

No.: 96-111
Date: December 23, 1996

FEDERAL HOUSING FINANCE BOARD

Mortgage Partnership Finance Pilot Program for the
Federal Home Loan Bank of Chicago

WHEREAS, the Federal Home Loan Bank of Chicago (FHLBank or Bank) has requested Federal Housing Finance Board (Finance Board) approval of a pilot program that would permit the FHLBank to fund one-to-four family residential mortgage loans originated by member institutions;

WHEREAS, the objective of the pilot program is to unbundle the risks associated with home mortgage lending and allocate the individual risk components between the FHLBank and its members in a manner that best employs their respective core competencies;

WHEREAS, the Finance Board believes that, while there may be functional similarities between the lending contemplated under the pilot program and FHLBank advances, the technical differences make it impractical to apply the requirements of the Finance Board's Advances regulation (12 C.F.R. Part 935) to the loans made under the pilot program;

WHEREAS, the FHLBank has incidental authority to undertake the pilot program institutions under sections 11(a) and 11(e)(1) of the Federal Home Loan Bank Act (Bank Act), 12 U.S.C. §§ 1431 (a),(e)(1);

WHEREAS, the Finance Board believes the proposed pilot program satisfies the three criteria established by the Finance Board for considering and approving new mission-related activities: 1) the Bank's in-house expertise, the involvement of its board and senior management in the development of the program's business plan policies, underwriting guidelines, and monitoring and reporting requirements, the intended establishment of reserves and member secondary credit enhancements appropriate to risk, the Bank's experience in managing the interest rate and options risk associated with home mortgages, and the level of program oversight contemplated, should ensure preservation of the triple-A rating of the FHLBank and the System; 2) the financial advantages of the program relative to other funding alternatives available to members, the capital treatment which will allow the members to more effectively leverage their equity, and the program's underwriting standards, which are expected to be more flexible than those used to determine eligibility for purchase in the secondary market, should allow participating members to originate more home mortgage loans on more flexible and attractive terms; and 3) in providing members with a strategic alternative that will allow them to compete more effectively in the housing finance market, the program acts to promote the cooperative nature of the FHLBank System.

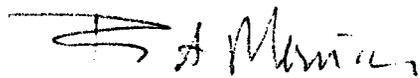
NOW THEREFORE BE IT RESOLVED THAT, the Finance Board hereby approves the FHLBank of Chicago's proposal, as amended, to establish a pilot program under which it will fund \$750 million in single-family mortgages originated by member institutions, subject to the following conditions:

- 1) The original principal balances of the subject loans shall fall within the conforming loan limits applicable to the secondary market housing GSEs;
- 2) The Bank shall employ pricing methodology in an attempt to direct a portion of the program's funding to low- and moderate-income households;
- 3) The board of the Bank shall ensure, and certify to, the existence of appropriate expertise, policies, procedures, and controls prior to program implementation;
- 4) The board of the Bank shall evaluate the need for and establish, prior to program implementation and on an ongoing basis, any appropriate reserves;
- 5) The board of the Bank shall take appropriate precautions, in structuring its program, to avoid conflicts of interest, or any appearance thereof, for board directors;
- 6) The board of the Bank shall require at each regular board meeting program progress reports from management during the first year of the program (and at least quarterly reports thereafter), and shall provide quarterly evaluations of the progress of the pilot program to the Finance Board.

FURTHER RESOLVED THAT, program implementation will be contingent upon confirmation by the Finance Board's Office of Supervision that the appropriate program policies, procedures, and controls have been established by the FHLBank.

FURTHER RESOLVED THAT, funding provided by the Bank under the program shall be excepted from the definition of "advance" in part 935 of the Finance Board's regulations (see 12 C.F.R. § 935.1).

By the Board of Directors of the
Federal Housing Finance Board



Bruce A. Morrison, Chairman