



No.: **1999-50**
Date: **October 4, 1999**

FEDERAL HOUSING FINANCE BOARD

Single-Family Member Mortgage Asset Programs

WHEREAS, on December 23, 1996, the Board of Directors (BOD) of the Federal Housing Finance Board (Finance Board) adopted Resolution Number 1996-111 (Res. 96-111) approving a proposal by the Federal Home Loan Bank (FHLBank) of Chicago to establish a pilot program called "Mortgage Partnership Finance" (MPF) under which the FHLBank of Chicago proposed to fund single-family mortgage loans originated by participating member institutions, subject to the conditions set forth in Res. 96-111; and

WHEREAS, on September 23, 1998, the Finance Board adopted Resolution Number 1998-41 (Res. 98-41) which incorporated the conditions set forth in Res. 96-111 and established new guidelines, terms and conditions and parameters for the operation of MPF, or substantially similar programs; and

WHEREAS, Res. 98-41 was intended to permit all FHLBanks to offer MPF, or substantially similar programs, to their members on a pilot basis to enable the Finance Board to judge the viability of permitting the FHLBanks to establish a national MPF program and to study and consider the related operational, profitability and supervisory issues raised by such programs; and

WHEREAS, examinations of the existing MPF program conducted by the staff of the Finance Board's Office of Supervision continue to reveal no safety and soundness concerns and confirm that the program, as operating, continues to meet the criteria set forth in Res. 98-41; and

WHEREAS, since the adoption of Res. 98-41, the Finance Board has gained additional knowledge about the operational, pricing and supervisory aspects of the MPF program, as evidenced by the participation of the FHLBanks of Atlanta, Dallas, Des Moines, New York and Pittsburgh in MPF (with operational assistance and investment from the FHLBank of Chicago), and an outstanding loan balance of \$1.5 billion for MPF, as of August 31, 1999; and

WHEREAS, the boards of directors of the Federal Home Loan Banks of Cincinnati, Indianapolis and Seattle recently authorized their FHLBanks, upon approval by the Finance Board, to offer a program to purchase single family mortgages from member financial institutions involving the establishment of a risk-sharing account designed to transfer a substantial portion of the credit risk to the member, and further credit enhancement of the mortgage loans by the member in the form of supplemental mortgage insurance, See 64 Fed. Reg. 44016 and 49187 (1999); and

WHEREAS, the Finance Board has determined that the FHLBanks have incidental and investment authority to undertake MPF and similar programs under sections 11(a) and 11(e)(1), 11(h) and 16(a) of the Federal Home Loan Bank Act, 12 U.S.C. §§ 1431(a), (e)(1), (h) and 1436(a) (See Res. 96-111, Res. 98-41 and accompanying legal opinions); and

WHEREAS, the FHLBanks and their members continue to have a strong interest in such single-family programs, and the Finance Board believes that the funding or purchase of member mortgage assets (MMA) by the FHLBanks could constitute a major mission-related business activity for the FHLBanks; and

WHEREAS, the Finance Board believes that these and other single-family MMA programs efficiently allocate mortgage risks so as to best use the core competencies of the entities involved, provide favorable capital treatment to the members, and provide capital market funding and risk management alternatives, all to the ultimate benefit of consumers; and

WHEREAS, the Finance Board wishes to provide updated guidance and grant the FHLBanks a more general authorization for the funding or purchase of Single-Family MMA, with further refinement of the acceptable parameters of such programs; and

WHEREAS, the BOD has reviewed the Office of Policy Action Memorandum and the attachments thereto, and has relied thereon;

NOW THEREFORE IT IS RESOLVED that the BOD of the Finance Board hereby adopts the attached Terms & Conditions, which are hereby incorporated by reference into and made a part of this resolution, and which, in conjunction with this resolution, shall from the date of this resolution supercede Res. 98-41 and govern all previously approved MPF programs, as well as the establishment and operation of all new Single-Family MMA programs, including MPF;

IT IS FURTHER RESOLVED that the BOD of the Finance Board hereby authorizes each FHLBank to establish and operate, or to continue to operate, Single-Family MMA programs:

