

**FEDERAL RESERVE BANK  
OF NEW YORK**

Fiscal Agent of the United States

[ Circular No. **4549**  
January 6, 1958 ]

**Prospective Cash Offering of Series ML Notes  
of Federal National Mortgage Association**

*To all Banking Institutions, and Others Concerned,  
in the Second Federal Reserve District:*

On January 9, the Treasury Department, through the facilities of the Federal Reserve Banks as fiscal agents of the United States, will make a public cash offering of \$750 million, or thereabouts, of Series ML (Management and Liquidating) Notes of the Federal National Mortgage Association.

The text of a FNMA statement on the offering, made public today, is printed on the reverse side of this circular. As indicated in the FNMA statement, the issue will mature in approximately two and one-half years; the interest rate and exact maturity will be announced on January 7 by the Treasury Department. Subscription books for this offering will be open at this Bank on January 9; copies of the offering circular and subscription forms will be mailed to reach you on or before that date.

A copy of the general prospectus issued by FNMA is enclosed. The prospectus contains information on the background and operations of FNMA, its capitalization, borrowing authority and financial statements.

Additional copies of this circular and of the prospectus will be furnished upon request.

**ALFRED HAYES,**  
*President.*

(OVER)

FOR RELEASE: Monday a.m., January 6, 1958

**FEDERAL NATIONAL MORTGAGE ASSOCIATION**  
**WASHINGTON 25, D. C.**

The Federal National Mortgage Association's 2½% Series ML (Management and Liquidating) Notes dated January 20, 1955, of which there are \$570,374,000 outstanding, will mature on January 20, 1958. These notes may be redeemed through the Federal Reserve Banks and branches or the Treasurer of the United States, Washington, D. C.

Funds for the redemption of the maturing notes will be provided by FNMA through a public offering of \$750 million or thereabouts of notes to be handled by the Treasury Department for delivery January 20, 1958, it was announced today by FNMA President J. Stanley Baughman. The balance of the proceeds of the new issue will be used to reduce the Association's indebtedness to the U. S. Treasury. The new notes will be offered for cash, no preference being given holders of the maturing issue.

The FNMA offering will be made by the Treasury Department on January 9, 1958 through the facilities of the Federal Reserve Banks as fiscal agents of the United States.

The notes will have a maturity of approximately two and one-half years. The maturity date and interest rate of the issue will be stated in an announcement of the offering to be made by the Treasury Department January 7. Subscription books for the FNMA offering will be open only on Thursday, January 9. Payment is scheduled for January 20 and must be made in cash.

The FNMA ML Notes are not guaranteed by the United States. FNMA has received assurance from the Treasury Department that it will make loans to FNMA if needed to provide for interest payments and payment of principal at maturity of the ML Notes. After this financing the outstanding ML Notes will continue to be less than 80 per cent of the assets as described in the prospectus. In connection with this, Mr. Baughman pointed out that "FNMA's Management and Liquidating Functions have an excellent earning record with a net income of \$105 million shown for the past three fiscal years based on a net profit of \$35 million for each of fiscal years 1955, 1956 and 1957".

The FNMA notes are lawful investments and may be used as security for fiduciary, trust and public funds, the investment or deposit of which is under the authority and control of the United States or an officer or officers thereof. The notes may be pledged as collateral to Treasury Tax and Loan Accounts. The FNMA Charter Act makes no provisions for specific exemption of these notes from Federal, state, municipal, or local taxation.

Mr. Baughman also declared that "these notes may be purchased by and held without limit by national banks since the law exempts obligations of FNMA from restrictions and limitations generally applicable to investment securities".

