



Federal Reserve Banks

Boston	Richmond	Minneapolis
New York	Atlanta	Kansas City
Philadelphia	Chicago	Dallas
Cleveland	St. Louis	San Francisco

April 1, 2005

Clearing Memo #247

TO: All Fedwire® Securities Service Participants

SUBJECT: Changes to Processing of Principal and Interest Payments and Redemptions

Beginning in July 2006, changes to the Federal Reserve Banks' Policy Statement on Payments System Risk (PSR Policy) will become effective¹. These changes will impact the processing of interest and redemption payments for securities issued by government-sponsored enterprises (GSEs) and certain international organizations (See Attachment 1 for a listing of affected organizations). Changes to the processing of interest and redemption payments will also result in a change to the manner in which security par balances are reduced.

The Fedwire Securities Service is being modified to address these policy changes.

Issuers will have the flexibility to pay holders of their securities on a flow basis with incremental payments based upon a pre-established percentage of the entire obligation. Therefore, recipients of payments from the Fedwire Securities Service may notice an increase in the number of payments and a decrease in the amount of each individual payment. Interest and redemption payments may be received beyond the secondary market close. Closing time for these payments will be specified in a subsequent clearing memo.

Changes to interest and redemption payments

A. Use of additional Funder accounts

Securities issuers currently have the ability to establish multiple funder accounts to segregate securities for interest and redemption processing. Currently, most issuers make use of one or two funder accounts – typically one for mortgage-backed securities and one for non-mortgage-backed securities. With the PSR policy change, issuers may increasingly take advantage of the use of funder accounts in order to further segregate securities and manage payment flows.

B. Incremental Payouts by Funder Account

In addition to having the ability to establish additional funder accounts, each issuer will have the ability to pre-establish payout increments (from 5% to 100%) for each of its funder accounts. The payout increments define the number of payments and the corresponding percentages that will be paid out on a flow basis. Incremental payments will be made to all holders of securities associated with an individual funder account, once the required funding for the incremental payment is available. The incremental

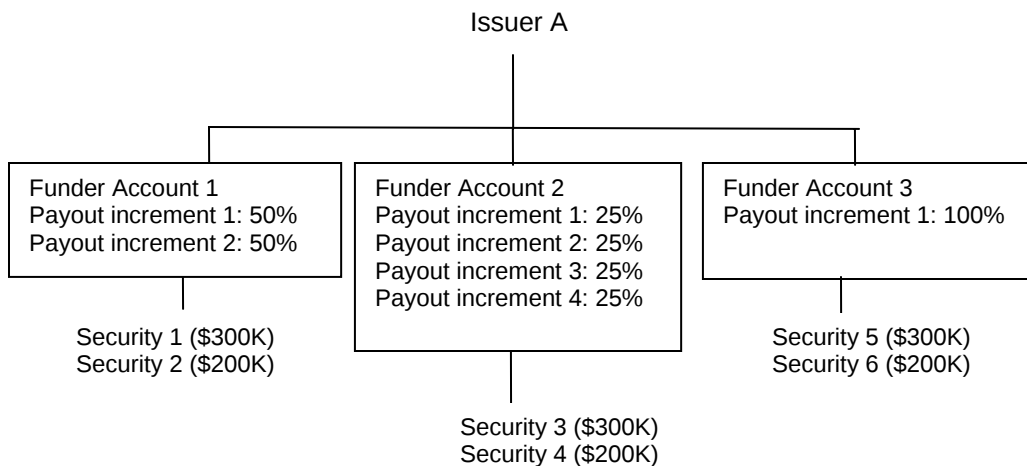
¹ For details on the changes to the Federal Reserve's PSR Policy, see the press release dated September 23, 2004, available at <http://www.federalreserve.gov/paymentsystems/psr/press.htm>

payout percentage is applied equally to all securities associated with a particular funder account.

Payments will continue to be summarized at the securities account, record date, payment date and funder level.

Information regarding the funder accounts maintained by the issuers, securities associated with the funder accounts and pre-established payout percentages will be made available in a subsequent clearing memo prior to the implementation of the changes outlined herein. Any changes to established funding patterns will be published in the form of a clearing memo.

