by the Board of Directors. The allocation of distribution expenses among Classes will be subject to the review of the Board of Directors. Payments hereunder will be applied to distribution expenses in the order in which they are incurred, unless otherwise determined by the Board of Directors.

Costs of the Distributor subject to reimbursement hereunder are costs of performing Distribution Activities and may include, among others:

(a) amounts paid to Prudential Securities in reimbursement of costs incurred by Prudential Securities in performing services under a selected dealer agreement between Prudential Securities and the Distributor for sale of Class A shares of the Fund, including sales commissions and trailer commissions paid to, or on account of, account executives and indirect and overhead costs associated with Distribution Activities, including central office and branch expenses;

(b) amounts paid to Prusec in reimbursement of costs incurred by Prusec in performing services under a selected dealer agreement between Prusec and the Distributor for sale of Class A shares of the Fund, including sales commissions and trailer commissions paid to, or on account of, agents and indirect and overhead costs associated with Distribution Activities;

(c) advertising for the Fund in various forms through any available medium, including the cost of printing and mailing Fund prospectuses, statements of additional information and periodic financial reports and sales literature to persons other than current shareholders of the Fund; and

(d) sales commissions (including trailer commissions) paid to, or on account of, broker-dealers and financial institutions (other than Prudential Securities and Prusec) which have entered into selected dealer agreements with the Distributor with respect to shares of the Fund.

4. QUARTERLY REPORTS; ADDITIONAL INFORMATION

An appropriate officer of the Fund will provide to the Board of Directors of the Fund for review, at least quarterly, a written report specifying in reasonable detail the amounts expended for Distribution Activities (including payment of the service fee) and the purposes for which such expenditures were made in compliance with the requirements of Rule 12b-1. The Distributor will provide to the Board of Directors of the Fund such additional information as the Board shall from time to time reasonably request, including information about Distribution Activities undertaken or to be undertaken by the Distributor.

The Distributor will inform the Board of Directors of the Fund of the commissions and account servicing fees to be paid by the Distributor to account executives of the Distributor and to broker-dealers and financial institutions which have selected dealer agreements with the Distributor.

5. EFFECTIVENESS; CONTINUATION

The Plan shall not take effect until it has been approved by a vote of a majority of the outstanding voting securities (as defined in the Investment Company Act) of the Class A shares of the Fund.

If approved by a vote of a majority of the outstanding voting securities of the Class A shares of the Fund, the Plan shall, unless earlier terminated in accordance with its terms, continue in full force and effect thereafter for so long as such continuance is specifically approved at least annually by a majority of the Board of Directors of the Fund and a majority of the Rule 12b-1 Directors by votes cast in person at a meeting called for the purpose of voting on the continuation of the Plan.

6. TERMINATION

This Plan may be terminated at any time by vote of a majority of the Rule 12b-1 Directors, or by vote of a majority of the outstanding voting securities (as defined in the Investment Company Act) of the Class A shares of the Fund.

7. AMENDMENTS

The Plan may not be amended to change the distribution expenses to be paid as provided for in Section 3 hereof so as to increase materially the amounts payable under this Plan unless such amendment shall be approved by the vote of a majority of the outstanding voting securities (as defined in the Investment Company Act) of the Class A shares of the Fund. All material amendments of the Plan, including the addition or deletion of categories of expenditures which are reimbursable hereunder, shall be approved by a majority of the Board of Directors of the Fund and a majority of the Rule 12b-1 Directors by votes cast in person at a meeting called for the purpose of voting on the Plan.

8. NON-INTERESTED DIRECTORS

While the Plan is in effect, the selection and nomination of the Directors who are not "interested persons" of the Fund (non-interested Directors) shall be committed to the discretion of the non-interested Directors.

9. RECORDS

The Fund shall preserve copies of the Plan and any related agreements and all reports made pursuant to Section 4 hereof, for a period of not less than six years from the date of effectiveness of the Plan, such agreements or reports, and for at least the first two years in an easily accessible place.

Dated as of January 22, 1990 and
amended and restated as of July 1, 1993.

PRUDENTIAL GNMA FUND

Distribution and Service Plan
(CLASS B SHARES)

INTRODUCTION

The Distribution and Service Plan (the Plan) set forth below which is designed to conform to the requirements of Rule 12b-1 under the Investment Company Act of 1940 (the Investment Company Act) and Article III, Section 26 of the Rules of Fair Practice of the National Association of Securities Dealers, Inc. (NASD) has been adopted by Prudential-Bache GNMA Fund, Inc., doing business as Prudential GNMA Fund, (the Fund) and by Prudential Securities Incorporated (Prudential Securities), the Fund's distributor (the Distributor).