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**FEDERAL  
NATIONAL MORTGAGE  
ASSOCIATION**

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***General Prospectus Concerning*  
MANAGEMENT AND LIQUIDATING  
FUNCTIONS (ML) NOTES**

**(Public Issues)**

**January 6, 1958**

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**Address of Principal Office:  
811 Vermont Avenue, N. W.  
Washington 25, D. C.**

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# FEDERAL NATIONAL MORTGAGE ASSOCIATION

## *General Prospectus Concerning*

### MANAGEMENT AND LIQUIDATING FUNCTIONS (ML) NOTES

#### (Public Issues)

Principal and interest payable at any Federal Reserve Bank or Branch or at the Office of the Treasurer of the United States. Issued in bearer form only in denominations of \$1,000, \$5,000, \$10,000, \$100,000, and \$1,000,000.

#### PURPOSE OF THE ISSUES

Net proceeds of sale of notes will be paid to the Secretary of the Treasury in reduction of the Association's indebtedness under the Management and Liquidating Functions and will be used to provide for the redemption of outstanding notes at maturity.

#### DESCRIPTION OF NOTES AND HOW ISSUED

ML notes are offered at public subscription through the facilities of the United States Treasury Department and the Federal Reserve Banks as fiscal agents of the United States in the same manner as offerings of public debt securities. The notes, together with the interest thereon, are the obligations of the Association and are not Federal Government obligations or guaranteed by the United States Government.

#### THE FEDERAL NATIONAL MORTGAGE ASSOCIATION

The FNMA is a corporate instrumentality of the United States. It was incorporated on February 10, 1938, pursuant to the then Title III of the National Housing Act. Between the date of its original charter and the enactment of the Federal National Mortgage Association Charter Act (12 USC 1716, et. seq.), approved August 2, 1954, the Association was instrumental in establishing and maintaining a market for certain mortgages insured by the Federal Housing Administration and mortgages guaranteed by the Veterans Administration.

#### FUNCTIONS UNDER THE FNMA CHARTER ACT

The Charter Act authorizes FNMA to perform three separate functions (1) to manage and liquidate the existing mortgage portfolio as of the close of October 31, 1954 (the "Management and Liquidating Functions"); (2) to provide supplementary assistance to the secondary market in guaranteed and insured home mortgages (the "Secondary Market Operations"); and (3) to perform special assistance functions in the purchase of certain insured and guaranteed mortgages as authorized by the President of the United States or by the Congress ("Special Assistance Functions").

Separate accountability is imposed by the Charter Act with respect to each of these three functions and each has its own assets, liabilities and separate borrowing authority. The operations of each of the three functions are complete, separate and distinct from the others—as though there were three separate corporations. The capitalization of the Association (preferred stock held by the Secretary of the Treasury and common stock held by the public) applies exclusively to the Secondary Market Operations, and the other two functions have no recourse to it. All of

the benefits and burdens incident to the administration and operation of the Management and Liquidating Functions inure solely to the Secretary of the Treasury.

### OPERATIONS UNDER THE M & L FUNCTIONS

As of the close of business October 31, 1954 (the day preceding the effective date of the Function provided in the Charter Act), the mortgage portfolio of FNMA consisted of insured and guaranteed mortgages amounting to \$2,368 million, outstanding commitments to purchase such mortgages in the amount of \$603 million, and \$42 million of RFC Mortgage Company direct loans and Defense Home mortgages. Thus, the portfolio and purchasing liability amounted to \$3,013 million. As of October 31, 1957, the portfolio amounted to \$2,327 million and there were no commitments outstanding. This represents a reduction of \$686 million or 23 percent in 3 years. The purchasing phase of the Management and Liquidating Functions has been concluded leaving only the management and liquidation of this portfolio to be completed in the future.

### FINANCING

The Charter Act requires that private financing be substituted as rapidly as possible for Treasury borrowings otherwise required to carry the mortgages held under the Management and Liquidating Functions pending their ultimate liquidation. The Act authorizes the Association to issue for sale to private investors, on approval of the Secretary of the Treasury, and have outstanding at any one time ML obligations having such maturities and bearing such rate or rates of interest as may be determined by the Association with the approval of the Secretary of the Treasury.

