

1997 ANNUAL REPORT

The MBS market is evolving, bringing together a much more diverse base of participants, increasing emphasis on risk management and driving the automation of the trade process from start to finish.

TABLE OF CONTENTS

Introduction	1
Letter From the Chairman and President	2
Business Discussion	4
Audited Financial Statements	10
MBSCC Participants / Users	16
Board of Directors and Senior Officers	<i>inside back cover</i>



A PROFILE OF MBSCC

MBS Clearing Corporation (MBSCC) is the sole provider of automated trade comparison, confirmation, risk management, netting and electronic pool notification services to participants in the mortgage-backed securities market.

These securities, bought and sold in the over-the-counter, cash, forward and options markets, are backed by the Government National Mortgage Association (GNMA), the Federal Home Loan Mortgage Corporation (FHLMC) and Fannie Mae. The key participants in this market – the nation's oldest of the secondary markets for loan assets – are mortgage originators, government-sponsored entities, dealers, inter-dealer brokers and institutional investor firms.

MBSCC, established in 1979, is a clearing agency registered with the United States Securities and Exchange Commission and is affiliated with the National Securities Clearing Corporation. MBSCC is majority-owned by its participants.



MBS Clearing Corporation ended 1997 with clearing and Electronic Pool Notification (EPN) activity levels well ahead of 1996, due to the generally strong performance of the mortgage-backed securities market and the addition of several new participants.

At year-end 1997, MBSCC's revenues from operations totaled \$14.9 million, up from \$13.1 million at year-end 1996. Compared trade-side volume from our clearing services — Settlement Balance Order, Trade for Trade and Options — increased 10 percent over 1996 to \$8.6 trillion compared with \$7.8 trillion. In 1997, the highest volume recorded was in October, rising strongly to \$885.5 billion, versus October 1996's high of \$741.8 billion.

Also, MBSCC eliminated 84 percent of the settlement value of trades entered for netting, a 3 percent increase over 1996, and redesigned its netting process to shorten the time span from netting to settlement day from 96 to 72 hours. This change reduced participants' settlement of an additional 600,000 pools and decreased their clearance costs by an incremental \$6 million above the estimated \$47 million saved in 1997.

In 1997, we realized our objective to more closely tie participants' service fees to actual operating costs by reducing discountable service fees 20 percent, effective with January 1998 billing. This decision reflects consistent growth in the use of clearing services and steady fixed expenses.

In 1997, the number of EPN users increased to 71, with the current face values of pools swelling to slightly more than \$2 trillion from \$1.4 trillion the previous year. Like MBSCC's other services, EPN is doing its job well — aggressively extending efficiency into the comparison and settlement processes, reducing the overall costs of doing business, and maintaining a level of information tracking that continuously decreases the number of fails.

Responding to industry requests for a PC-based method to exchange EPN information, MBSCC launched a beta test of EaSy Pool in 1997. This highly flexible, high-speed data conversion system has been so well received by participants that we plan to replace EPN's terminal system, RENEX, with EaSy Pool in 1998. In the coming year, we will also look to use the EPN platform for a real-time trade-matching service. This service would afford participants the opportunity to report and correct trades and their discrepancies almost immediately, greatly reducing exposure to market shifts.

Plans to increase connectivity among participants by straight-through processing were brought closer to fruition last year. An agreement made by MBSCC, Standard & Poor's and The Depository Trust Company (DTC) paved the way for the issuance of CUSIPs for To Be Announced trade terms. This signifies the advent of a standard through which different entities can communicate information. Similarly, MBSCC has worked closely with DTC to augment its Institutional Delivery system to accept mortgage-related confirmation information.

Responding to the needs of all participants in our market, MBSCC focused on expanding institutional participation in 1997. This continuing effort is expected to result in institutional participation exceeding 50 percent of our membership in the next few years.

Marking an important step in our efforts to develop links with market participants outside our national borders, in 1997 we welcomed as clearing participants two Fischer Francis Trees & Watts, Inc.-managed variable capital investment companies domiciled in Ireland, and three CDC Capital funds in Luxembourg. Further globalization of the financial markets will mean growing diversity in investment portfolios. We must be prepared for this eventuality, at the same time ensuring safety and soundness as we deal with regulations and investment environments that differ from country to country.

A 20 percent reduction in discountable service fees

reflects consistent growth in the use of clearing

services and steady fixed expenses.

Large transaction volumes, lengthy settlement periods and the demands of an increasingly heterogeneous bloc of investors require vigilant surveillance of our risk management policies. Last year, we proposed several important policy changes regarding collateralization, the liability responsibilities of principals, and the process of liquidating a former participant's open trades. More are on the drawing board for 1998.

The economic crisis in Southeast Asia last autumn clearly signaled the influence of foreign market problems on our domestic markets. The situation served to reaffirm the efficacy of our risk management policies and the ongoing work of our Risk Management Committee in helping us maintain a strong position at all times.

