



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON, D. C. 20551

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

July 30, 1997

Mr. John J. Sceppa
President and Chief Executive Officer
Participants Trust Company
55 Water St.
New York, NY 10041

Dear Mr. Sceppa:

This is in response to your letter of May 29, 1997, requesting that the Board relieve Participants Trust Company ("PTC") from its commitment to make principal and interest ("P&I") payments optional upon the instruction of a participant.

PTC, a limited-purpose trust company organized under the banking laws of New York state, became a member of the Federal Reserve System in March 1989. PTC is a registered clearing agency under section 17(a) of the Securities Exchange Act of 1934 and a "clearing corporation" as defined by § 8-102(3) of the Uniform Commercial Code. PTC clears mortgage-backed securities guaranteed by the Government National Mortgage Association ("GNMA").

Under PTC's rules, issuers of the GNMA I category of securities that are eligible to be cleared through PTC must make principal and interest ("P&I") payments to PTC by the 15th of each month, either electronically or by check. PTC disburses 100 percent of the P&I payments to its participants on the following business day ("P+1") in immediately available funds. PTC has approximately 99 percent of all P&I payments in immediately available funds on P+1 and uses an uncommitted secured line of credit or advances from its capital account or Participants Fund to cover the remaining 1 percent.

When PTC commenced operations in 1989, it recovered the financing costs for P&I advances by charging the participants that received P&I advances on a pro rata basis. In addition, the percentage of funds immediately available on P+1 was lower in PTC's earlier years than currently. As a condition of Federal Reserve membership, PTC committed to "change its rules and operations to provide that principal and interest advances shall


be optional upon the instruction of a participant." This rule change would have enabled participants either to pay the financing fee and receive P&I advances on a certain date or avoid the financing charge and receive P&I payments when PTC received good funds.

In 1991, PTC amended its rules to eliminate the prorated charges to participants for P&I advances. PTC had determined that the cost of financing the advances on P+1 could be covered adequately by offsetting those costs against the earnings from investing the P&I payments received on the payment date.

Although PTC has not changed its rules as specifically required by its commitment (to make P&I advances optional), it has addressed the issue that was the subject of that commitment by eliminating the pro rata charge to participants. In addition, PTC has significantly improved its procedures for collection of P&I payments by encouraging issuers to use electronic means of payment and making other operational improvements to accelerate the collection of P&I payments made by check. PTC is working with GNMA on a strategy for an all-electronic P&I payment and reporting system.


Upon review of the request, the Director of the Division of Banking Supervision and Regulation ("Director") has concluded that holding PTC to its commitment to make P&I advances optional would be unnecessary and costly, as few, if any, of its participants would be likely to opt out of P&I advances, and the costs of implementing such an opt-out program would be substantial. Accordingly, pursuant to the Board's Rules Regarding the Delegation of Authority (12 C.F.R. § 265.7(a)(2)), the Director has determined to relieve PTC from its commitment to make P&I advances optional upon the instruction of the participant. This action is taken in reliance on all the facts of record, including all the representations made in connection with this request.

Sincerely yours,

~~(Signature)~~ William W. Wiles 

William W. Wiles
Secretary of the Board

bcc: Mr. Spillenkothen
Mr. Fabrizio
Ms. Martin
Legal Records (2)


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