Example:



Funder Account 1

- Holders of securities belonging to Funder Account 1 will be paid in increments of 50%
- The incremental payment (50% of the total dollars due) will be made as soon as 50% of the total funding requirement for Funder Account 1 is met.
- This will result in 2 Fedwire Securities Service payments

Example: Total expected to be paid out of Funder Account 1 **\$500K**
 Security 1 \$300 K
 Security 2 \$200 K
 50% of the total to be paid out is **\$250K**

Action #	Funding Inflow	Payment Outflow	Funder Account 1 Balance	Distribution of Credits
1.	\$100K		\$100K	
2.	\$150K		\$250K	
3.		\$250K	\$0	\$150K to holders of Security 1 \$100K to holders of Security 2
4.	\$200K		\$200K	
5.	\$50K		\$250K	
6.		\$250K	\$0	\$150K to holders of Security 1 \$100K to holders of Security 2

Total: \$500K Security 1 - \$300K
 Security 2 - \$200K

Funder Account 2

- Holders of securities belonging to Funder Account 2 will be paid in increments of 25%
- The incremental payment (25% of the total dollars due) will be made as soon as 25% of the total funding requirement for Funder Account 2 is met.
- This will result in 4 Fedwire Securities Service payments

Example: Total expected to be paid out of Funder Account 2 **\$500K**

Security 3 \$300 K
 Security 4 \$200 K
 25% of the total to be paid out is **\$125K**

Action #	Funding Inflow	Payment Outflow	Funder Account 2 Balance	Distribution of Credits
1.	\$125K		\$125K	
2.		\$125K		\$75K to holders of Security 3 \$50K to holders of Security 4
3.	\$125K		\$125K	
4.		\$125K		\$75K to holders of Security 3 \$50K to holders of Security 4
5.	\$125K		\$125K	
6.		\$125K		\$75K to holders of Security 3 \$50K to holders of Security 4
7.	\$100K		\$100K	
8.	\$25K		\$125K	
9.		\$125K		\$75K to holders of Security 3 \$50K to holders of Security 4
Total:	\$500K	Security 3 - \$300K Security 4 - \$200K		

Funder Account 3

- Holders of securities belonging to Funder Account 3 will be paid in increments of 100%
- The entire payment (the total dollars due) will be made when 100% of the total funding requirement for Funder 3 is met.
- This will result in 1 Fedwire Securities Service payment

Example: Total expected to be paid out of Funder Account 3 **\$500K**

Security 5 \$300 K
 Security 6 \$200 K
 100% of the total to be paid out is **\$500K**

Action #	Funding Inflow	Payment Outflow	Funder Account 3 Balance	Distribution of Credits
1.	\$100K		\$100K	
2.	\$100K		\$200K	
3.	\$50K		\$250K	
4.	\$250K		\$500K	
5.		\$500K		\$300K to holders of Security 5 \$200K to holders of Security 6
Total:	\$500K	Security 5 - \$300K Security 6 - \$200K		

C. Change to the 8906 payment message and the 8990 notification message

- The 8906 P&I payment message, and the 8990 P&I notification message will be modified to reflect the distribution of dollars directly from the issuer's distribution account, rather than the Federal Reserve Bank of New York (routing number 021001208). (See Attachment 2.) Further information regarding distribution accounts will be published in a subsequent clearing memo.
- Payments will be made based on the increment set by the issuer, as in the examples above.
- The record date, payment date and funder will continue to appear on line 6, as it does today.

D. Change to the Principal and Interest Notification of Credit

- In order to assist security holders reconcile multiple payments per security during a single business day, the Principal and Interest Notification (Immediate ID # BA2040 and non-immediate

ID # BA2041) will be modified to show the incremental payments.

- Two new line types will be added to the report. Line type A will show the incremental payment and par amount for each CUSIP to be paid, and line type B will show the total incremental payment amount. If applicable, the Principal and Interest Notification will also include the amount that was suspended. (See Attachments 3 and 4.)
- The last increment will accommodate rounding.

E. Required funding shortfalls

In the event required funding is not fully met by an issuer for one of its funder accounts:

- We anticipate that prior day payments that have yet to be remitted will be paid before any other current payments, as soon as funding is available. This would result in the oldest obligations being paid first.
- Payout will be made using the factors reported on the original principal and interest payment notification.