MBSCC is in a unique state of readiness to enter the next millennium. Our applications have long reflected bond maturity dates beyond the year 2000. We are upgrading our operating systems and programming languages, and a dedicated project team is collaborating with the Securities Industry Association to ensure that the MBS industry is adequately prepared.

While focusing on trends in the industry and determining ways to make the trading process more efficient, equally important is the day-to-day management of the business. There are many individuals involved in these responsibilities. Our participants and owners ... our industry affiliates: the Bond Market Association and the Industry Standardization for Institutional Trade Communication group ... the three U.S. agencies without whose support the residential mortgage industry would be at a standstill ... our board and committee members who give so much time, intelligence and historical perspective to the process of making this business more efficient for everyone involved ... and our co-workers, a small staff, loyal and extremely dedicated to MBSCC.

We acknowledge and sincerely thank these individuals and organizations for their valuable efforts in preparing MBSCC for a vibrant, emerging future.



Ronald A. Stewart
*President and
Chief Executive Officer*

Frank J. DeCongelio
Chairman of the Board

GROWTH AND CHANGE

In the last five years, an evolution of the market has taken place, as institutional investors – corporations, commercial banks, life insurance companies, pension, trust and mutual funds – have taken a larger and more active stake in mortgage-backed securities. Five years ago, a fraction of our participants were from the buy-side community; today they represent nearly 40 percent.

With guidance from our broker-dealer members and organizations such as ISITC (the Industry Standardization for Institutional Trade Communication group), in 1997 we launched an intensive effort to increase our understanding of the needs of these members, as well as to introduce them to our services.

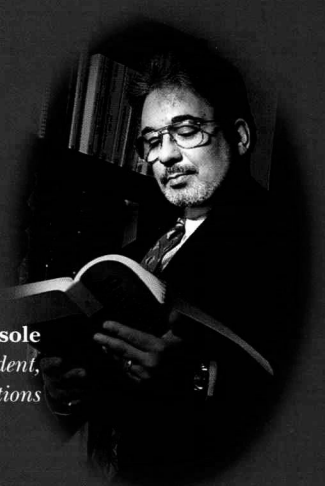
While our primary constituents continue to be the broker-dealer community, we are in agreement with our members that the more firms using our tested and proven systems, the more efficient the trading process will become, and the more money the industry will save.

In 1994, the investment firm of Fischer Francis Trees & Watts, Inc., began using MBSCC's netting service on behalf of its clients. "Before that, our largest problem was

"Using MBSCC to net-out and pass pool notification in electronic form to our counter parties has had a powerful impact on the way we run our business."

Michael L. Wyne
*Director of Operations, Fischer
Francis Trees & Watts, Inc.*

George Parasole
*Vice President,
Member Services & Operations*



clearing mortgages,” explained Michael L. Wyne, director of operations. “With netting, there are no pools attached to our TBA trades and so, effectively, our settlement volume has been reduced by thousands of pools per month. As a major mortgage player, we can’t employ the marketing strategies we want without using the clearing corporation.”

For MBSCC’s full family of participants, several new service enhancements, begun in 1997, will move closer to being completed in the coming year. Among them is allowing trades executed with Zero Variance Stipulations to become eligible for clearing services, a move heralding the beginning of an ambitious program that will enable all terms of a trade, no matter the Trade Stipulation or Specification, to be compared, confirmed and recorded. The benefits are substantial – fewer failed trades for participants and, as a result, considerable cost savings.

Other programs underway are the ability to validate the factors of a specific mortgage pool and pass along the information to EPN users, and moving our Comparison Only service to full production in 1998. During the pilot phase last year, Comparison Only, which gives firms the ability to automate the comparison and confirmation of To Be Announced trades, reached more than \$66 billion in par value entering the system.

While these initiatives in their totality may seem ambitious, they have been planned within timetables that are both appropriate and practical, considering the imperatives of Year 2000 and the effect of the coming European Monetary Union on our members’ strategic plans.

The Effect of Netting

\$592.7 billion par value into netting system. December 1997

MBSCC nets or reduces the total number of financial obligations requiring settlement.

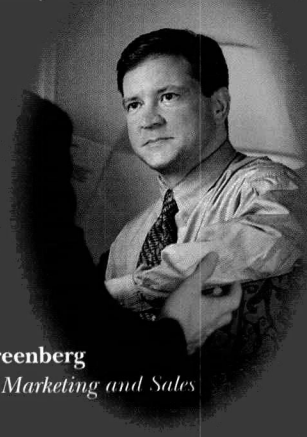
85.2% Netting Factor

\$88 billion net financial obligation

Lisa B. Gold
Senior Programmer Analyst



Steven Greenberg
Director of Marketing and Sales



CREATING A SEAMLESS PATH

The dawn of the transcontinental railroad broke after the Civil War, when a hodgepodge of railroad tracks stretching from cities and towns along the East Coast converged in Omaha, Nebraska, and became part of a larger design: the junction of the Union Pacific and Central Pacific Railroads. Suddenly, citizens could move easily. Goods could travel in a fraction of the old time. The level of commerce rose.

