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Federal Reserve Bank of New York, Operating Policy: Statement Regarding Reinvestment of Principal Payments on Agency Debt and Agency MBS

Federal Reserve System: Federal Reserve Bank of New York

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FEDERAL RESERVE BANK of NEW YORK *Serving the Second District and the Nation*

OPERATING POLICY

Statement Regarding Reinvestment of Principal Payments on Agency Debt and Agency MBS

August 10, 2010

On August 10, 2010, the Federal Open Market Committee directed the Open Market Trading Desk (the Desk) at the Federal Reserve Bank of New York to keep constant the Federal Reserve's holdings of securities at their current level by reinvesting principal payments from agency debt and agency mortgage-backed securities (agency MBS) in longer-term Treasury securities. The most recent H.4.1 data release indicates that outright holdings of domestic securities in the System Open Market Account (SOMA) totaled \$2.054 trillion as of August 4, 2010. The Desk will seek to maintain the face value of outright holdings of domestic securities in the SOMA at approximately this level. Due to differences in settlement dates for purchases and principal payments, it is anticipated that the actual level of domestic securities held will vary around this level to some degree.

In the middle of each month, the Desk will publish a tentative schedule of purchase operations expected to take place through the middle of the following month, as well as the anticipated total amount of purchases to be conducted over that period. The anticipated total amount of purchases will be calibrated to offset the amount of principal payments from agency debt and agency MBS expected to be received over that period. The announcement will occur shortly after the monthly releases of current MBS factors from Fannie Mae, Freddie Mac, and Ginnie Mae, allowing the Desk to anticipate the principal payments to be received by the SOMA portfolio over the period.

The first tentative schedule of purchase operations and the anticipated total amount of purchases to be conducted through the middle of September will be published tomorrow, August 11, at 3 p.m. The purchase schedule will include a list of operation dates, settlement dates, security types to be purchased (nominal coupons or TIPS), and a maturity date range of eligible issues for each scheduled operation. The Desk expects to begin purchasing Treasury securities under this policy on or around August 17.

The Desk will concentrate its purchases in the 2- to 10-year sector of the nominal Treasury curve, although purchases will occur across the nominal Treasury coupon and TIPS yield curves. The Desk will typically refrain from purchasing securities for which there is heightened demand or of which the SOMA already holds large concentrations.

Purchases will be conducted with the Federal Reserve's primary dealers through a series of competitive auctions via the Desk's FedTrade system. The exact list of securities eligible for purchase will be made available at the beginning of each purchase operation. The results of each operation will be published on the Federal Reserve Bank of New York's website shortly after each purchase operation has concluded.

[FAQs: Reinvestment of Principal Payments on Agency Debt and Agency Mortgage-Backed Securities in Treasuries »](#)

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