

FEDERAL RESERVE BANK OF NEW YORK

NEW YORK, N. Y. 10045

AREA CODE 212-791-5000

December 11, 1985
Memo. No. 107

Memorandum to Institutions Maintaining
Direct Wire Links with the Federal Reserve
Bank of New York for Securities Transfer

SUBJECT: Expansion of Book-Entry Services For Federal Home Loan
Mortgage Corporation

The Federal Home Loan Mortgage Corporation will issue Collateralized Mortgage Obligations (CMOs) in book-entry form. In this connection, the Federal Reserve Bank of New York (FRBNY) has been named fiscal agent with respect to these obligations.

CMO transactions will be handled by the FRBNY's Securities Transfer System. Transfers will be made in a manner similar to that for existing book-entry Treasury and Agency securities, although CMOs will be initially eligible for transfer only with the Second Federal Reserve District.

The implementation of book-entry CMOs is scheduled to begin December 12, 1985.

A. CUSIP Numbers/Securities Description

Each offering of CMOs consists of several different classes of bonds, each with a unique coupon rate and maturity date. Therefore, each class will be assigned a unique nine character CUSIP number. The first six digits will identify the security as a CMO, the seventh and eighth digits will be randomly assigned, and the ninth digit will be a check digit.

The security description field (on Line 8 of the securities transfer message) for book-entry CMO transactions will include the interest rate, the alpha mnemonic ("FMMO"), the series, and class number. An example of this is "08.4500 FMMO A 4".

B. Denominations

The Denominations for current and future issues of CMOs will be \$1.00 minimum and \$1.00 multiples.

C. Conversions

The eight definitive CMO offerings currently outstanding which consist of 26 issues (classes) will be eligible for conversion to book-entry in the future. Details on this effort will be forthcoming.

D. Original Issue

Freddie Mac has indicated that all subsequent original issues of CMOs will be in book-entry form.

On the original issue settlement date, Freddie Mac (using its on-line link to FRBNY) will transmit the securities through the Securities Transfer System to DIs located in the Second Federal Reserve District. The original issue will be effected by sending a type code 85 message (reversal code 8502) which will transfer the securities against payment to the purchaser's account from the Freddie Mac Issuer Account.

E. Secondary Market Transactions

DIs will be able to conduct secondary market transactions for book-entry CMOs through the Second District Securities Transfer System. These transfers will be effected using the standard type

code 20 message, and will be governed by the same procedures and prices applicable to transfers of other book-entry non-Treasury securities.

As stated earlier, initially book-entry CMOs may be maintained only within the Second Reserve District.

F. Principal and Interest Payments

Interest payments on CMOs are distributed semi-annually to holders of each class with the exception of any accrual classes. For example, if the CMO offering has four classes, with the fourth class being an accrual class, the holders of classes one, two, and three would be entitled to receive interest on a semi-annual basis. These interest payments are based upon the coupon rate and the unpaid principal balance of the issue. Principal payments, which are also paid semi-annually, would initially be paid solely to holders of class one. After that class is fully retired, all principal payments would be channeled to class two holders. This process would be continued until all classes prior to the accrual class are completely paid down. Only then are principal and interest payments distributed semi-annually to holders of the accrual class.

CMOs will be completely retired on or before their stated maturity date. In this regard, Freddie Mac publishes a "Schedule of Minimum Sinking Fund Payments". This schedule outlines the minimum principal payments to be paid each period to CMO holders. If the mortgages underlying the CMOs paydown at a faster rate than indicated on the schedule, the prepayments will be directed to the

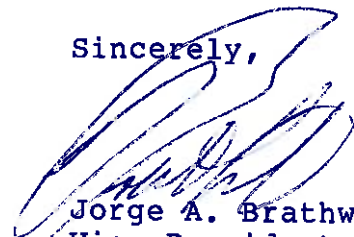
security holder of the class of bond which is currently receiving principal payments, thereby possibly causing the class to be retired prior to the stated maturity date. Note: Freddie Mac will adjust the book value factor to include the prepayments.

The book-entry semi-annual CMO payments (principal and interest) will be automated. FRBNY will calculate the payments by applying the paydown factors to the holdings as of the record date. All payments for all CMO CUSIPS held in each subaccount will be aggregated into one total payment amount. On the specified payment date (approximately five days after the record date), each subaccount will receive one type code 8906 message reflecting this total payment amount. Approximately four days prior to the payment date, each DI will receive a statement from FRBNY which will break down the total payment amount by principal and interest for each CUSIP in each subaccount.

Note: Record dates and payment dates may vary with each CMO offering, but approximately a five day period will be maintained between these dates for all subsequent CMO's.

If there are any questions concerning this document, please call Mr. Frederick Shields, Manager of the Securities Transfer Department, on (212) 791-8475 or Mr. Michael Mowbray, Special Assistant, on (212) 791-5138.

Sincerely,



Jorge A. Brathwaite
Vice President