The MBS industry – indeed the entire investment industry – faces a similar threshold of opportunity, as the drive to deliver straight-through processing pushes forward. Consider the unique characteristics of the MBS market:

- months between trade date and settlement date;
- an average trade par value of \$14 million;
- a trade that can vary from the original face value – to a maximum of \$10,000 per \$1 million traded.

These are extraordinary risk-related variables that could be better controlled through straight-through processing – as a result, increasing efficiency of the trade process.

In a world where connectivity allows information to travel easily around the globe – and corporations to seize business opportunities quickly – the MBS market still operates with separate and distinct communication channels, many of them manual, and using incompatible languages.

At MBSCC we are addressing the challenge of moving a trade through confirmation, notification and settlement without interruption. Redundant processes could be eliminated. Errors could be reduced, and corrected quickly, if they exist. And the bottom line could strengthen.

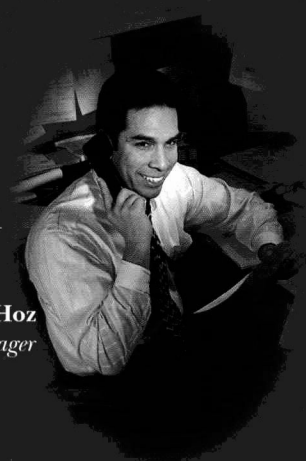
Progress is being made; and EPN is the key. MBSCC has proposed to the industry a solution where EPN, after receiving a pool notification message from a broker-dealer, would take over the transmittal of that information to the buying institution and to DTC, whose system would then transfer the data directly to its Standing Instructions Database. Confirmations and affirmations would flow easily among dealers, institutions and agent banks. And all information related to pool notification would be delivered in the universal language of nine-



Joseph Quagliariello
Operations Manager



Cordie L. Brown
Executive Assistant



Henry De La Hoz
Technical Manager

digit CUSIPs. Simply put: a standardized, orderly mechanism replacing the vintage tangled web that now exists.

Late last year, MBSCC and DTC announced that Standard & Poor's CUSIPs will be used as the identifier for To Be Announced trades, incorporating such necessary information as product, agency, coupon, maturity, settlement month and check digit. Implementation is scheduled for 1998.

We strongly believe that industry-wide conversion to CUSIPs is fundamental to the success of straight-through processing and will greatly advance the highway of connectivity among trading entities. With further links from EPN to DTC's Standing Instructions Database, a complete confirmation will be achieved.

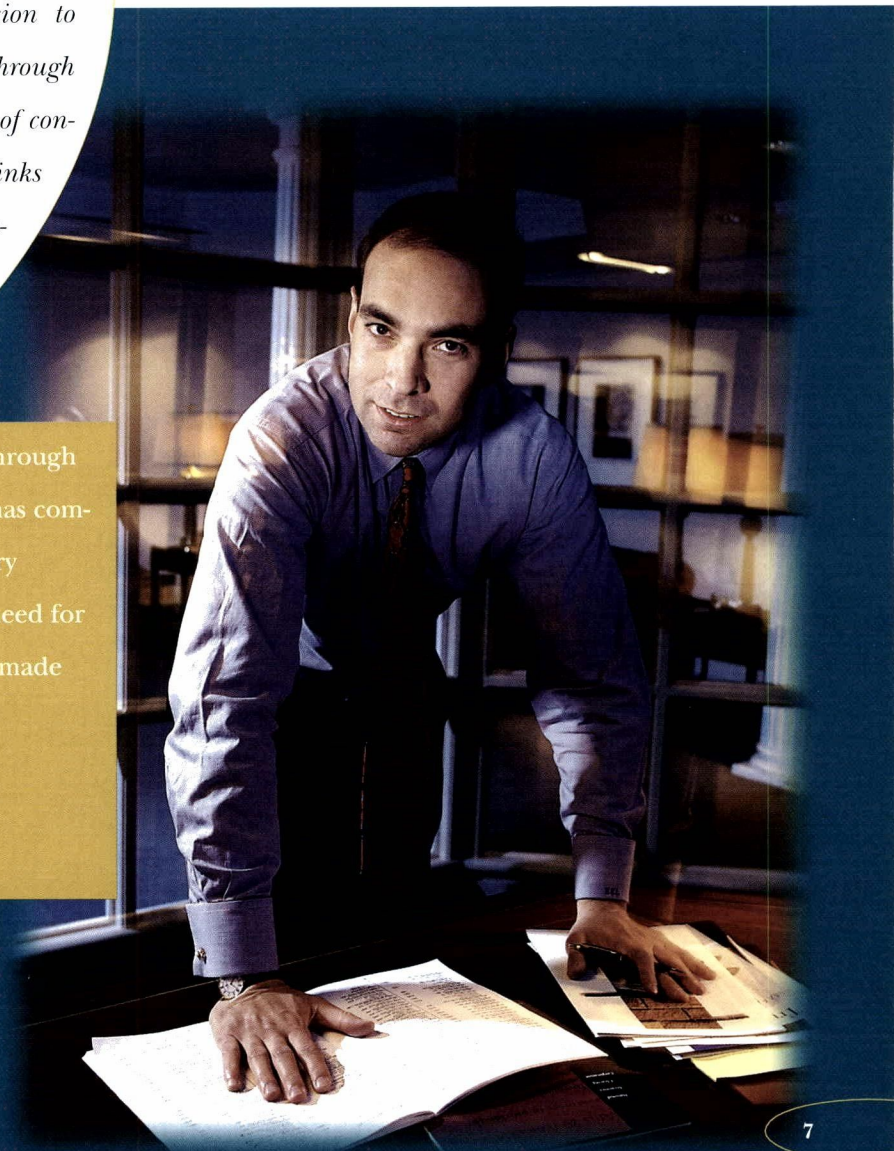
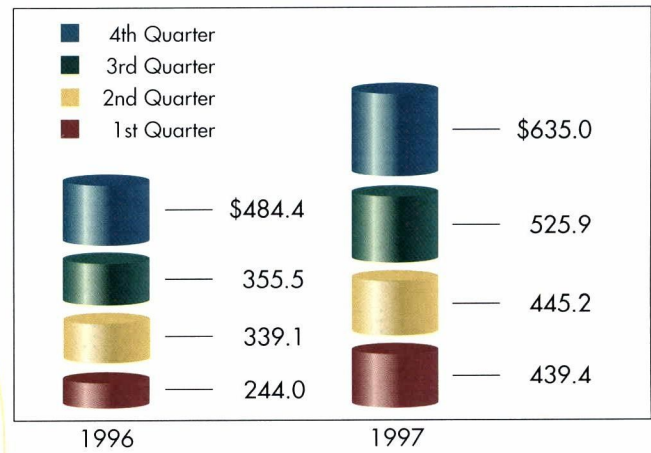
"Utilities can do much to make straight-through processing a reality. MBSCC is one that has committed its resources to moving the industry along, not only in terms of the absolute need for it, but also in the real progress they have made over the last two years."

