

# FEDERAL RESERVE BANK OF NEW YORK

NEW YORK, N.Y. 10045

AREA CODE 212-720-5000

January 9, 1987  
Clearing Memo No. #121

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

RE: Expansion of Book-Entry Services For Federal National  
Mortgage Association

The Federal National Mortgage Association ("Fannie Mae") will issue Real Estate Mortgage Investment Conduits (REMICs) 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.

REMIC transactions will be handled by the FRBNY's Securities Transfer System. Transfers will be governed by the same procedures and prices applicable to transfers of book-entry mortgage-backed securities, although REMICs will be eligible for transfer initially within the Second Federal Reserve District only. It is expected that during the latter part of 1987 REMICs will be wireable on a nationwide basis.

Implementation of book-entry REMICs is not expected to begin before the end of the first quarter of 1987.

## A. CUSIP Numbers/Security Description

REMICs may take different forms but one form that may involve programming changes is described herein to provide you

with time to make any necessary systems modifications. The REMIC will consist of several different classes of bonds, each with a coupon rate and maturity date. Therefore, each class will be assigned a unique nine character CUSIP number.

The security description field (on line 8 of the securities transfer message) will include the alpha mnemonic ("FNRM"), the interest rate, the series, and class number. An example of this is "FNRM 08.250 1 A". Note: The class identifier will be alpha or numeric.

B. Denominations

The minimum and multiple denominations for Fannie Mae REMICs will be \$1,000 and \$1.00, respectively.

C. Original Issue

Fannie Mae has indicated that all original issues of REMICs will be in book-entry form. On the original issue settlement date, Fannie Mae (using its on-line link to FRBNY) will transmit the securities through the Securities Transfer System to Depository Institutions (DIs) located in the Second Federal Reserve District. The original issue will be effected by sending a type code 25 message (reversal code 2502) which will transfer the securities against payment to the purchaser's account from the Fannie Mae issuer account.

D. Secondary Market Transactions

DIs will be able to conduct secondary market transactions for book-entry REMICs 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 non-Treasury book-entry securities.

As stated earlier, book-entry REMICs may be transferred initially only within the Second District.

E. Principal and Interest Payments

Interest payments on this type of REMIC are distributed quarterly or monthly to holders of each class with the exception of any accrual (Z) classes. For example: If a REMIC offering has seven classes, with the sixth and seventh being accrual classes, the holders of classes one through five would be entitled to receive interest on a quarterly or monthly basis. These interest payments are based upon the coupon rate and the unpaid principal balance of the issue. Principal payments, which are paid quarterly or monthly, 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 to holders of the accrual class. The payment frequency for each series will be specified upon its issuance.

REMICs will be completely retired on or before their stated maturity date. If the mortgages underlying the REMICs pay down at a faster rate than indicated on the schedule, the

prepayments will be directed to the holders 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: Fannie Mae will adjust the book value factor to include the prepayments.

The REMIC payments (principal and interest) will be automated. FRBNY will calculate the payments by applying the principal paydown and interest factors to the holdings as of the record date. All payments for all REMIC 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 amount by principal and interest for each CUSIP in each subaccount. Note: Record dates and payment dates may vary with each REMIC offering, but approximately a five-day period will be maintained between these dates for all REMICs.

F. Special Distributions

Fannie Mae may, at its option, make special distributions of principal and interest if, as a result of substantial prepayments on the mortgage loans or low reinvestment yields or both, Fannie Mae determines that the amount of cash anticipated to be on deposit on the next scheduled payment date might be insufficient to make required distributions on such payment date. Consequently, a payment

distribution will be made by FRBNY prior to the stated payment date. Note: The following procedure only applies to REMICs with a quarterly payment cycle. When special distribution is to be made, FRBNY will notify DIs of the current and subsequent record and payment dates via a broadcast message (broadcast code STS). This message will be sent approximately 5 days prior to the revised record date, to allow DIs to make the necessary changes within their systems. The subsequent record and payment dates will always revert back to the originally scheduled dates indicated in the respective offering circular. For example: The issue date of REMIC "X" is January 2, 1987 with an interest accrual period beginning December 25, 1986. Therefore, the first scheduled record date would be March 20, 1987, with a payment date of March 25, 1987. If a special distribution were to be made in January, the revised record date would be January 20, 1987 with a payment date of January 25, 1987. The next record and payment dates would revert back to the original dates of March 20 and March 25, respectively. This information would be broadcast by January 15, 1987.

G. Tax Reporting

As fiscal agent for Fannie Mae, the FRBNY will have certain income tax reporting responsibilities with regard to book-entry REMICs. The FRBNY will generate annual statements for each DI and each taxpayer identification number, listing the total Original Issue Discount (OID), interest income and expense for each REMIC CUSIP held during the year. Note: The

reporting of OID and interest income for REMICs is different than that for other Fannie Mae mortgage-backed securities (FNMS) and adjustable rate securities (FNAR) where only interest income is reported. In addition, OID reporting will apply to Fannie Mae Mortgage-Backed Stripped Securities.

Questions regarding this announcement should be directed to Daniel Bolwell, Electronic Operations Officer, on (212) 720-8475 or Michael Mowbray, Special Assistant, on (212) 720-7972.

Sincerely,

A handwritten signature in cursive script that reads "Carol W. Barrett".

Carol W. Barrett  
Vice President