Changes to redemptions of securities

As a result of implementation of incremental payouts for securities, a corresponding change will be made to the way redemptions of securities are processed.

A. Incremental redemptions

- Redemptions of maturing or paid down securities will follow the same pre-established incremental pattern as described above for each issuer. Therefore, multiple reductions may be made for a single security.
- During a single payment increment, the withdrawal of maturing or paid down securities will occur in relation to the proceeds remitted.
- A separate redemption message will be delivered for each increment.

B. Transfer of securities on maturity date or pay-down date

- Securities will not be transferable on the maturity date (or the payment date of the final pay-down.)

C. Changes to the 8900 redemption message

- The 8900 redemption message will be modified to reflect the retirement of securities directly from the issuer, rather than from the Federal Reserve Bank of New York (routing number 021001208). (See Attachment 5)
- Redemptions will be made based on the increment set by the funder.
- The redemption message will continue to be at the routing number, securities account, and security level.

Following is an example of the process flow:

Current Processing Method	Proposed Processing Method
Bank XYZ holds Security A for 1M par Total P&I due: \$1.1M	Bank XYZ holds Security A* for 1M par Total P&I due: \$1.1M Payout increment: 50%
Starting position: 1M par - Bank XYZ receives P&I (8906) for \$1.1M - Bank XYZ receives maturity (8900) for 1M par - Par holdings is reduced to 0 Ending position: 0 par	Starting position: 1M par - Bank XYZ receives 50% of P&I (8906) for \$550K - Bank XYZ receives 50% of maturity (8900) 500K par - Par holdings is reduced to \$500K New Position: Bank A now holds \$500K par - Bank XYZ receives remaining 50% of P&I (8906) for \$550K - Bank XYZ receives remaining 50% of maturity (8900) 500K par - Par holdings is reduced to 0 Ending position: 0 par

***Note:** Factors do not change as a result of this process. Factors will only be adjusted based upon instructions from the Issuer.

Questions regarding this announcement should be directed to the Wholesale Operating Site responsible for your account.

Federal Reserve Bank of New York	800-390-2788
Federal Reserve Bank of Boston	800-327-0147
Federal Reserve Bank of Kansas City	800-333-2448

Attachments:

- Attachment 1: Listing of Issuers Affected by the PSR Policy Change
- Attachment 2: Example of 8906 Payment Message and 8990 Notification Message
- Attachment 3: Example P&I Notification Report – Unrestricted Securities Account
- Attachment 4: Example P&I Notification Report – Restricted Securities Account
- Attachment 5: Example of 8900 Redemption Message

The Financial Services logo and Fedwire are registered service marks of the Federal Reserve Banks. A complete list of marks owned by the Federal Reserve Banks is available at www.frbsecurities.org.

Attachment 1
Listing of Issuers Affected by the PSR Policy Change

African Development Bank

Asian Development Bank

Fannie Mae

Farm Credit

Farm Credit Financial Assistance Corp.

Federal Agricultural Mortgage Corporation (Farmer Mac)

Federal Home Loan Banks

Financing Corporation

Federal Home Loan Mortgage Corporation (Freddie Mac)

Inter-American Development Bank

International Finance Corp.

Resolution Funding Corp.

World Bank

Attachment 2
Example of 8906 Payment Message

Current Design

1 P
2 123456789 8906
3 021001208 0061 25,561,402.45
4 FRB NYC /PRIN & INT /
5 ANYTOWN BNK /1020 /GENERAL
6 PAY DT: 02/14/05 RECD DT: 02/13/05 FUNDER: 021033409 FCA NYC REPT DT: 02/11/05
7
8 0.00
9 0214B1BAFCAD 000061 0214 0805 BAC1 0214A1Q008AC 000005 0214

New Design

1 P
2 123456789 8906
3 999999999 0061 6,390,350.61
4 GSE ACCOUNT /PRIN & INT /
5 ANYTOWN BNK /1020 /GENERAL
6 PAY DT: 02/14/05 RECD DT: 02/13/05 FUNDER: 555555555 FCA NYC REPT DT: 02/11/05
7
8 0.00
9 0214B1BAFCAD 000061 0214 0805 BAC1 0214A1Q008AC 000005 0214