Kenneth Librot

Managing Director, Bear, Stearns & Company

Face Value of EPN Messages

(in billions)



MANAGING MARKET RISK

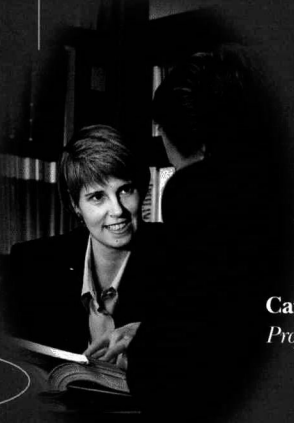
Leland Brendsel, chairman of the Federal Home Loan Mortgage Corporation, has said that "the greatest era for mortgage lending lies just beyond the century mark." With growth comes the potential for increased risk, as more participants beyond the broker-dealer community enter the market, placing new requirements on the industry, and creating the need to reassess the adequacies of the various components of our risk management process.

A key part of this risk management effort is achieved through MBSCC's netting services – which last year eliminated approximately 84 percent of the settlement value of trades entered into the system, a 3 percent increase over 1996. In 1997, we took additional steps to safeguard the interests of our members, thus ensuring that they are adequately covered at all times. Participants Fund allocations and limited cross-guaranty agreements with other clearing agencies now complement daily margin requirements.

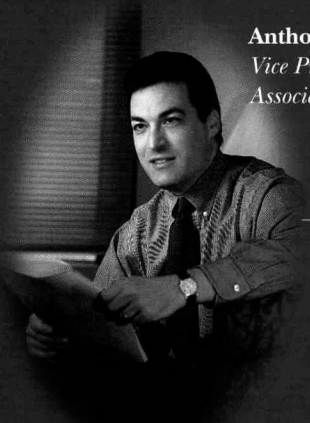
In recent times, there has been a significant increase in the amount of mortgage-backed securities and Treasuries

deposited as collateral. Recognizing this trend and to better protect participants' financial positions, last year MBSCC instituted steps to ensure that an adverse market movement would not significantly erode the collateralized position of the firm. We moved up by one day notification of new margin requirements created through netting, as well as participants' obligations to meet these requirements. Both measures are designed to increase members' and MBSCC's certainty that unforeseen events will not result in financial loss.

