



Number: 2008-08
Date: March 24, 2008

FEDERAL HOUSING FINANCE BOARD

Temporary Authorization to Invest in Additional Agency Mortgage Securities

WHEREAS, distress in the residential real estate and housing markets has contributed to reduced activity in the secondary mortgage market and to liquidity constraints in the nation's housing finance markets and in domestic and global financial markets more generally;

WHEREAS, as a government-sponsored enterprise with a housing finance mission, each Federal Home Loan Bank (Bank) has taken actions to address these problems, principally by extending advances to members and developing new programs under the Affordable Housing Program;

WHEREAS, under section II.C.2 of the Financial Management Policy (FMP), a Bank's aggregate investment in mortgage-backed securities (MBS), collateralized mortgage obligations (CMOs), Real Estate Mortgage Investment Conduits (REMICs), and asset-backed securities (collectively Mortgage Securities) may not exceed 300 percent of its capital;

WHEREAS, the Banks can address difficulties and liquidity constraints in the housing finance market if the current investment limit in the FMP is increased so the Banks may invest in MBS issued by, or backed by pools of mortgages guaranteed by, the Federal Home Loan Mortgage Corporation (Freddie Mac) or the Federal National Mortgage Association (Fannie Mae), including CMOs or REMICs backed by such MBS (collectively Agency Mortgage Securities);

WHEREAS, section 907.2(a) of the Federal Housing Finance Board (Finance Board) regulations (12 C.F.R. § 907.2(a)) authorizes the Board of Directors (Board) to waive any provision, restriction, or requirement of its regulations or policies not otherwise required by law, if doing so is not inconsistent with the law and would not adversely affect any substantial existing rights, provided that the Board determines either that the application of the particular provision would adversely affect achievement of the purposes of the Federal Home Loan Bank Act or that good cause exists;

WHEREAS, Office of General Counsel staff has determined that the restrictions on investment in Mortgage Securities in section II.C.2 of the FMP are not otherwise required by law and a waiver would neither be inconsistent with the law nor adversely affect any substantial existing rights; and

WHEREAS, Office of Supervision staff recommends approval of the waiver subject to certain conditions or supervisory guidelines to assure the continued safety and soundness of the Banks.

NOW, THEREFORE, IT IS RESOLVED that, the Board finds good cause to waive and hereby waives the restrictions in section II.C.2 of the FMP that limit a Bank's investment in Mortgage Securities to 300 percent of its capital and restrict quarterly increases in holdings of Mortgage

Securities to no more than 50 percent of capital so that a Bank temporarily may invest in Agency Mortgage Securities up to an additional 300 percent of its capital, subject to the following conditions:

1. Before making its first purchase under this Resolution, a Bank's board of directors must approve an appropriate strategy governing the types of Agency Mortgage Securities the Bank will acquire and the qualitative and quantitative market risk management standards the Bank will apply, including, at a minimum, an estimate of the effect the purchases will have on the Bank's overall risk position and limits.
2. At least 10 business days in advance of its first commitment to purchase under this Resolution, a Bank must notify the Office of Supervision in writing of its intent to make the purchase and include the strategy adopted by the Bank's board under paragraph 1, and an updated retained earnings analysis that reflects recent market conditions and identifies the amount the Bank will add to its retained earnings in light of market conditions and the Bank's expected purchases under this Resolution.
3. A Bank may purchase CMOs or REMICs under this Resolution only if Freddie Mac or Fannie Mae have guaranteed all the underlying pools of mortgages, or issued all of the underlying Mortgage Securities backing the CMOs and REMICs.
4. The Bank must specifically identify Agency Mortgage Securities purchased under this Resolution.
5. The Bank must maintain, and make available to the Finance Board, appropriate internal reporting on the profitability and risk profile of its positions held in Mortgage Securities.
6. The mortgages loans underlying any Agency Mortgage Securities a Bank purchases under this Resolution must be originated after January 1, 2008, and underwritten to conform to standards imposed by the federal banking agencies in the *Interagency Guidance on Nontraditional Mortgage Product Risks* dated October 4, 2006, and the *Statement on Subprime Mortgage Lending* dated July 10, 2007.

IT IS FURTHER RESOLVED that the waiver and expanded investment authority granted by this Resolution expire on March 31, 2010, after which date a Bank may not purchase additional Mortgage Securities if such purchases violate any limits in section II.C.2 of the FMP or any other Mortgage Security limits adopted by the Finance Board and then binding on the Banks, provided, however, that expiration of the waiver and expanded investment authority will not require a Bank to sell any Agency Mortgage Securities it purchased in accordance with the terms of this Resolution.

By the Board of Directors
of the Federal Housing Finance Board



Ronald A. Rosenfeld
Chairman