- (1) Under which the FHLBank acquires whole, single-family, residential mortgage loans or loan pools either by:
 - (a) Purchasing such loans or loan pools, which have been originated by the FHLBank's member or eligible nonmember borrower, or a subsidiary or affiliate (as defined in the Federal Reserve Act) thereof, from or through the member or eligible nonmember borrower; or
 - (b) Funding such loans or loan pools at the time of closing of the loans therein using its member or eligible nonmember borrower (or their subsidiaries) as an originating agent;
- (2) Under which any whole, single-family, residential mortgage loans purchased or funded must meet the conforming loan limits established pursuant to 12 U.S.C. § 1717(b)(2);
- (3) Under which the credit risk components of mortgage lending are allocated between the FHLBank and its members in the following manner:
 - (a) The establishment of a first loss account through which the member or eligible nonmember borrower from which the FHLBank acquired the loans or loan pools bears responsibility for losses up to the amount of expected losses on the loans or loan pools, as estimated by the FHLBank using a Finance Board staff approved methodology.
 - (b) The establishment of additional loss coverage (beyond coverage provided by the first loss account), provided by any member in the FHLBank's district, which when combined with the coverage of losses in the first loss account provided by the member or eligible nonmember borrower from or through which the FHLBank acquired the loans or loan pools, is sufficient to raise the loans or loan pools to the fourth highest credit rating category. The member or eligible nonmember borrower

from or through which the FHLBank acquired the loans or loan pools may satisfy a portion of the additional loss coverage requirement by providing for supplemental loan-level mortgage insurance, in which case such insurance must be promptly provided by a mortgage insurer rated not lower than double-A and the member or eligible nonmember borrower must be legally obligated to maintain such insurance with an insurer rated not lower than double-A if at any time the insurer providing such insurance is downgraded below double-A.

- (c) To the extent that the FHLBank requires, either at the time of acquisition or subsequently, that the loans or loan pools have a credit rating higher than the fourth highest credit rating category up to the second highest credit rating category, the member or eligible nonmember borrower that originated (or whose subsidiary or affiliate originated) the loans shall provide for, in a manner consistent with the provisions stipulated in 3(a) and 3(b) above, at least 50 percent of any credit enhancement necessary to raise the credit rating of the loans or loan pools from the fourth highest credit rating category to the FHLBank required credit rating.
- (d) The FHLBank may have the option, during the life of the loans or loan pools, of recalculating the original amount of the member's credit enhancement provided to raise the credit rating of the loans or loan pools, as described in 3(c) above, to reflect factors such as a reduced principal balance of the loans or loan pools so that the amount of the credit enhancement is not in excess of what is needed to maintain the FHLBank required credit rating. The recalculation shall be performed using the same methodologies used to establish the credit enhancement at the time of acquisition (or other methodologies approved by the Finance Board).
- (e) The methodology used to determine credit ratings shall be based on the rating of the loans or loan pools after the FHLBank acquires the loans or loan pools.
- (4) Under which the FHLBank shall hold retained earnings plus loan loss reserve as support for the credit risk of the loans or loan pools in an amount equal to or greater than the outstanding balance of the loans or loan pools times a factor associated with the credit rating of the loans or loan pools as determined by the Finance Board.
- (5) That has been approved by Finance Board staff, in accordance with this resolution, the attached Terms & Conditions and section II.B.12 of the Financial Management Policy for the FHLBank System (FMP), or its successor, or that has been previously approved by Finance Board staff in accordance with the terms of Res. 98-41; and
- (6) That operates in conformity with this resolution, the attached Terms & Conditions and section II.B.12 of the FMP, or its successor;

IT IS FURTHER RESOLVED that the BOD of the Finance Board hereby authorizes staff to review and approve FHLBank applications to establish and operate Single-Family MMA programs, or other programs which comply with this resolution, to collect and analyze data and to monitor performance, all in accordance with this resolution and the Terms & Conditions;

IT IS FURTHER RESOLVED that the total principal amount of mortgage loans funded through members and purchased from members under all FHLBank Single-Family MMA programs approved or operating pursuant to this resolution shall not exceed \$9 billion, which shall be a FHLBank System-wide cap not to be apportioned among FHLBanks except as may be deemed necessary by the Finance Board considering each FHLBank's capacity, or for any other reason consistent with the supervisory authority of the Finance Board;

IT IS FURTHER RESOLVED that funding provided by FHLBanks under the Single-Family MMA programs authorized by this resolution shall be excepted from the definition of “advance” in part 935 of the Finance Board’s regulations, 12 C.F.R. § 935.1.

By the Board of Directors of the
Federal Housing Finance Board

/s/ Bruce A. Morrison

Bruce A. Morrison, Chairman