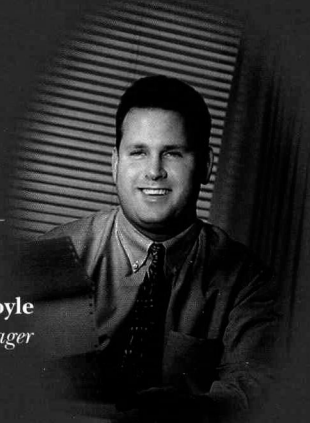
These initiatives, among many begun or implemented last year, are part of a larger agenda that addresses the inevitable expansion and safety of the MBS market. This agenda will include an analysis of the benefits of offering a non-mutualized trade guarantee for some trades. While MBSCC at the present time matches net buyers and sellers, and requires margin payment until trades are settled, we have never been imposed in the middle of the process. Such a change in our structure could reduce the potential for clearance gridlock and excessive costs or financial loss to participants should a member



Candi C. Childers
Project Manager



Anthony H. Davidson
Vice President and
Associate General Counsel

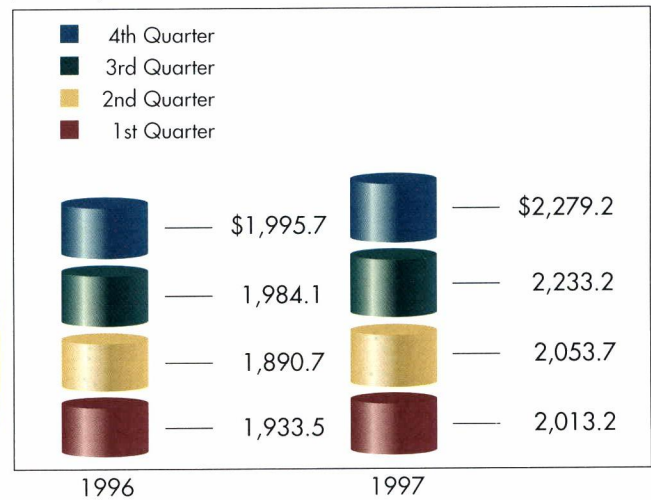


Joseph P. Doyle
Account Manager

firm be forced to liquidate its holdings. In the same vein, we are exploring ways to improve our liquidity in the event of payment shortfall by a member. These issues will, of course, require a thorough review of our membership requirements and consensus by our members that they are in the best interests of the industry.

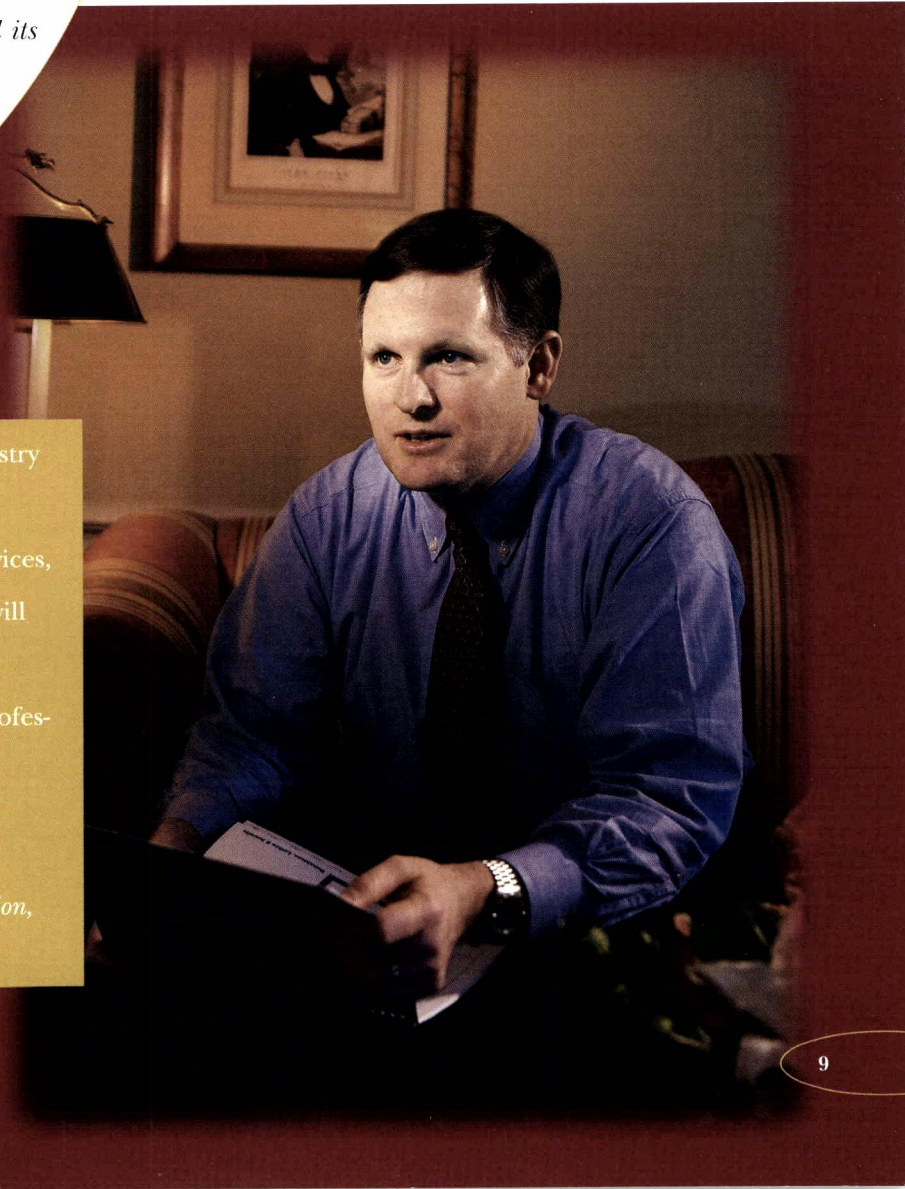
We also intend to strongly champion more timely submission of trade terms on trade date since margin requirements cannot be determined until this information is received. At MBSCC, we fully accept the imperative of being prepared for growth – in all its complexities. In such an environment, the issue of risk is paramount, and it is the interlocking support mechanism of sound policies and procedures that will help carry us forward.

