

FEDERAL RESERVE BANK OF NEW YORK

NEW YORK, N.Y. 10045

AREA CODE 212-720-5000

February 7, 1990
Clearing Memo Number: 159

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

Re: Expansion of Book-Entry Services for the Federal National
Mortgage Association and the Federal Home Loan Mortgage
Corporation

The Federal National Mortgage Association (Fannie Mae) and the Federal Home Loan Mortgage Corporation (Freddie Mac) will begin issuing Cost-of-Funds Indexed Adjustable Rate Mortgage securities and other types of deferred interest securities in book-entry form in March. These securities have a "Deferred Interest" feature (Negative Amortization) which occurs when monthly payments do not cover the full amount of interest due in which case the interest not paid is added to the principal. The Federal Reserve Banks have been named Fiscal Agent with respect to these securities.

The securities will be handled by the Federal Reserve Bank of New York's (FRBNY's) securities transfer system. Transfers of these Fannie Mae and Freddie Mac obligations will be governed by the same procedures and prices applicable to transfers of other non-Treasury book-entry securities. The obligations will be transferable nationwide upon issuance.

A. CUSIP Number Security Description

Each security will be assigned a unique nine character CUSIP number. The security description field (line 8 of the securities message) will be as follows:

FANNIE MAE: The securities will include the alpha mnemonic (FNAR), the floating rate symbol (XX.XXX), and the pool identifier. An example of this is "FNAR XX.XXX AS036115".

FREDDIE MAC: The securities will include the alpha mnemonic (FMAR), and the pool identifier. An example of this is "FMAR 605031 G".

B. Denominations

The minimum and multiple denominations for these securities will be \$1,000 and \$1, respectively.

C. Original Issue

On the original issue settlement date, Fannie Mae and Freddie Mac (using their on-line links to FRBNY) will transmit the securities through the securities transfer system to depository institutions (DIs). The original issues will be effected by sending a type code 25 message (reversal code 2502), which will transfer the securities to the purchaser's account from Fannie Mae's and Freddie Mac's issuer accounts.

D. Secondary Market Transactions

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.

E. Principal, Interest and Deferred Interest Payments

The principal, interest and deferred interest (negative amortization) payments for each security type will be automated. On the payment date, FRBNY will wire the proceeds, via a type code 8906, to book-entry account holders. FRBNY will calculate the payments by applying the various factors to the holdings as of the close of business on the last business day of the month. The record date for the Fannie Mae securities is the last business day of the month and the payment date is the 25th of the following month. The record date for the Freddie Mac securities is the last business day of the month and the payment date is the 15th of the second month following the record date.

The payments for the securities will be consolidated with the adjustable rate securities payment wires because the class codes (FNAR/FMAR) are the same. Therefore, on the specific payment date, each subaccount will receive one type code 8906 message reflecting this total payment amount. As is the current practice, no later than one week prior to the payment date, each DI will receive a statement (Security Advice of Credit for Payments) from FRBNY, which details the total payment amount by principal, interest and deferred interest for each CUSIP. A copy of the format of the advice is attached for your

information. Please note that an asterisk next to a component indicates that the data is for information only and is not a payment amount. As indicated on the attachment, the negative amortization accrual factor component (NAA), the new book value factor component (NBV) and the old book value factor component (OBV) are asterisked. Also, if the component is zero, it will not appear on the advice.

In order to calculate the deferred interest payment and the accrual amount, multiply the original par held by the factor. In addition, the routine for calculating principal payments for all mortgage-backed securities has been modified. As indicated in Mr. Wiener's memorandum dated November 8, 1989, the new principal payment calculation is the original par multiplied by the principal payment factor.

F. Matured Securities

The procedures for processing matured securities will be similar to those used for other book-entry securities:

- ° The final payment (interest, principal and deferred interest) will be calculated and transmitted as a type code 8906, according to the procedures outlined above in E.
- ° On the payment date, one type code 89 message will be transmitted for each maturing (or paid down) CUSIP. The payment on the message will be zero, and the par will be equal to the subaccount's balance of that CUSIP.

G. Conversions

Outstanding definitive securities will eventually be eligible for conversion into book-entry form. These conversions will be processed by FRBNY, which will accept the definitive securities from DIs, and update the proper book-entry account. The conversion messages will appear as type code 20s from the FRB NYC/RH account to the DI's book-entry account indicated on the conversion application. Additional details related to the conversion process will be provided in the near future.

Questions regarding this announcement should be directed to Patricia Hilt-Lupack, Manager, Securities Transfer Department on (212) 720-5379.

Sincerely,



Carol W. Barrett
Vice President

Attachment