



TERMS AND CONDITIONS FOR APPROVAL, ESTABLISHMENT AND OPERATION OF FEDERAL HOME LOAN BANK SINGLE-FAMILY MMA PROGRAMS

- I. Scope. These Terms and Conditions for Approval, Establishment and Operation of Federal Home Loan Bank Single-Family MMA Programs (Terms & Conditions) are intended to govern the approval, establishment and operation of all Federal Home Loan Bank (FHLBank) programs that fall within the authorization contained in Finance Board Resolution Number 1999-50, dated October 4, 1999, including the continuing operation of programs that have been approved previously under MPF pilot programs Resolution Number 1998-41, dated September 23, 1998. Part II of these Terms & Conditions sets forth relevant definitions. Part III, “Terms of Conduct,” sets forth guidelines to which each single-family MMA program individually, and all single-family MMA programs collectively, must conform. Part IV, “Conditions for Approval,” sets forth the requirements that each FHLBank must meet in order to obtain approval from Finance Board staff to establish a single-family MMA program.

- II. Definitions: For purposes of these Terms & Conditions:
 - A. *FHLBank-Agent* means an FHLBank that has agreed to carry out the administrative functions of another FHLBank’s single-family MMA program and whose administrative office has been examined and approved by Finance Board staff to process single-family MMA transactions.
 - B. *FHLBank-Investor* means an FHLBank that purchases, or has agreed to purchase, single-family MMA, or participation interests therein, from another FHLBank.
 - C. *FHLBank-Principal* means an FHLBank that, as authorized by its board of directors, offers or intends to offer a single-family MMA program to its member institutions.
 - D. *Single-family MMA program* means a program that FHLBanks are authorized to offer to their members under the terms of Finance Board Resolution Number 1999-50, dated October 4, 1999.
 - E. *Single-family MMA* means a mortgage loan on one-to-four family residential property that has been, or will be, obtained by an FHLBank-Principal under a single-family MMA program.
 - F. *Participating member* means a member of an FHLBank-Principal that has been approved to deliver single-family MMA to the FHLBank-Principal under a single-family MMA program and that has entered into an agreement with the FHLBank-Principal to participate in that FHLBank’s single-family MMA acquisition program.

III. Terms of Conduct. The following terms of conduct apply to all single-family MMA programs approved under these Terms & Conditions and Resolution Number 99-50:

A. Requirements.

1. Participation Limited to FHLBank Members. An FHLBank may offer a single-family MMA program only to its own member institutions. Specifically:
 - a. An FHLBank may acquire (by funding or purchase) single-family MMA only from or through, and may enter contracts, agreements or commitments to acquire single-family MMA only with, its own member institutions.
 - b. An FHLBank may market its single-family MMA program only to its own member institutions. *However*, at the request of an FHLBank, and with the permission of its member, staff of another FHLBank may contact, or meet with, that member to provide information on a single-family MMA program that is being undertaken by two or more FHLBanks jointly.
 - c. An institution may become a participating member only with the express approval of the FHLBank-Principal of which it is a member. *However*, an FHLBank may grant to any FHLBank-Agent or FHLBank-Investor joint authority to approve or disapprove any member of the FHLBank-Principal as a participating member.
 - d. An FHLBank may accept deposits in connection with any single-family MMA transaction only from its own member institutions, or from another FHLBank. *However*, for purposes of facilitating single-family MMA transactions, an FHLBank-Principal may establish and maintain one or more beneficial accounts, on behalf of its participating members, with an FHLBank-Agent or an FHLBank-Investor.
2. Administrative Requirements. Each FHLBank-Principal must direct its single-family MMA processing through an FHLBank administrative office whose operations have been examined and approved by Finance Board staff.
3. Single-family MMA Pricing. Each FHLBank-Principal must set its single-family MMA prices utilizing a pricing methodology that has been approved by Finance Board staff and that attempts to direct a portion of the program's funding to low- and moderate-income households.
4. Role of FHLBank Directors.
 - a. Conflicts. The board of directors of each FHLBank shall take appropriate precautions, in structuring its single-family MMA program, to avoid conflicts of interest, or any appearance thereof, for board directors.
 - b. Reports. During the first year of operation of any FHLBank's single-family MMA program, the board of directors of that FHLBank shall require program progress reports from management at each regular board meeting. Thereafter, such reports shall be required on at least a quarterly basis.