Clearing System Volume
Total Par Values of Compared Trade Sides
(in billions)



“As the mortgage-backed securities industry becomes more aware of the benefits of MBSCC’s trade processing and EPN services, it is important to know that the system will work 100 percent of the time, and that requires a consistently dedicated and professional approach to controlling risk.”

Vincent P. Browne
*Senior Vice President, Credit & Administration,
Donaldson, Lufkin & Jenrette*



MBS CLEARING CORPORATION

BALANCE SHEETS

December 31,	1997	1996
	(In thousands)	
Assets		
Cash and cash equivalents	\$ 5,541	\$ 5,077
Accounts receivable	795	636
Participants' deposits	639,888	1,075,259
Fixed assets, less accumulated depreciation of \$788,000 and \$423,000 at December 31, 1997 and 1996, respectively	891	1,042
Other assets	202	487
Total assets	\$647,317	\$1,082,501
Liabilities and Stockholders' Equity		
Liabilities:		
Accounts payable and accrued liabilities	\$ 2,429	\$ 2,242
Participants' deposits	639,888	1,075,259
Total liabilities	642,317	1,077,501
Excess of net assets acquired over purchase price (Note 2)	-	677
Stockholders' equity:		
Common stock, no par value:		
Class A: 50,500 shares authorized, 38,346 shares issued and outstanding at December 31, 1997 and 1996	1	1
Class B: 5,000 shares authorized, 4,260 shares issued and outstanding at December 31, 1997 and 1996	432	432
Retained earnings	4,567	3,890
Total stockholders' equity	5,000	4,323
Total liabilities and stockholders' equity	\$647,317	\$1,082,501

The accompanying notes are an integral part of these statements.

MBS CLEARING CORPORATION

STATEMENTS OF INCOME AND RETAINED EARNINGS

For the Year Ended December 31,	1997	1996
	(In thousands)	
Revenue:		
Operations	\$14,916	\$13,137
Discount to participants	8,015	6,949
Net revenue from operations	6,901	6,188
Interest income	826	646
Amortization of excess of net assets acquired over purchase price (Note 2)	677	1,083
Total revenue	8,404	7,917
Expense:		
Employee compensation	3,430	2,850
Systems and related support	2,179	2,016
Rent, maintenance and utilities	207	205
Professional and other services	872	940
General and administrative	674	537
Depreciation	365	286
Total expense	7,727	6,834
Income before income taxes	677	1,083
Income tax provision:		
Current	(66)	(283)
Deferred	66	283
Total income tax provision	-	-
Net income	677	1,083
Retained earnings, beginning of year	3,890	2,807
Retained earnings, end of year	\$ 4,567	\$ 3,890

The accompanying notes are an integral part of these statements.

STATEMENTS OF CASH FLOWS

For the Year Ended December 31,	1997	1996
	(In thousands)	
Cash flows from operating activities:		
Net income	\$ 677	\$1,083
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization of excess of net assets acquired over purchase price	(677)	(1,083)
Depreciation	365	286
Decrease (increase) in operating assets:		
Accounts receivable	(159)	106
Other assets	285	1,423
Increase(decrease) in operating liabilities:		
Accounts payable and accrued liabilities	187	(1,247)
Net cash provided by operating activities	678	568
Cash flows from investing activity - purchase of fixed assets	(214)	(314)
Cash flows from financing activity - repayment of note payable on purchase transaction		
	-	(1,662)
Net increase (decrease) in cash and cash equivalents	464	(1,408)
Cash and cash equivalents, beginning of year	5,077	6,485
Cash and cash equivalents, end of year	\$5,541	\$5,077
Supplementary disclosures:		
Interest paid	\$ -	\$ 42
Income taxes refunded	\$ 153	\$1,467

The accompanying notes are an integral part of these statements.

NOTES TO FINANCIAL STATEMENTS

December 31, 1997

Note 1 Organization and Operations

MBS Clearing Corporation (MBSCC), a clearing agency registered with the Securities and Exchange Commission, provides trade comparison and settlement processing for mortgage-backed securities.