The Fund has entered into a distribution agreement (the Distribution Agreement) pursuant to which the Fund will continue to employ the Distributor to distribute Class B shares issued by the Fund (Class B shares). Under the Distribution Agreement, the Distributor will be entitled to receive payments from investors of contingent deferred sales charges imposed with respect to certain repurchases and redemptions of Class B shares. Under the Plan, the Fund wishes to reimburse the Distributor for costs incurred by the Distributor in distributing Class B shares of the Fund and to pay the Distributor a service fee for the maintenance of Class B shareholder accounts. A majority of the Board of Directors of the Fund including a majority who are not "interested persons" of the Fund (as defined in the Investment Company Act) and who have no direct or indirect financial interest in the operation of this Plan or any agreements related to it (the Rule 12b-1 Directors), have determined by votes cast in person at a meeting called for the purpose of voting on this Plan that there is a reasonable likelihood that adoption of this Plan will benefit the Fund and its shareholders. Expenditures under this Plan by the Fund for Distribution Activities (defined below) are primarily intended to result in the sale of Class B shares of the Fund within the meaning of paragraph (a)(2) of Rule 12b-1 promulgated under the Investment Company Act.

The purpose of the Plan is to create incentives to the Distributor and/or other qualified broker-dealers and their account executives to provide distribution assistance to their customers who are investors in the Fund, to defray the costs and expenses associated with the preparation, printing and distribution of prospectuses and sales literature and other promotional and distribution activities and to provide for the servicing and maintenance of shareholder accounts.

THE PLAN

The material aspects of the Plan are as follows:

1. DISTRIBUTION ACTIVITIES

The Fund shall engage the Distributor to distribute Class B shares of the Fund and to service shareholder accounts using all of the facilities of the Prudential Securities distribution network including sales personnel and branch office and central support systems, and also using such other qualified broker-dealers and

financial institutions as the Distributor may select, including Pruco Securities Corporation (Prusec). Services provided and activities undertaken to distribute Class B shares of the Fund are referred to herein as "Distribution Activities."

2. PAYMENT OF SERVICE FEE

The Fund shall reimburse the Distributor for costs incurred by it in providing personal service and/or maintaining shareholder accounts at a rate not to exceed .25 of 1% per annum of the average daily net assets of the Class B shares (service fee). The Fund shall calculate and accrue daily amounts reimbursable by the Class B shares of the Fund hereunder and shall pay such amounts monthly or at such other intervals as the Board of Directors may determine. Costs of the Distributor subject to reimbursement hereunder include account servicing fees and indirect and overhead costs associated with providing personal service and/or maintaining shareholder accounts.

3. PAYMENT FOR DISTRIBUTION ACTIVITIES

The Fund shall reimburse the Distributor at a rate which, together with the service fee (described in Section 2 hereof), shall not exceed .75 of 1% per annum of the average daily net assets of the Class B shares of the Fund for costs incurred by it in performing Distribution Activities. The Fund shall calculate and accrue daily amounts reimbursable by the Class B shares of the Fund hereunder and shall pay such amounts monthly or at such other intervals as the Board of Directors may determine. Proceeds from contingent deferred sales charges will be applied to reduce the costs incurred in performing Distribution Activities. The Fund shall carry forward amounts reimbursable that are not paid because they exceed .75 of 1% per annum of the average daily net assets of the Class B shares of the Fund (Carry Forward Amounts) and shall pay such amounts within the .75 of 1% per annum payment rate limitation so long as this Plan, including any amendments hereto, is in effect, subject to the limitations of Article III, Section 26 of the NASD Rules of Fair Practice. Although the Fund is not liable for unreimbursed distribution expenses, in the event of termination or discontinuation of the Plan, the Board of Directors may consider the appropriateness of having the Class B shares of the Fund reimburse the Distributor for the then outstanding Carry Forward Amounts plus interest thereon to the extent permitted by applicable law or regulation from the effective date of the Plan.