### MANAGEMENT AND LIQUIDATING NOTES

**Relationship with the Treasury Department.**—The Treasury will make loans to FNMA if needed to provide for interest payments and payment of principal at maturity of the ML Notes as stated in the following letter:

October 11, 1957

Mr. J. S. BAUGHMAN  
*President*  
Federal National Mortgage Association  
811 Vermont Avenue, N. W.  
Washington 25, D. C.

Dear Mr. Baughman:

In answer to your letter of October 9, the Secretary of the Treasury is of the opinion that the timely payment of interest on the Association's Series ML Notes to be issued to the investing public under subsection (b) of section 306 of the Federal National Mortgage Association Charter Act, and the repayment of the principal thereof at maturity, constitute functions of the Association within the meaning of the following provisions of the Charter Act. Subsection (d) of section 306 provides, in substance, that the Association may issue to the Secretary of the Treasury its obligations in an amount outstanding at any one time sufficient to enable the Association to carry out its "Management and Liquidating Functions" under section 306, and further prescribes that the Secretary of the Treasury is authorized to purchase any obligations of the Association to be issued under section 306(d).

I am of the opinion that the timely payment of interest on its outstanding obligations, and the repayment of principal at maturity are unquestionably functions for which the Association may properly borrow from the Treasury. Accordingly, the Treasury will make loans to the Association under the procedures provided for in subsection (d) of section 306, if there be any need therefor to enable the Association to carry out its Management and Liquidating Functions, including the timely payment by the Association of interest and principal with respect to its Series ML Notes.

Very truly yours,

(Signed) ROBERT B. ANDERSON  
*Secretary of the Treasury*

**Other Features of ML Notes.**—FNMA will not issue additional ML Notes pursuant to Section 306(b) of the Charter Act if, at the time of such proposed issuance and as a consequence thereof, the resulting aggregate amount of its outstanding ML Notes issued pursuant to Section 306(b) would exceed 80 percent of the amount of the Association's ownership under the ML separate accountability free from any liens or encumbrances, of cash, FHA-insured mortgages, VA-guaranteed mortgages, and bonds or other obligations of or guaranteed as to principal and interest by the United States.

The notes are completely different from, and have no connection whatever with, Secondary Market Operations debentures which are sold through FNMA's Fiscal Agent, located in New York City, assisted by a group of recognized dealers and dealer banks.

**Legality as Investments.**—The ML Notes are lawful investments and may be accepted as security for fiduciary, trust and public funds under the authority and control of the United States or any officer or officers thereof. National banks may invest in these notes without regard to the statutory limitations and restrictions generally applicable to investment securities. The notes are eligible as collateral for Treasury tax and loan accounts.

**Tax Status.**—The income derived from the notes does not have any exemption as such, under the Internal Revenue Code of 1954. The notes are subject to Federal estate, gift, or other excise taxes. The FNMA Charter Act does not contain any specific exemption with respect to taxes now or hereafter imposed on the principal of or interest on the notes by any state or any of the possessions of the United States, or by any local taxing authority.

### EXAMINATION AND AUDIT

The FNMA is periodically examined by a regular auditing staff maintained by the Association. In accordance with the Government Corporation Control Act, the Association is also audited for each fiscal year by the General Accounting Office. Reports of such audits are made annually to the Congress and are available to the public.

### MANAGEMENT

The FNMA operates under the usual corporate officers and a Board of Directors of five members consisting of the Housing and Home Finance Administrator who is chairman ex officio,

and four other government officers appointed by him. The principal office of the Association is located at 811 Vermont Avenue, N. W., Washington 25, D. C.

### FINANCIAL STATEMENTS

There follows a statement of condition of the Management and Liquidating Functions of the Federal National Mortgage Association as of October 31, 1957, and statements of income and expense covering fiscal years 1956 and 1957, and the first 4 months of fiscal year 1958.

