

**FEDERAL RESERVE BANK  
OF NEW YORK**

[Circular No. 9428  
December 23, 1982]

**AMENDMENT TO REGULATION T**

**Private Mortgage Pass-through Securities as Collateral for Margin Credit**

*To All Brokers and Dealers, and Members of National  
Securities Exchanges, in the Second Federal Reserve District:*

The following statement was issued by the Board of Governors of the Federal Reserve System:

The Federal Reserve Board has amended Regulation T — Securities Credit by Brokers and Dealers — to specify the characteristics of private mortgage pass-through securities that may be used as collateral for margin credit. The amendment will become effective January 17, 1983.

The amendment added a provision to the definition of an OTC (Over-the-Counter) margin bond, on which broker-dealers may extend good faith credit. The final rule requires:

- An original issue (rather than an outstanding principal amount at the time credit is extended) of \$25,000,000, that may be sold in a separate series;
- Current filings with the Securities and Exchange Commission; and,
- A reasonable basis for belief by the selling broker that the servicing agent is passing through the mortgage interest and principal payments and meeting other material terms of the offering.

Enclosed is the text of the amendment to Regulation T, which has been reprinted from the *Federal Register* of December 14, 1982. Questions thereon may be directed to our Regulations Division (Tel. No. 212-791-5914).

ANTHONY M. SOLOMON,  
*President.*

Board of Governors of the Federal Reserve System  
**CREDIT BY BROKERS AND DEALERS**

**AMENDMENT TO REGULATION T**

(effective January 17, 1983)

**PRIVATE MORTGAGE PASS-THROUGH SECURITIES AS OTC MARGIN BONDS**

**FEDERAL RESERVE SYSTEM**

**12 CFR Part 220**

[Docket No. R-0423]

**Regulation T; Private Mortgage Pass-through Securities as OTC Margin Bonds**

**AGENCY:** Board of Governors of the Federal Reserve System.

**ACTION:** Final rule.

**SUMMARY:** The Board hereby adopts an amendment to Regulation T that specifies the characteristics of "private" mortgage pass-through securities (i.e., not guaranteed by agencies of the United States government) that may be used as collateral for margin credit at brokers and dealers on a "good faith" basis. An addition will be made to the definition of "OTC margin bond" to recognize the unique features of these instruments. Unlike a typical corporate bond, the principal balance of this security declines each month as mortgages backing the security are amortized or prepaid. The proposed criteria, therefore, will require (1) an original issue of \$25,000,000 (rather than an outstanding principal amount at the time credit is extended) that may be sold in separate series, (2) current filings with the Securities and Exchange Commission, and (3) the passing through of mortgage interest and principal payments by the servicing agent according to the terms of the offering.

**EFFECTIVE DATE:** January 17, 1983.

**FOR FURTHER INFORMATION CONTACT:** Laura Homer, Securities Credit Officer, or Robert Lord, Attorney, Division of Banking Supervision and Regulation (202) 452-2781, or David Seiders, Senior Economist, Division of Research and Statistics, (202) 452-2694, at the Board of Governors of the Federal Reserve System, Washington, D.C. 20551.

**SUPPLEMENTARY INFORMATION:** On September 30, 1982, the Board proposed for public comment an amendment to Regulation T that would permit private mortgage pass-through securities meeting specified criteria to be used as collateral for margin credit at securities brokers and dealers (47 FR 43070, September 30, 1982).

The proposed amendment added a provision to the definition of "OTC margin bond" (on which broker-dealers may extend "good faith" credit) to include mortgage pass-through securities meeting minimum initial issue size, disclosure and financial requirements.

Some of the comments received indicated an uncertainty about whether the Board's proposed addition to the "OTC margin bond" definition would include certain mortgage-backed bonds. The Board wishes to make clear that the term "private mortgage pass-through security," as used in this amendment, encompasses mortgage-backed bonds with cash flow patterns closely related to repayments (or prepayments) of

mortgages used as collateral. These bonds sometimes are referred to as "cash flow" or "pay-through" bonds.