Example of 8990 Notification Message

Current Design

1 P
2 123456789 8990
3 021001208 0061 25,561,402.45
4 FRB NYC /PRIN & INT /
5 ANYTOWN BNK /1020 /GENERAL
6 PAY DT: 02/14/05 RECD DT: 02/13/05 FUNDER: 021033409 FCA NYC REPT DT: 02/11/05
7 PAYMENT MADE TO CORRESPONDENT: 987654321 BK OF ANYTOWN
8 0.00
9 0214B1BAFCAD 000061 0214 0805 BAC1 0214A1Q008AC 000005 0214

New Design

1 P
2 123456789 8990
3 999999999 0061 6,390,350.61
4 GSE ACCOUNT /PRIN & INT /
5 ANYTOWN BNK /1020 /GENERAL
6 PAY DT: 02/14/05 RECD DT: 02/13/05 FUNDER: 555555555 FCA NYC REPT DT: 02/11/05
7 PAYMENT MADE TO CORRESPONDENT: 987654321 BK OF ANYTOWN
8 0.00
9 0214B1BAFCAD 000061 0214 0805 BAC1 0214A1Q008AC 000005 0214

Attachment 3
Example P & I Notification Report - Unrestricted Securities Account

MSG-ID	LN-TYPE				
BA2040	0 PAGE	1	07/29/94	19:07:45	BE NOTIFICATION OF P&I CREDIT
	1				
	Z				ANYTOWN BANK, N.A.
	Z				33 LIBERTY STREET
	Z				NEW YORK, NY 10043
	Z				
	2	DI: 1234-5678-9		ACCT: 1020	GENERAL
	Z				
	3	PAY DT:MM/DD/YY	RECD DT:MM/DD/YY	FUNDER: 021033881	FHLMC RPT DT:MM/DD/YY
	4	CUSIP:312902CP9	7.375	FMNT A 07-94	MAT DT:07/30/94
	Z				
	5	PAR:	10,000,000.00	RATE: 7.375	TOTAL: \$10,223,298.61
	A	INCR 1	2,500,000.00		\$2,555,824.65
	A	INCR 2	2,500,000.00		\$2,555,824.65
	A	INCR 3	2,500,000.00		\$2,555,824.65
	A	INCR 4	2,500,000.00		\$2,555,824.66
	Z				
	6	INT: 22.329861111			\$223,298.61
	6	MAT: 1.000000000			\$10,000,000.00
	Z				
	4	CUSIP:312901CP8	7.125	FMNT A 07-94	MAT DT:07/30/94
	Z				
	5	PAR:	5,000,000.00	RATE: 7.125	TOTAL: \$5,106,556.22
	A	INCR 1	1,250,000.00		\$1,276,639.06
	A	INCR 2	1,250,000.00		\$1,276,639.06
	A	INCR 3	1,250,000.00		\$1,276,639.06
	A	INCR 4	1,250,000.00		\$1,276,639.09
	Z				
	6	INT: 21.311243267			\$106,556.22
	6	MAT: 1.000000000			\$5,000,000.00
	Z				
	4	CUSIP:312903CP7	7.500	FMNT A 07-94	MAT DT:07/30/94
	Z				
	5	PAR:	10,000,000.00	RATE: 7.500	TOTAL: \$10,231,547.62
	A	INCR 1	2,500,000.00		\$2,557,886.91
	A	INCR 2	2,500,000.00		\$2,557,886.91
	A	INCR 3	2,500,000.00		\$2,557,886.91
	A	INCR 4	2,500,000.00		\$2,557,886.89
	Z				
	6	INT: 23.154762111			\$231,547.62
	6	MAT: 1.000000000			\$10,000,000.00
	Z				
	7	***TOTALS: #OF CUSIPS: 3		PAYMENT DUE:	\$25,561,402.45
	Z				
	8			TOT PAY:	\$25,561,402.45
	B	TOTAL INCR 1			\$6,390,350.61
	B	TOTAL INCR 2			\$6,390,350.61
	B	TOTAL INCR 3			\$6,390,350.61
	B	TOTAL INCR 4			\$6,390,350.62
	Z				
	9	INT:			\$561,402.45
	9	MAT:			\$25,000,000.00