J. S. BAUGHMAN  
*President*

Federal National Mortgage Association

January 6, 1958

## FEDERAL NATIONAL MORTGAGE ASSOCIATION

Balance Sheet of Management and Liquidating Functions at October 31, 1957

### ASSETS

<b>Mortgages and related receivables:</b>		
Mortgages guaranteed by Veterans' Administration .....	\$1,483,979,744	
Mortgages insured by Federal Housing Administration ....	<u>804,497,198</u>	\$2,288,476,942
Direct mortgage loans transferred from RFC .....		438,984
Accrued interest receivable .....	\$ 8,005,565	
Other receivables arising from mortgages .....	<u>216,313</u>	8,221,878
<b>Investment in DHC purchase money notes:</b>		
Unpaid principal .....	\$ 37,811,385	
Accrued interest receivable .....	41,822	
Less: Unrealized equity .....	<u>14,410,226</u>	23,442,981
<b>Assets acquired through foreclosure and claims in process:</b>		
Property held pending transfer to—		
Veterans' Administration .....	\$ 400,972	
Federal Housing Administration .....	<u>5,762,586</u>	6,163,558
Property held for sale .....		6,784
Claims in process against—		
Veterans' Administration .....	\$ 579,695	
Federal Housing Administration .....	<u>21,039,416</u>	21,619,111
FHA debentures .....		40,580,600
Accrued interest on FHA debentures and debenture portion of claims .....		1,037,624
FHA certificates of claim .....		3,217,261
<b>Other assets:</b>		
Cash <sup>a</sup> .....		1,732,644
Miscellaneous .....		18,542
Furniture and equipment, less accumulated depreciation...		267,487
		<u>\$2,395,224,396</u>

### LIABILITIES

<b>Notes payable:</b>		
U. S. Treasury .....	\$ 871,869,357	
Held by public .....	<u>1,372,435,000</u>	\$2,244,304,357
<b>Accrued interest payable on:</b>		
Notes to the U. S. Treasury .....	\$ 6,339,061	
Notes held by public <sup>a</sup> .....	<u>4,217,765</u>	10,556,826
<b>Trust and deposit liabilities</b> .....		33,636,569
<b>Accounts payable and accrued liabilities</b> .....		1,754,934
		<u>\$2,290,252,686</u>

### INVESTMENT OF THE UNITED STATES GOVERNMENT

<b>Reserve for losses and contingencies</b> .....	\$ 93,709,878	
<b>Undistributed earned surplus</b> .....	<u>11,261,832</u>	104,971,710
		<u>\$2,395,224,396</u>

<sup>a</sup> Excludes \$26,350 on deposit with U. S. Treasury at October 31, 1957 for payment of matured interest on notes held by the public.

# FEDERAL NATIONAL MORTGAGE ASSOCIATION

## Comparative Statement of Income and Expense of the Management and Liquidating Functions

	<b>Period July 1 through October 31, 1957</b>	<i>Fiscal Year Ended</i>	
	<b>June 30, 1957</b>	<b>June 30, 1956</b>	<b>June 30, 1956</b>
<b>INCOME</b>			
Interest .....	\$32,928,991	\$101,990,811	\$106,435,426
Commitment and other fees .....	1,469	54,244	315,304
Service and acquisition fees .....	47,842	149,307	166,834
Other .....	2,891	10,417	14,231
Total .....	\$32,981,193	\$102,204,779	\$106,931,795
<b>EXPENSE</b>			
Interest on notes to U. S. Treasury .....	\$12,435,429	\$ 39,904,630	\$ 42,934,176
Interest on notes held by public .....	4,970,341	14,259,350	14,259,350
Fees for servicing mortgages .....	3,518,826	10,905,642	11,627,603
Administrative .....	699,505	1,865,783	2,570,446
Other .....	95,260	198,759	179,552
Total .....	\$21,719,361	\$ 67,134,164	\$ 71,571,127
<b>NET INCOME</b>	<b>\$11,261,832</b>	<b>\$ 35,070,615</b>	<b>\$ 35,360,668</b>