

January 24, 2002

Subject: Coupon Stripping Rules

Cancel Date: Upon Incorporation
into the CCDM

The purpose of this Notice is to assist Chief Counsel attorneys in advising field personnel in the development of cases involving the application of section 1286(e)(2) to certain fees payable out of mortgage payments received by mortgage pool trusts.

Previously, the Service has held that certificate holders in certain mortgage pool trusts are treated as owning the entire equitable interests in mortgages that make up the trust corpus and that the fees paid by the trusts are deductible by the certificate holders. (See, Rev. Rul. 84-10, 1984-1 C.B. 155; Rev. Rul. 71-399, 1971-2 C.B. 433; and Rev. Rul. 70-545, 1970-2 C.B. 7). In those situations, certain entities act as guarantor of the timely payment of mortgage principal and interest to the certificate holders and may also act as mortgage pool trustee. The entities may have held legal ownership of the mortgages in the mortgage pool on a transitory basis as part of the procedure for effecting the guaranty, or they may hold legal ownership as trustee. In the capacity of guarantor, the entities are paid a portion of the mortgage interest as a fee for their guarantee. Since these entities did not have an ownership interest in the trust corpus for tax purposes when the right to payment of fees was created, the position of the Service is that the fees they receive for the guaranty of timely mortgage principal and interest payments to the certificate holders do not constitute stripped coupons within the meaning of section 1286(e)(2) of the Code.

In other situations, a financial institution owning mortgages may transfer the mortgages to a mortgage pool trust and retain the right to receive a portion of mortgage payments as compensation for continuing to provide mortgage servicing. Whether the retained right to receive mortgage payments constitutes a right to stripped coupons is to be determined in

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accordance with Rev. Rul. 91-46, 1991-2 C.B. 358, and Rev. Proc. 91-50, 1991-2 C.B. 778. Questions regarding this Notice should be directed to Thomas M. Preston of the Office of Associate Chief Counsel (Financial Institutions and Products) at (202) 622-3930.

/s/

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