Attachment 4
P & I Notification Report - Restricted Securities Account

MSG-ID	LN-TYPE	
BA2040	0 PAGE	1 07/29/94 19:07:45 BE NOTIFICATION OF P&I CREDIT
	1	
	Z	ANYTOWN BANK, N.A.
	Z	33 LIBERTY STREET
	Z	NEW YORK, NY 10043
	Z	
	2	DI: 1234-5678-9 ACCT: U102 *LOANS & DISC - 13
	Z	
	3	PAY DT:MM/DD/YY RECD DT:MM/DD/YY FUNDER:021033881 FHLMC RPT DT:MM/DD/YY
	4	CUSIP:312902CP9 7.375 FMNT A 07-94 MAT DT:07/30/94
	Z	
	5	PAR: 10,000,000.00 RATE: 7.375 TOTAL: \$10,223,298.61
	A	INCR 1 2,500,000.00 \$2,555,824.65
	A	INCR 2 2,500,000.00 \$2,555,824.65
	A	INCR 3 2,500,000.00 \$2,555,824.65
	A	INCR 4 2,500,000.00 \$2,555,824.66
	Z	
	6	INT: 22.329861111 \$223,298.61
	6	MAT: 1.000000000 \$10,000,000.00
	Z	
	4	CUSIP:312901CP8 7.125 FMNT A 07-94 MAT DT:07/30/94
	Z	
	5	PAR: 5,000,000.00 RATE: 7.125 TOTAL: \$5,106,556.22
	A	INCR 1 1,250,000.00 \$1,276,639.05
	A	INCR 2 1,250,000.00 \$1,276,639.05
	A	INCR 3 1,250,000.00 \$1,276,639.05
	A	INCR 4 1,250,000.00 \$1,276,639.07
	Z	
	6	INT: 21.311243267 \$106,556.22
	6	SUS: 1.000000000 \$5,000,000.00
	Z	
	4	CUSIP:312903CP7 7.500 FMNT A 07-94 MAT DT:07/30/94
	Z	
	5	PAR: 10,000,000.00 RATE: 7.500 TOTAL: \$10,231,547.62
	A	INCR 1 2,500,000.00 \$2,555,806.90
	A	INCR 2 2,500,000.00 \$2,555,806.90
	A	INCR 3 2,500,000.00 \$2,555,806.90
	A	INCR 4 2,500,000.00 \$2,555,806.92
	Z	
	6	INT: 23.154762111 \$231,547.62
	6	SUS: 1.000000000 \$10,000,000.00
	Z	
	7	***TOTALS: #OF CUSIPS: 3 PAYMENT DUE: \$25,561,402.45
	Z	
	8	TOT SUS: \$15,000,000.00 TOT PAY: \$10,561,402.45
	B	TOTAL INCR 1 \$3,750,00.00 \$2,640,350.61
	B	TOTAL INCR 2 \$3,750,00.00 \$2,640,350.61
	B	TOTAL INCR 3 \$3,750,00.00 \$2,640,350.61
	B	TOTAL INCR 4 \$3,750,00.00 \$2,640,350.62
	Z	
	9	INT: \$561,402.45
	9	MAT: \$10,000,000.00
	9	SUS: \$15,000,000.00

Attachment 5
Example of 8900 Redemption Message

Current Design

1 P
2 123456789 8900
3 021001208 0001 0.00
4 FRB NYC /MATURITIES /
5 ANYTOWN BNK /1033 /ACCOUNT C
6 MATRTY/PPD DT: 02/14/05
7
8 313313BW7 FCDN 02/14/05 25,000,000.00
9 0214B1BAFCAD 000001 0214 0805 BAC1 0214A1Q008AC 000003 0214

New Design

1 P
2 123456789 8900
3 999999999 0001 0.00
4 GSE ISSUER /ISSUER /
5 ANY TOWN BNK /1033 /ACCOUNT C
6 MATRTY/PPD DT: 02/14/05
7
8 313313BW7 FCDN 02/14/05 6,250,000.00
9 0214B1BAFCAD 000001 0214 0805 BAC1 0214A1Q008AC 000003 0214