Note 2 Summary of Significant Accounting Policies

Cash Equivalents: MBSCC invests funds in overnight reverse repurchase agreements, which are considered cash equivalents. Such agreements provide for MBSCC's delivery of cash in exchange for securities having a market value which is at least 102% of the amount of the agreement. An independent custodian designated by MBSCC takes possession of the securities. Overnight reverse repurchase agreements are recorded at the contract amounts and totaled \$5,541,000 and \$4,890,000, at December 31, 1997 and 1996, respectively. At December 31, 1997, one financial institution was counterparty to this agreement.

Fixed Assets: Fixed assets consist primarily of computer hardware which is depreciated on a straight-line basis over three or five years.

Excess of Net Assets Acquired Over Purchase Price: Under a stock purchase agreement dated August 12, 1994, MBSCC acquired all the outstanding stock of a predecessor corporation which was a subsidiary of the Chicago Stock Exchange, Incorporated. This acquisition had been accounted for as a purchase transaction. The fair value of net assets acquired by MBSCC exceeded the purchase price by \$4,738,000. The excess was first allocated to reduce fixed assets by \$1,488,000. The remaining \$3,250,000 excess has been amortized to operations on a straight-line basis over three years.

Income Taxes: Deferred tax assets and liabilities are provided for the expected future tax consequences of temporary differences between the carrying amount and tax basis of assets and liabilities.

Financial Instruments: Management believes that the carrying value of financial instruments approximates market value.

Estimates: The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets

and liabilities and disclosure of contingent assets and liabilities at the date of financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Note 3 Participants' Deposits

The rules of MBSCC require its participants to maintain a minimum deposit in cash and to make additional deposits to cover market differentials to secure participants' obligations. Additional amounts may be assessed against participants in accordance with MBSCC's rules.

Participants' deposits consist of cash, securities issued or guaranteed by the U.S. Government or its agencies, and letters of credit. A summary of the deposits held at December 31, 1997 and 1996 follows:

	1997	1996
Cash	\$ 44,584,000	\$ 4,825,000
Securities issued or guaranteed by the U.S. Government or its agencies, at market	595,304,000	1,070,434,000
Letters of credit	367,119,000	491,391,000

MBSCC has entered into a limited cross-guaranty agreement separately with National Securities Clearing Corporation (NSCC), International Securities Clearing Corporation, Government Securities Clearing Corporation, and the Participants Trust Company under which these entities have agreed to make payment to each other for any remaining unsatisfied obligations of a common defaulting participant to the extent that these entities have excess resources of the defaulting participant.

Note 4 Transactions with Related Parties

NSCC, a minority shareholder of MBSCC, provides various support services and office facilities to MBSCC. The costs of providing these services are charged to MBSCC in accordance with the provisions of a service agreement. The agreement expires in 1999 and will automatically be extended after the initial five-year term unless canceled by either party upon six months prior written notice. Charges to MBSCC pursuant to

this agreement totaled approximately \$653,000 in 1997 and \$567,000 in 1996. Amounts payable to NSCC at December 31, 1997 and 1996 were \$583,000 and \$149,000, respectively.

MBSCC is contingently liable, under a service agreement, for a portion of NSCC's office lease which expires on December 31, 2012. At December 31, 1997, the contingent commitment of MBSCC for the remaining lease period is approximately \$1,700,000.

Note 5 Income Taxes

MBSCC files Federal, New York State, New York City and Illinois income tax returns. The 1997 and 1996 income tax provisions differ from an amount based upon the statutory Federal income tax rate of 34% due to the amortization of the excess of net assets acquired over purchase price. The tax effect on temporary differences that give rise to significant portions of deferred tax assets consist primarily of depreciation and employee benefit costs.

Note 6 Post-Retirement Benefit Plans

All eligible employees of MBSCC participate in NSCC's trustee, noncontributory defined benefit pension plan. In addition, MBSCC also participates in NSCC's noncontributory supplemental executive retirement and benefit restoration plans which provide for certain benefits to identified executives of MBSCC upon retirement. Further, MBSCC also participates in NSCC's life insurance program which provides payment of death benefits to beneficiaries of eligible retired employees and NSCC's health insurance program which provides benefits to eligible retired employees. In 1997, costs for these plans aggregated \$155,000 and were determined based upon an actuarial calculation using information related to all eligible MBSCC employees. Disclosure of post-retirement benefit obligations, expense components and actuarial assumptions for the NSCC plans are included in NSCC's 1997 financial statements.

Price Waterhouse LLP



REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Directors and

February 12, 1998

Stockholders of MBS Clearing Corporation

In our opinion, the accompanying balance sheets and the related statements of income and retained earnings and of cash flows present fairly, in all material respects, the financial position of MBS Clearing Corporation at December 31, 1997 and 1996, and the results of its operations and its cash flows for the years then ended in conformity with generally accepted accounting principles. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with generally accepted auditing standards which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for the opinion expressed above.