The Board specifically requested comment on whether the proposed \$25 million minimum original issue size requirement was an appropriate criterion to establish marketability of the security for margin account purposes. Reactions to this question were mixed. The Federal National Mortgage Association suggested that the proposed minimum initial issue size was inadequate for assuring that the collateral would be liquid. On the other hand, the Mortgage Bankers Association, the National Association of Home Builders, the American Continental Mortgage Company and Salomon Brothers suggested that a lower minimum initial issue size would be appropriate.

The Board believes that the \$25 million original issue size is appropriate, for the time being, to establish marketability and is, therefore, adopting that criterion. As the market develops, this requirement may be reexamined. The Board notes that it still has under review general questions about the issue size criteria for all OTC margin bonds in connection with the overall revision of Regulation T.

The Board also requested specific comment about the likelihood that brokers would liquidate mortgage pass-throughs to meet margin calls when there were other types of securities in a

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For this Regulation to be complete, retain:

- 1) Regulation T, as amended effective June 1, 1977, printed in the pamphlet "Securities Credit Transactions."
- 2) The Supplement to Regulation T (section 220.8) dated February 1982.
- 3) Various amendments, as printed in pamphlet dated February 1982.
- 4) Amendment effective May 17, 1982.
- 5) This slip sheet.

customer's account. Most of the respondents believed that other securities would be liquidated before mortgage pass-through securities. One brokerage firm, on the other hand, indicated that mortgage pass-throughs are at least as liquid as other securities, and that brokers would not necessarily make any distinction between the two for liquidation purposes. Comments also noted that an investor usually is given the opportunity to choose which securities are to be liquidated in order to meet margin calls.

A clarifying language change was also made in paragraph (i)(2)(iii) to indicate that the responsibility of a broker or dealer for reasonably ascertaining the servicing agent's contract compliance relates to material servicing responsibilities.

#### Final Regulatory Flexibility Analysis

The Board believes this rule will not have a significant economic impact on a substantial number of small entities.

#### List of Subjects in 12 CFR Part 220

Banks, banking, Brokers, Credit, Federal Reserve System, Margin, Margin requirements, Reporting and recordkeeping requirements, Securities.

### PART 220—[AMENDED]

Pursuant to sections 7 and 23 of the Securities Exchange Act of 1934, as amended (15 U.S.C. 78g and w), the Board hereby amends Regulation T (12 CFR Part 220) by revising § 220.2(i) as set forth below:

#### § 220.2 Definitions.

\* \* \* \* \*

(i) The term "OTC margin bond" means:

(1) A debt security not traded on a national securities exchange which meets all of the following requirements:

(i) At the time of the extension of credit, a principal amount of not less than \$25,000,000 of the issue is outstanding;

(ii) The issue was registered under section 5 of the Securities Act of 1933 and the issuer either files periodic reports pursuant to section 13(a) or 15(d) of the Securities Exchange Act of 1934 or is an insurance company which meets all of the conditions specified in section 12(g)(2)(G) of the Act; and

(iii) At the time of the extension of credit, the creditor has a reasonable basis for believing that the issuer is not

in default on interest or principal payments; or

(2) A private mortgage pass-through security (not guaranteed by an agency of the U.S. government) meeting all of the following requirements:

(i) An aggregate principal amount of not less than \$25,000,000 (which may be issued in series) was issued pursuant to a registration statement filed with the Securities and Exchange Commission under section 5 of the Securities Act of 1933;

(ii) Current reports relating to the issue have been filed with the Securities and Exchange Commission; and

(iii) At the time of the credit extension, the creditor has a reasonable basis for believing that mortgage interest, principal payments and other distributions are being passed through as required and that the servicing agent is meeting its material obligations under the terms of the offering.

\* \* \* \* \*

By order of the Board of Governors of the Federal Reserve System, December 8, 1982.

William W. Wiles,  
Secretary of the Board.

[FR Doc. 82-33618 Filed 12-13-82; 8:45 am]