Date: June 7, 2000

Subject: Eligibility of Mortgage Loan Participation Interests as Collateral for Federal Home Loan Bank Advances

Request Summary:

A Federal Home Loan Bank (FHLBank) sought an interpretation as to whether, under section 950.9(a) of the Federal Housing Finance Board (Finance Board) regulations, 12 C.F.R. § 950.9(a), the FHLBank may accept as eligible collateral for advances to members, without limit, certificates representing 100 percent participation interests in whole first mortgage loans.

Background:

Under section 950.9(a)(1)(i) of the Finance Board regulations, 12 C.F.R. § 950.9(a)(1)(i), a FHLBank may accept as collateral for advances to members, without limit, fully disbursed whole first mortgage loans on improved residential real property, not more than 90 days delinquent. In addition, under section 950.9(a)(5), a FHLBank may accept as collateral for advances, without limit, any security, the ownership of which represents an undivided equity interest in underlying assets, all of which qualify either as: (i) eligible collateral under sections 950.9(a)(1) or (2); or (ii) cash or cash equivalents.

Discussion:

As represented by the FHLBank, the assets underlying the 100 percent participation interests that the FHLBank’s member wishes to pledge as collateral will consist entirely of mortgage loans that are eligible to secure FHLBank advances under section 950.9(a)(1)(i) of the regulations, that is, fully disbursed, whole first mortgage loans on improved residential real property, not more than 90 days delinquent. See 12 C.F.R. § 950.9(a)(1)(i). The intent of the Finance Board in adding paragraph (a)(5) to section 950.9 was to authorize the FHLBanks to permit their members to pledge otherwise-eligible collateral in which the member holds all beneficial interests, yet to which the member does not have legal title. Because, by owning a 100 percent participation interest in the underlying mortgages, the member would possess all benefits of ownership of the mortgages (i.e., the right to the principal and interest payments), the certificates issued by the member’s affiliate to represent the transfer of the participation interests constitute a type of security contemplated under section 950.9(a)(5).
Conclusion:

Pursuant to section 950.9(a)(5) of the Finance Board regulations, an FHLBank may accept, without limit, as collateral for advances to members, certificates representing 100 percent participation interests in mortgage loans that would qualify as eligible collateral under section 950.9(a)(1)(i) of the regulations.