Amounts paid to the Distributor by the Class B shares of the Fund will not be used to pay the distribution expenses incurred with respect to the Class A shares of the Fund except that distribution expenses attributable to the Fund as a whole will be allocated to the Class B shares according to the ratio of the sale of Class B shares to the total sales of the Fund's shares over the Fund's fiscal year or such other allocation method approved by the Board of Directors. The allocation of distribution expenses among Classes will be subject to the review of the Board of Directors. Payments hereunder will be applied to distribution expenses in the order in which they are incurred, unless otherwise determined by the Board of Directors.

Costs of the Distributor subject to reimbursement hereunder are all costs of performing Distribution Activities and include, among others:

(a) sales commissions (including trailer commissions) paid to, or on account of, account executives of the Distributor;

(b) indirect and overhead costs of the Distributor associated with performance of distribution activities including central office and branch expenses;

(c) amounts paid to Prusec in reimbursement of all costs incurred by Prusec in performing services under a selected dealer agreement between Prusec and the Distributor for sale of Class B shares of the Fund, including sales commissions and trailer commissions paid to, or on account of, agents and indirect and overhead costs associated with distribution activities;

(d) advertising for the Fund in various forms through any available medium, including the cost of printing and mailing Fund prospectuses, statements of additional information and periodic financial reports and sales literature to persons other than current shareholders of the Fund;

(e) sales commissions (including trailer commissions) paid to, or on account of, broker-dealers and other financial institutions (other than Prusec) which have entered into selected dealer agreements with the Distributor with respect to shares of the Fund;

(f) to the extent permitted by law, interest on unreimbursed Carry Forward Amounts as defined in Section 3 at a rate equal to that paid by Prudential Securities for bank borrowings as such rate may vary from day to day, not to exceed that permitted under Article III, Section 26, of the NASD Rules of Fair Practice; and

(g) unreimbursed distribution expenses incurred with respect to the sale of Class B shares which have been exchanged into the Fund.

4. QUARTERLY REPORTS; ADDITIONAL INFORMATION

An appropriate officer of the Fund will provide to the Board of Directors of the Fund for review, at least quarterly, a written report specifying in reasonable detail the amounts expended for Distribution Activities (including payment of the service fee) and the purposes for which such expenditures were made in compliance with the requirements of Rule 12b-1. The Distributor will provide to the Board of Directors of the Fund such additional information as they shall from time to time reasonably request, including information about Distribution Activities undertaken or to be undertaken by the Distributor.

The Distributor will inform the Board of Directors of the Fund of the commissions and account servicing fees to be paid by the Distributor to account executives of the Distributor and to broker-dealers and other financial institutions which have selected dealer agreements with the Distributor.

5. EFFECTIVENESS; CONTINUATION

The Plan shall not take effect until it has been approved by a vote of a majority of the outstanding voting securities (as defined in the Investment Company Act) of the Class B shares of the Fund.

If approved by a vote of a majority of the outstanding voting securities of the Class B shares of the Fund, the Plan shall, unless earlier terminated in accordance with its terms, continue in

full force and effect thereafter for so long as such continuance is specifically approved at least annually by a majority of the Board of Directors of the Fund and a majority of the Rule 12b-1 Directors by votes cast in person at a meeting called for the purpose of voting on the continuation of the Plan.

6. TERMINATION

This Plan may be terminated at any time by vote of a majority of the Rule 12b-1 Directors, or by vote of a majority of the outstanding voting securities (as defined in the Investment Company Act) of the Class B shares of the Fund.

7. AMENDMENTS

The Plan may not be amended to change the distribution expenses to be paid as provided for in Section 3 hereof so as to increase materially the amounts payable under this Plan unless such amendment shall be approved by the vote of a majority of the outstanding voting securities (as defined in the Investment Company Act) of the Class B shares of the Fund. All material amendments of the Plan, including the addition or deletion of categories of expenditures which are reimbursable hereunder, shall be approved by a majority of the Board of Directors of the Fund and a majority of the Rule 12b-1 Directors by votes cast in person at a meeting called for the purpose of voting on the Plan.

8. NON-INTERESTED DIRECTORS

While the Plan is in effect, the selection and nomination of the Directors who are not "interested persons" of the Fund (non-interested Directors) shall be committed to the discretion of the non-interested Directors.

9. RECORDS

The Fund shall preserve copies of the Plan and any related agreements and all reports made pursuant to Section 4 hereof, for a period of not less than six years from the date of effectiveness of the Plan, such agreements or reports, and for at least the first two years in an easily accessible place.

Dated January 22, 1990 and
amended and restated as of July 1, 1993