Price Waterhouse LLP

**MANAGEMENT'S REPORT ON RESPONSIBILITY FOR
INTERNAL CONTROL OVER FINANCIAL REPORTING**

To the Board of Directors and

February 12, 1998

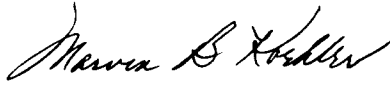
Stockholders of MBS Clearing Corporation

MBS Clearing Corporation (MBSCC) maintains a system of internal control over financial reporting which is designed to provide reasonable assurance regarding the preparation of reliable published financial statements. The system contains self-monitoring mechanisms, and actions are taken to correct deficiencies as they are identified. Even an effective internal control system, no matter how well designed, has inherent limitations — including the possibility of the circumvention or overriding of controls — and therefore can provide only reasonable assurance with respect to financial statement preparation. Further, because of changes in conditions, internal control system effectiveness may vary over time.

MBSCC's management assessed its internal control over financial reporting as of December 31, 1997, in relation to criteria for effective internal control described in "Internal Control-Integrated Framework" issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this assessment, MBSCC believes that, as of December 31, 1997, its system of internal control over financial reporting met those criteria.



Ronald A. Stewart
President and Chief
Executive Officer



Marvin B. Koehler
Chief Financial Officer
and Treasurer

Price Waterhouse LLP



**REPORT OF INDEPENDENT ACCOUNTANTS ON
INTERNAL CONTROL OVER FINANCIAL REPORTING**

To the Board of Directors and

February 12, 1998

Stockholders of MBS Clearing Corporation

We have examined management's assertion that MBS Clearing Corporation (MBSCC) maintained effective internal control over financial reporting as of December 31, 1997 which is included in the accompanying Management's Report on Responsibility for Internal Control Over Financial Reporting.

Our examination was made in accordance with standards established by the American Institute of Certified Public Accountants and, accordingly, included obtaining an understanding of the internal control over financial reporting, testing, and evaluating the design and operating effectiveness of the internal control, and such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion.

Because of inherent limitations in any internal control, errors or irregularities may occur and not be detected. Also, projections of any evaluation of the internal control over financial reporting to future periods are subject to the risk that the internal control may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, management's assertion that MBSCC maintained effective internal control over financial reporting as of December 31, 1997 is fairly stated, in all material respects, based upon criteria established in "Internal Control-Integrated Framework" issued by the Committee of Sponsoring Organizations of the Treadway Commission.



PARTICIPANTS / USERS

Member Name	Clearing	EPN	COP	Member Name	Clearing	EPN	COP
ABN AMRO Chicago Corporation		•		Hilliard Farber & Co., Inc.	•	•	
A.G. Edwards & Sons, Inc.		•		III Finance Ltd.	•	•	
Adams, Viner and Mosler		•		III Global Ltd.	•	•	
Allianz of America, Inc.		•		J.P. Morgan Securities Inc.	•	•	•
Anchor National Life Insurance Company	•			JPMIM		•	
BancAmerica Robertson Stephens	•			Jennison Associates		•	
Banc One Capital Corp.		•		Lehman Brothers Inc.	•	•	•
Banc One Mortgage Corporation		•		Liberty Brokerage Inc.	•	•	
Bankers Trust Company	•	•		Lincoln Capital Management Co.		•	
Bankers Trust (Delaware)	•	•		Long Term Capital Portfolio LP	•	•	
BT Alex. Brown Incorporated	•	•		MBS Fund Alpha	•		
BZW Securities, Inc.	•	•	•	MBS Fund Caspian	•		
Bear, Stearns & Company	•	•	•	MBS Fund Gamma	•		
CalAmerica Life Insurance Co.	•			Manufacturers and Traders Trust Co.	•		
Cantor Fitzgerald Securities	•			Marine Midland Bank	•		
Chase Manhattan Bank	•			McDonald & Co. Securities	•	•	
Chase Manhattan Bank-Portfolio		•		Merrill Lynch GSI	•	•	•
Chase Manhattan Mortgage Corporation	•			Morgan Guaranty Trust Company of NY	•		
Chase Securities Inc.	•	•	•	Morgan Keegan & Company	•		
Citicorp Mortgage, Inc.	•			Morgan Stanley Market Products, Inc.	•	•	•
CNA Financial Corporation	•	•		NationsBanc Montgomery Securities, Inc.	•	•	
CPR (USA) Inc.	•			NationsBank, N.A. (Carolinas)	•	•	
Compass Bank		•		New York Life Insurance & Annuity Corp.	•	•	
Countrywide Home Loans, Inc.	•	•		New York Life Insurance Company	•	•	
Countrywide Securities Corp.	•	•		Nikko Securities International, Inc.	•	•	•
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Craigie Inc.		•		Norwest Mortgage		•	
Credit Suisse First Boston Corporation	•	•	•	Oppenheimer & Company, Inc.	•	•	•
Daiwa Securities America, Inc.	•	•		PaineWebber Inc.	•	•	•
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Deutsche Morgan Grenfell Inc.	•	•	•	Prudential Capital Management		•	
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FFTW - Freddie Mac Gold Mortgage Libor PC Fund PLC - Fund A Subsidiary Company Limited	•			Stephens Inc.	•	•	
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