B. Administrative/Investment Ties to Other FHLBanks.

1. FHLBank-Agent and FHLBank-Investor Status. Notwithstanding the requirements set forth in paragraph III.A:
 - a. An FHLBank-Principal may delegate the administration of its single-family MMA program to an FHLBank-Agent. The existence of such a delegation, or the possibility that such a delegation may be made, must be disclosed to any potential participating member before any agreements are signed.
 - b. Once an FHLBank-Principal has acquired single-family MMA from a participating member, any FHLBank-Investor may purchase that single-family MMA, or a participation interest therein, from the FHLBank-Principal, or from another FHLBank-Investor.
2. Limitations on Agent/Investor Agreements.
 - a. Terminability of Agreements. Any agreement made between two or more FHLBanks in connection with an administrative delegation or investment relationship described in paragraph III.B.1 shall be made terminable by either party after a reasonable notice period. An FHLBank may agree to continue to perform appropriate duties to protect its own or another FHLBank's investment in single-family MMA already made, even after such an agreement has been terminated. *However*, no FHLBank shall be required to fund, purchase, sell, or process any new single-family MMA after the termination of such an agreement.
 - b. Delegation of Pricing Authority. An FHLBank-Principal that has delegated its single-family MMA pricing function to an FHLBank-Agent must retain a right to refuse to acquire single-family MMA at prices it does not consider appropriate.

C. Program Approval and Monitoring. Finance Board staff is authorized to:

1. Require that any FHLBank submit to the Finance Board single-family MMA program data, including loan-level data, on a quarterly basis, or less frequently as determined by staff; and
2. Conduct examinations, as staff deems necessary, of each FHLBank's single-family MMA program to ensure continuous compliance with Resolution Number 1999-50, these Terms & Conditions and section II.B.12 of the FMP (or any successor provisions).

IV. Conditions for Approval. An FHLBank that would like to offer a single-family MMA program to its members must submit a request in writing to the Finance Board describing how the FHLBank's proposed program will comply with Resolution 99-50, these Terms & Conditions and section II.B.12 of the FMP (or any successor provisions), unless the

FHLBank has been previously approved by Finance Board staff in accordance with the terms of Res. 98-41. All Finance Board staff determinations regarding FHLBank single-family MMA program requests shall be subject to pre- and post-implementation safety and soundness examinations. At a minimum, each request must address:

- A. The FHLBank's ability, and that of any FHLBank acting as its administrative agent, to manage the credit risk associated with holding single-family MMA in portfolio.
- B. The FHLBank's ability, and that of any FHLBank acting as its administrative agent, to manage the risks associated with increasing volumes of single-family MMA transactions, including:
 - 1. The FHLBank's strategy on managing interest rate risk, including options risk, pipeline risk, and hedging strategies; and
 - 2. The FHLBank's capability to model the effect of single-family MMA assets and liabilities, including the impact of future interest rate movements, using the FHLBank's interest rate risk model.
- C. The criteria that the FHLBank will use to determine the eligibility of its members to become participating members in the FHLBank's single-family MMA program.
- D. The FHLBank's administrative office capability, including:
 - 1. The FHLBank's demonstrated ability to put in place the necessary policies, procedures, and controls;
 - 2. Projections that show the new office will be cost efficient; and
 - 3. A justification that the new office will not deter efforts to achieve System-wide program coordination.
 - 4. If an FHLBank proposes to use the administrative office of an FHLBank-Agent, no further staff review or examination will be required on this point.
- E. An opinion letter from the FHLBank General Counsel or outside attorney concluding that single-family MMA are investments in which a fiduciary or trust may invest under the laws of the state in which the FHLBank is located and containing appropriate citations to support such a conclusion.